

Costs and Benefits of Poland's Membership in the European Union



Centrum Europejskie Natolin
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Introduction

Jacek Saryusz-Wolski, Paweł Samecki

This *Report* is the result of the work of a team of authors who have been involved in the issue of European integration for many years. This is the first effect of a research project realised by the Natolin European Centre, commissioned by the Office of the Committee for European Integration. This publication illustrates the analysis of the costs and benefits of Poland's membership in the European Union. Here, the costs and benefits, the opportunities and threats in some of the more important areas of integration and Community policies have been analysed. The study covered each of the three pillars of the European Union. A special attribute of the study is the fact that an analysis of an alternative scenario – even if of an indicative nature – can be found in each of the areas, which assumes that Poland fails to join the European Union. The report presents two scenarios of the consequences (costs and benefits) of membership, taking into account the final results of negotiations on accession.

This publication comprises seventeen chapters. These are shortened versions (syntheses) of the full study reports. In the first chapter the authors analyse the costs and benefits of integration in macro-economic terms – describing the impact of Poland's membership in the European Union (or of staying out of it) on the basic macro-economic figures. In the second part, the financial flows between the EU and Poland are presented. The next chapter discusses the impact of Poland's membership in the European Union on the functioning of Polish enterprises and, to a lesser degree, on the position and economic behaviour of Polish consumers. The fourth chapter deals with an analysis of the situation in the regions and the perspective of their development ensuing from accession in a spatial context. Further on, the membership's impact on the legal system in Poland is discussed.

The scenario of Poland's integration with the European Union is analysed with respect to all current pillars of the European Union. Discussion of the first pillar will cover the most important Community policies. The benefits and costs of integration are thus thoroughly analysed in such areas as agriculture, social policy, environmental protection policy, research and development policy, trade policy, competition policy, transport policy, education and human resources, etc. The following areas, on which the authors focus their attention, are the other two pillars – the Common Foreign and Security Policy (including the creation of the framework for the European Security and Defence Policy) and internal security, co-operation in the area of the judiciary, the police and the Customs. The next chapter illustrates the institutional and political consequences of both scenarios in question. Here, the most important thing is the attempt to answer the question of what the political and institutional benefits would be for Poland, ensuing from an enlargement of the EU. The last section of the publication deals with social communication – and deals above all with an analysis of the social consequences which may be caused by our membership of the EU – or our failure to be so – and with determining the hierarchy of benefits and losses ensuing from our integration with the EU in the eyes of the public.

The *Report* does not contain a summary. When embarking upon the project, the authors were aware that the process of European integration, and thus the process of Poland's accession to the EU, has many aspects. It covers the economic, political, social, legal and regional aspects. The implications of membership touch upon many areas of Polish reality, and not all of them are measurable. That is why any attempt to summarise and combine areas which cannot be compared and especially an attempt to measure whether the result of „adding partial results” is positive or negative would constitute a simplification of the richness of the diverse and complex picture of Poland's membership in the EU and its consequences. Authors of individual analyses leave it up to their readers to comment on the impression they receive after reading the entire report. It is probable that these impressions will be different for various readers; this is not just probable, but understandable and natural. If integration evokes such a broad spectrum of consequences in economic, social and other realities, then the evaluation of these consequences, as well as of total reality, may vary among readers.

One special circumstance accompanying the publication of the Report is the fact that it appears several weeks before the referendum on accession. This coincidence is – to a certain extent – accidental; when the research project was being prepared, it was assumed that the referendum would take place in the autumn of 2003. Setting the referendum date for June 2003 meant that the effects of the research would be made available to readers at the precise moment of the intensification of the public discussion on Poland's participation in the process of European integration. Although this was unintentional, the moment of publication seems, as if by fate, to be particularly proper. We hope that the result of the task with which the authors were challenged, will raise interest among a broad group of specialists on integration as well as the readers, who possibly do not have the professional preparation to read through this type of literature, but who are interested, nevertheless, in the results of this study for obvious reasons and who are willing to take into consideration the voice of the scientific community when formulating their own opinions on the matter, which is the subject of the referendum. That is why the results of the research study, presented in the form of this *Report*, are accompanied by the publication of a shortened version in a simplified, less „scientific” form, addressed to persons without special knowledge of the European integration question. Moreover, the text of the report is available on the web site of the Natolin European Centre (www.natolin.edu.pl).

1. Macroeconomic Costs and Benefits of Poland's Membership in the EU: Analysis and Evaluation

Adam B. Czyżewski, Witold M. Orłowski, Leszek Zienkowski

Introduction

Costs and benefits of membership in the European Union can vary. In our analysis we have focused ourselves on economic costs and benefits in the macroeconomic domain. Even in this context the terms “benefit” and “costs” need to be elaborated. Undoubtedly, one of the benefits is the achievement of a quicker acceleration of economic growth (measured according to GDP growth rate) and of consumption if Poland joins the EU than if Poland does not join the EU, and such acceleration – as the analyses concerning the economies of countries joining the EU show – is very probable. Another benefit is an increase of a certain type of expenditures – possible after becoming member of the EU – which, over a short, or maybe even a medium time range – do not lead directly to production or consumption growth. Effects of such expenditures in the form of acceleration of production growth or qualitative changes and growth of competitiveness, ensuing from the use of new technologies, are usually put off in time. In particular when we talk about expenditures we mean investment expenditures, and in particular expenditures on the infrastructure, but also, above all, this category of expenditures – which have a positive impact on the process of socio-economic growth – includes costs related to the implementation of environmental protection devices, or to the improvement of sanitary conditions concerning food production, costs of increasing safety at work, etc.

This and similar type of expenditures that increase together with the accession to the EU should not be treated as costs, but – even when considering short and medium-term – on the contrary, as benefits.

We believe that naming the expenditures related to Poland's adaptation of the Community norms and standards as costs of accession to the EU is a misunderstanding. Here, we often exemplify the costs related to adaptation of the regulations concerning environmental protection, safety at work, product safety (e.g. toys) or the sanitary conditions concerning food production to EU standards. Meanwhile, these measures and the related costs bring about decisive – although hardly measurable – benefits for the society. A correct account of costs and benefits – which we are unable to perform in reality – should, in contrast to the account performed at an entrepreneurial level, on one hand take into account the losses (costs) that are borne by the society due to polluted environment (especially where health and death rates are concerned), the negative consequences caused by violation of safety at work regulations (industrial accidents and disability) and serious health consequences of consuming food manufactured in unsanitary conditions and, on the other hand, the expenditures (costs) to eliminate these unfavourable phenomena as well as the losses ensuing from a potential deceleration of economic growth resulting from increased production costs of enterprises and their decreased competitiveness. Conclusions concerning the total profit and loss account can be drawn only from such a comparison. The intuitive answer is obvious, health and life are more important. Let us add that it is rather not good to state that the competitiveness of Polish enterprises must be based mainly on the fact that Poles live in a difficult environment, eat unhealthy food, drink poor quality water and work in unsafe conditions posing threat to their health and lives.

The growing volumes of different expenditures after accession to the EU will be possible especially due to an inflow of different aid funds from the EU and increased – as is expected – volume of direct foreign investments and generally greater foreign exchange (flow of goods and capital). In accordance with the EU regulations, the aid funds must be domestically co-financed. However, under no condition can the volume of co-financing be considered as costs of accession.

What are, then, these costs of membership in the EU? If, in result of accession to the EU, a temporary deceleration of economic and consumption growth occurred, then this would be the cost of membership. Undoubtedly, the total payments made by Poland into the EU's budget in relation to membership can be deemed as costs – although in this case we can only speak of net costs or benefits, comparing the volume of payments to the volume of aid funds transferred to Poland. An excessive growth of bureaucracy and the costs related to it, ensuing from the need to apply many procedures required by the EU's bureaucracy (evaluation of these costs is not a simple thing) can also be deemed as a cost of accession to the EU. Also, increased emigration of highly qualified specialists to the EU Member States (the so-called *brain drain*) – if such process will take place – can, in the end, be deemed as a cost of accession. A counterforce to this process is though the possibility for Poles to migrate and take on employment in other countries.

In terms of sectors we can talk about adaptation costs ensuing from the acceleration of the processes of structural changes in the economy related to accession to the EU. Structural changes mean, however, limitations in the volume or abandonment of production in some sectors (or some large enterprises) and bankruptcy of some enterprises. These result in loss of employment opportunities by some large socio-professional groups and social tensions. However, a parallel effect is a better use of production factors on a macroeconomic scale. Negative sector effects, which in the end are positive for the economy as a whole, and which are unavoidable in an extended time perspective, regardless of whether Poland becomes a member of the EU or not, should not be treated as costs of accession. If we are to assume that Poland fails to join the European Union, but participates in foreign exchange as part of the European market (and there are a lot of gaps in this area already), there will also be structural changes in the economy (though the pace of changes will be slower), which will bring positive economic and social effects in the long run. Delays in structural changes worsen Poland's economic situation and limit the possibility of achieving a high acceleration of socio-economic growth. In this

context we may say that accession to the EU only accelerates and facilitates the unavoidable process of changes. We can ask only a single question whether acceleration of structural changes is beneficial from the social point of view (especially how the situation on the labour market looks like) and whether it would not be better to spread these processes in time even at the cost of less favourable, purely economic results. However, this is a problem, to a large extent, of proper, pro-employment socio-economic policy of the country, policy, which could counteract unemployment growth and alleviate its consequences. This is not – as we all know – a problem directly related to accession to the EU. We must remember that subsidising ineffective enterprises, and thus petrifying outdated economic structures, leads only to economic stagnation and social backwardness. We must emphasise very strongly that problems of employment, development of programs which will allow, one way or another, to reduce unemployment and its negative effects, hold an important place in the socio-economic development plans of the EU Member States and the EU as the whole. These issues, which are not easily solved, need time and new solutions.

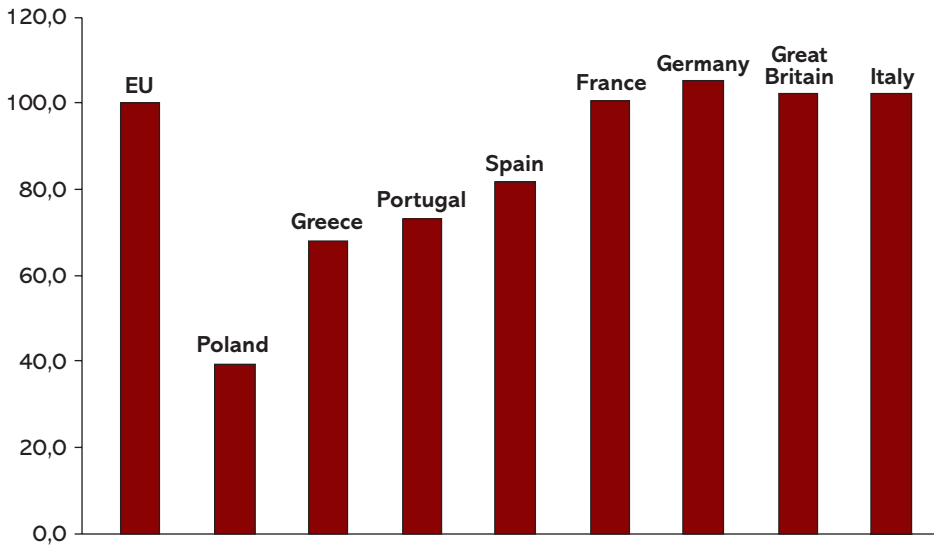
In our evaluation we focus ourselves on the comparison of macroeconomic effects visible in the event of accession with the macroeconomic effects in a situation where Poland stays out of the EU, but participates in foreign exchange as part of the European market. We do not consider the variant where Poland would cut itself off from Europe and enter the orbit of Russian economic influence at all in our analysis, although this is not, against all appearances, an abstractive and impossible variant. We will distinguish two periods: short and medium-term, until 2012 and long-term, after 2012 until 2030. As has been illustrated by experiences of countries granted accession to the EU, only a long-term perspective allows for a full evaluation of benefits ensuing from accession.

Before discussing the development scenarios after 2003, when we decide about our accession to the EU or staying out of it, it is worth mentioning a few words about a comparison of the basic statistical indexes characterising the Polish economy in the light of the Community states. Despite a significant progress in the nineties, there is still a huge gap in some of the sectors between the level of economic and social development in Poland and that of other EU countries.

The basic index used to measure the level of economic growth of a country is the value of GDP – i.e. the value of the products and services manufactures in the country – per capita.

The current value of GDP per capita in Poland constitutes approx. 40% of the average level observed in the EU. In other words, EU's production per capita is on average two and a half times greater than in Poland. Such a difference in the production level has a significant impact on all other macro values, and especially on the consumption level.

It is also worth mentioning the distance that separates Poland from other EU states that are characterised by a relatively low level of development in comparison to the average level observed in the EU. The countries include Spain, Portugal and Greece. As international comparisons show, a real GDP value per capita in Poland constitutes approx. 60% of the Greek GDP and approx. 50% of the Spanish GDP. And here differences are really significant.



Source: Results of international comparisons (ICP)

Fig. 1 Relative value of GDP per capita in 2000 (according to purchasing power parity)

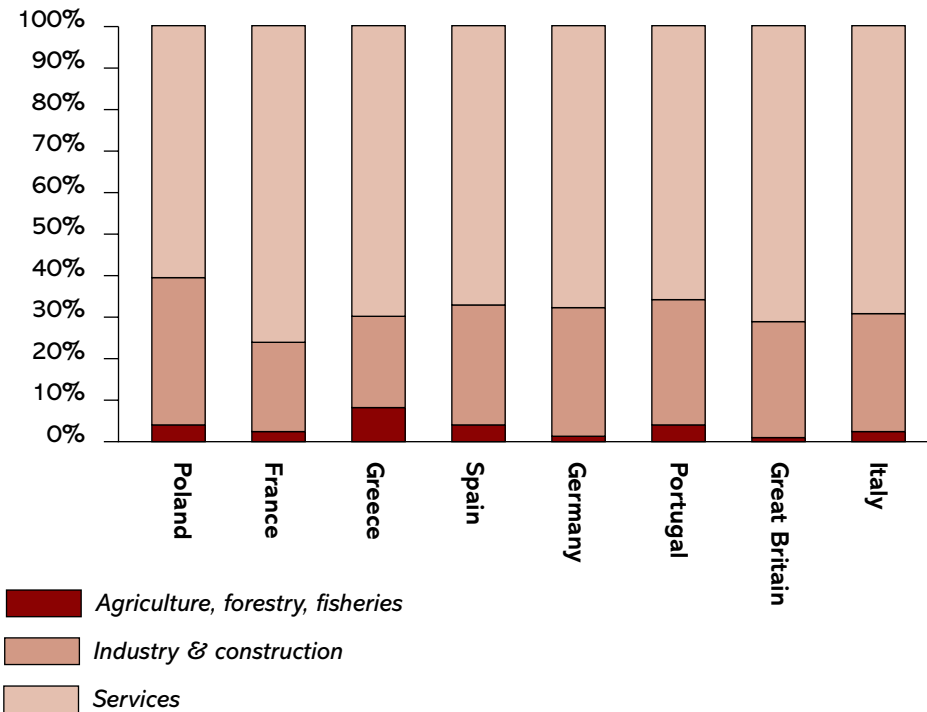


Fig. 2 Production structure in 1999

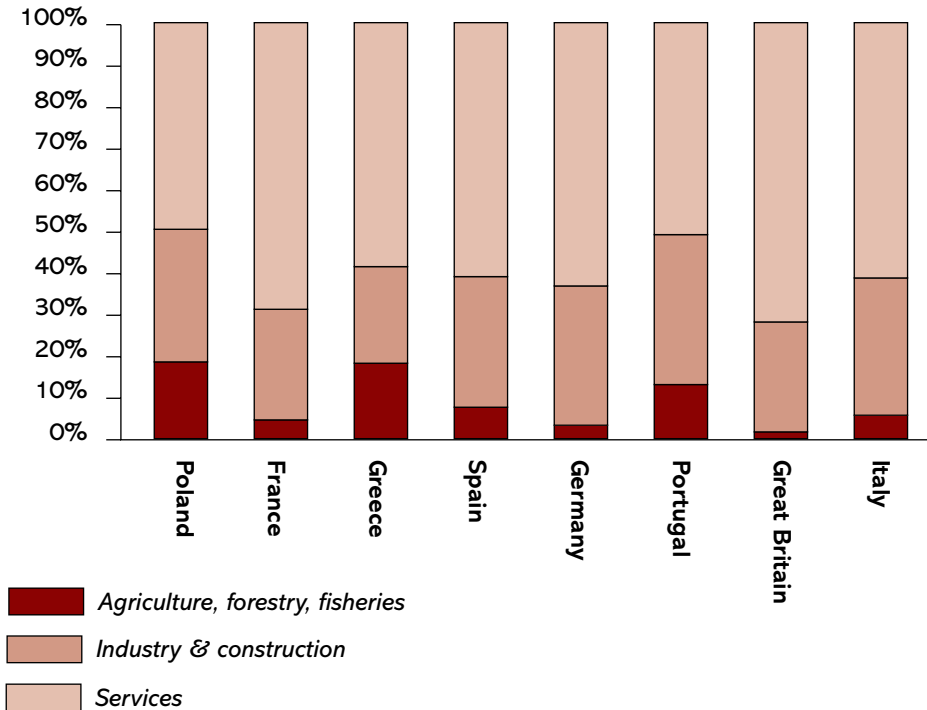


Fig. 3 Employment structure in 1999.

Low level of economic development in Poland is reflected in the production structure and in the employment structure. The Polish economy is characterised by low involvement of services in the creation of GDP, and where the industry is concerned, by low involvement of production of modern goods, i.e. highly sophisticated products. As of the employment figures, the number of people employed in agriculture is strikingly high (some of them are the so-called undisclosed unemployed) and moderate where services are concerned. The Polish economy is highly import absorbent, meaning that each production growth, whether intended for consumption or for export, translates into a significant growth of import. At the same time, competitiveness of our products on foreign markets and the level of export activities is low.

The level of domestic savings in Poland is not sufficient to finance the investment expenditures constituting the grounds for modernisation and expansion of the production machinery that is needed to guarantee high acceleration of economic growth. Therefore, it is necessary to reach for funds from abroad. In this context, attention should be given to the high degree of deterioration of fixed assets in Poland and urgent need to replace them with highly efficient, modern machines and equipment that meets the technological norms of the twenty first century.

Effects of Membership in the European Union – Results of Simulated Calculations

Accession's Macroeconomic Effects – Past Experiences

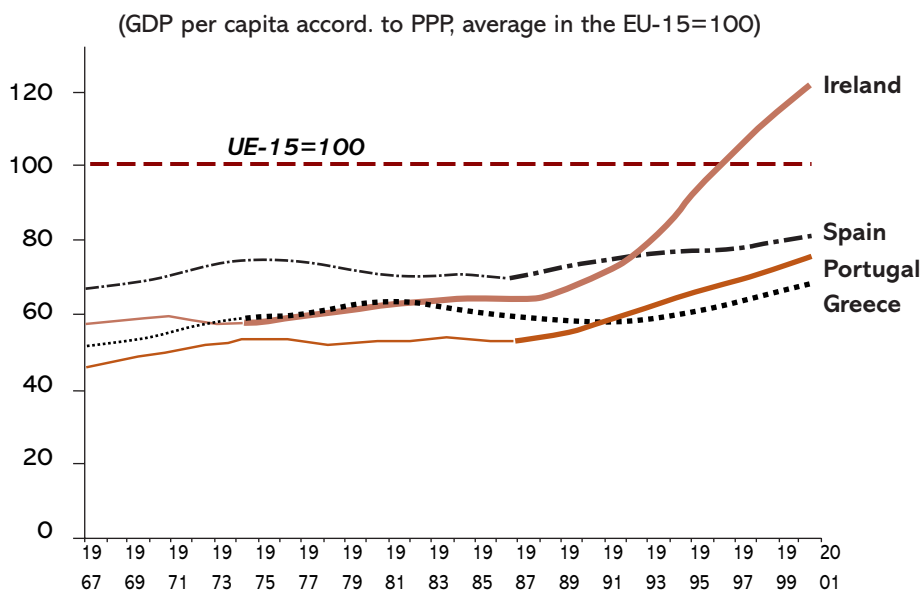
The historical experiences concerning accession to the EU (and truly to the EEC) of relatively poor countries – i.e. which are in the same situation as Poland – constitute an interesting source of information on the probable course of changes in growth of macro values. These experiences pertain to 4 countries:

- Ireland – which joined the EEC in 1973, with a GDP per capita according to PPP of approx. 58% of the average of the 15 countries currently making up the EU (EU-15).
- Greece – joined in 1981, with GDP per capita of 63% of the EU-15 average.
- Spain and Portugal – joined in 1986 with GDP per capita accordingly at 70 and 53% of the EU-15 average.

As can be seen, the differences in GDP per capita in the EU-15 for the countries that joined the EU were not that great as is the case of Poland (approx. 40% of the average EU-15 value). However, they were also significant – especially for Ireland and Portugal – so, the adaptation paths of these countries can constitute an interesting reference point. The most important experiences of these countries can be narrowed down to a few key points.

First of all, during membership, trends to the so-called real convergence took place in those countries, i.e. convergence of the GDP per capita to the EU-15 average. The real convergence is the ability of a weakly developed economy to grow faster, in result of which the initial difference in GDP value in relation to richer countries diminishes with time. A mechanism, evident from the point of view of neoclassical economy, stands behind this phenomenon: in poor regions work is cheaper, but the capital relatively expensive – because it's scarce (poor regions don't have much income, and thus little savings). If capital is expensive, the end benefit ensuing from its use – equal to the price – is high. This means that in a poorer region one can get a better return on capital investments than in a rich region, where capital is relatively cheap and plentiful. This constitutes an encouragement for the flow of capital from richer regions to poorer regions, where this leads to an accelerated rate of growth in poor regions. Additionally, this mechanism is strengthened in the EU by regional policy, which guarantees additional inflow of capital into poorer regions from structural funds, which serve, in the first place, to balance out the development opportunities by expanding the infrastructure and developing the human capital.

The real convergence observed in poorer EU countries led to an accelerated growth of GDP, and thus to a reduction – and where Ireland is concerned, to elimination – of differences in GDP in relation to other EU countries (Fig. 4). It is worth pointing out that as for Greece, this phenomenon appeared as late as the nineties, i.e. after ten years, and accelerated very quickly in Ireland in the same time period.



*Note: Bold line means duration of membership in EEC/EU (Ireland – from 1973, Greece – 1981, Spain, Portugal – 1986)

Fig. 4 Real convergence in poorer countries of the EU, 1967–2001

Second of all, during membership, in all countries in question changes in the macro proportions of economic development appeared that were similar in direction. Membership in the EEC meant in particular:

- (a) Increased scale of foreign savings import caused by transfers from the EU (ECC) budget as well as generally larger inflow of private capital. The phenomenon resulted in stronger currencies, strong import growth, and increased domestic demand.
- (b) A significant increase in investments, which allows for the development of the infrastructure to be financed and for the process of modernising and developing the production assets to be accelerated. Consumption grew parallel to the growth of investments.
- (c) Growth of GDP, which, in the initial stage of membership usually has demand-related reasons (increased domestic demand that goes hand in hand with a clear loosening of internal growth limitations, i.e. need for close control of trade deficit growth), and which, in the second stage – usually observed after 10-15 years of being a member – mainly ensues from the demand-related effects of modernisation of the production machinery (increased production competitiveness).

Third of all, experiences of the countries in question clearly illustrate a fact that the scale of benefits resulting from membership in the EU depends on the economic policy being pursued. In particular, the huge difference between the great results achieved by Ireland and the poorer results achieved by Greece come into view. So, success of real convergence is not guaranteed.

One must though point out that this success does not depend directly on the volume of support that the poorer countries receive from the EU. The greatest support – where GDP is concerned – was received by: Ireland and Greece (i.e. countries, the economic results of which differ the most). Moreover, the Community transfers to Ireland reached a high level already in mid seventies; a strong tendency to real convergence did not occur until the nineties. Spain and

Portugal – countries which managed much better than Greece and better than Ireland in the seventies – received a much less moderate support from the EU.

The real reasons, for which the real economic convergence takes place, are clearly defined by the economic theory. From among the experiences of the poorer EU countries several most significant factors can be mentioned that are related to economic policy which have an impact on the growth and which cause the economic results to vary. In the first place attention should be focused on the negative role played by the destabilised public finances: in Greece (country, in which convergence did not take place) the ratio of the budget deficit to GDP reached over 18% at the turn of the eighties and the nineties; in Ireland, after a period of high deficits in the seventies, which reached 15% of GDP, the deficit was reduced almost to zero in the eighties. High deficits cause that a relatively high price of capital is maintained, which, in turn, causes the investment demand to be pushed out by consumption.

Among the attributes which most significantly differentiate Ireland from Greece and which influence the economic growth and real convergence we should mention a generally lower level of government spending (in relation to GDP) and a lower level of involvement of public sector companies in GDP (in the late seventies, i.e. before a series of privatisations, in Ireland it reached approx. 10% of GDP; in Greece, this level grew to 23% of GDP in the eighties). Greece was the only EU country, in which, in the eighties, privatisation was replaced by re-nationalisation of a portion of the economy, caused mainly by realisation of populist declarations of politicians at the turn of the seventies and the eighties. A large contribution of public investments, or investments fully realised by public enterprises, lead to a drastic drop in their effectiveness. Also the weakness of Greek administration, unable to use the EU's investment transfers efficiently, had a part in this poor investment effectiveness.

As the next factor differentiating Greece from Ireland we can finally mention the general incapability of Greece to guarantee stable foundations for economic growth. The effect of this indecisive economic policy (the fiscal as well as the monetary policy) was a relatively high rate of inflation ranging between 14 and 22% in the eighties, which was gradually reduced in mid nineties by coordinated measures on the part of fiscal and monetary policy, to a single-digit figure. Instability of prices has a negative impact on long-term decisions concerning savings and investments. In contrast to Greece, in Ireland the inflation dropped to approx. 2–3% already in mid nineties; the progress made by Spain and Portugal in this respect, though slower, was also more satisfying (a single-digit inflation in Spain as of 1985, and in Portugal as of 1993).

We should also point out the fact that Ireland's economic success took place in late eighties (in the years 1978–88 a rather slow progress was observed). Ireland's success had place only after a radical change in the definition of the State's role in the economy: the ratio of spending of the consolidated public sector to GDP was reduced between 1986–1990 by nearly 10 percentage points (from nearly 48 to 38% of GDP), mainly due to a reduction of current transfers to enterprises and households (subsidies and social transfers). This allowed for a parallel drastic reduction of the deficit in the public sector and a slight drop in fiscalism (ratio of direct and indirect taxes to GDP dropped from 33 to 30% of GDP).

The most significant conclusions regarding economic policy increasing Poland's chances for a real convergence as member of the EU can thus be summarised in the following manner:

- Need to maintain responsible macroeconomic policy, which creates stable foundations for economic activities.
- Promotion of domestic savings, and especially reduction of the deficit of the public sector and creation of an appropriate atmosphere to promote private domestic and foreign investments.
- Decreased role of the State in the economy, by reducing the scale of fiscalism, which increases the entrepreneurial competitiveness, as well as by privatising state-owned enterprises.

- Guarantee of effectiveness of public administration on the central and self-government level, in particular with regards to realisation of public investments.

Medium-term Consequences of Poland's Membership in the European Union

Medium-term used in this analysis should be understood as the first 10 years of Poland's membership in the EU (the years 2004–2013). This is a period, during which it is hard to expect radical changes in the productivity of resources of production factors (capital and labour) and in the living standards of the citizens. The main change that can be expected in this period is the shift of the Polish economy towards accelerated growth by:

- (a) increased scale and contribution of public and private investments in GDP,
- (b) acceleration of the processes of modernisation and absorption of new technologies, through increased import as well as greater expenditures on education and domestic research and development,
- (c) increased trust on the part of foreign markets, which leads to acceleration of the inflow of direct foreign investments,
- (d) safe financing of increased investment expenditures through greater domestic and foreign savings, including Community funds.

The result of such development in the first few years of membership should be accelerated growth of GDP, brought about in the first place by demand-related factors. At the end of the period it may be possible that the first indications of long-term acceleration of the growth of production capabilities and GDP will appear, caused by “recasting” the Polish production capital into a bigger, more modern and more effective one. This should result in greater, long-term competitiveness of the Polish economy, which allows for the chances created by the membership in the EU's internal market being taken advantage of.

The medium-term macroeconomic consequences of Poland's membership in the EU have been analysed by applying simulations conducted using the CGE model of the Polish economy. This is a standard model used in modern economy for this type of studies (a more detailed description of the model and a comparison with other models are stipulated in the work by Orłowski [2000]).

We should point out that there is a certain serious problem associated with the measurement of the membership effects. It is the inability to set apart those phenomena, which constitute direct or indirect consequences of accession, from a number of phenomena that appear independent of accession, which are related to, for instance, the general globalisation processes and modernisation of the Polish economy. Solution of this problem involves application of a method, in which, in addition to the simulation of Poland's economic development in case of the membership scenario, a second scenario has been formulated that assumes that Poland resigns from accession (an isolation scenario). Only the comparison of the economic indexes achieved as a result of the membership scenario with the results achieved in the simulated isolation scenario makes it possible to determine the costs and benefits that may be unequivocally ascribed to membership in the EU.

Results of Scenario Analyses

The most important macroeconomic consequence of the **membership scenario** in a medium time range is not so much the clear acceleration of the GDP growth as transition of the economy onto a path allowing for a quick acceleration of growth and increased economical effectiveness in the long run. This means different changes, especially of structural nature, which are briefly discussed below.

Table 1 Medium-term consequences of Poland's membership in the EU for economic development (simulated calculations based on the CGE model)

	2003 level	MEMBERSHIP SCENARIO		ISOLATION SCENARIO		Difference between scenarios (%)*
		2014 level**	Growth 2004-14	2014 level**	Growth 2004-14	
<i>EU-15 level = 100</i>						
GDP per capita accord. to PPP, fixed pr.	39.8	54.2	3.1	49.8	2.3	8.8
GDP per capita, current pr.	20.1	30.6	4.3	19.9	-0.1	53.6
<i>GDP as fixed prices, billion PLN</i>						
GDP	783	1310.5	5.3	1210.5	4.5	8.3
Total domestic demand	814	1402.5	5.6	1236.3	4.3	13.4
Individual consumption	513	792.0	4.4	738.7	3.7	7.2
Collective consumption	136	167.4	2.1	165.2	2.0	1.3
Investment expenditures	164	434.7	10.2	325.4	7.1	33.6
Export	232	540.0	8.8	478.8	7.5	12.8
Import	263	632.0	9.2	504.7	6.7	25.2
<i>Prices and rates</i>						
Consumption price level	1	1.40	3.4	1.65	5.1	-15.2
Exchg. rate PLN/EUR	3.99	4.02	0.1	6.94	5.7	-42.1
<i>Selected ratios (% GDP, current prices)</i>						
Current account deficit	-3.9	-4.2	x	-4.8	x	0.6
Trade deficit	-4	-6.1	x	-3.6	x	-2.5
Transfers from the EU	0.4	3.6	x	0.1	x	3.5
Direct foreign investments	3.4	3.5	x	2.0	x	1.5
Gross investments	20.7	25.4	x	22.5	x	2.9
Public sector deficit	-4.8	-2.4	x	-3.6	x	1.2
Public debt	52.6	40.3	x	46.6	x	-6.3
Foreign debt (excluding the debt related to foreign direct investments)	35.9	26.0	x	50.0	x	-24.0
<i>Labour market</i>						
No. of employed in millions	14.7	16.8	1.2	16.4	1.0	-0.461
Unemployment rate	18.0	8.0	x	10.6	x	-2.5

* For GDP and its parts, the no. of employed, prices and rates – deviation of the value of the membership scenario from the isolation scenario as % of the value for the isolation scenario. For percentage ratios to GDP – change in % points, for no. of employed in million of persons, for the unemployment rate change in percentage points.

** For selected percentage ratios except for the public and foreign debt – average in the time period 2004-14, for the debt – as of the end of 2014

Source: NOBE

First of all, increased competition on the domestic market will coerce the process of accelerated adaptation and restructuring of Polish enterprises. Despite their growing efficiency, in the first few years of membership, the import growth will exceed the export growth, mainly because of real depreciation of the Polish currency and more aggressive market strategies of global companies. Restructuring will allow though for a decisive improvement in the growth of Polish exports in the years 2010–2014.

In accordance with the simulation, in the years 2005–07 the economy can find itself on a GDP upward path of approx. 5%, with consumption growing at the approximate rate of 4% and investments growing at the approximate rate of 12% annually. Acceleration of growth in the years 2005–07 will be associated not only with the effects of membership, but with a probable improvement of results of Western European economies in comparison to the years 2001–03. This means that after accession there will be an investment and consumption boom for several years. The ratio of current account deficit to GDP will increase gradually to 5%, which will not

pose a threat to Poland's economic stability, especially when entering the euro zone. In the payment balance there will be a clear deterioration of the trade balance (by 2 percentage points of GDP), but there will be increased net transfers from the EU.

In the years 2008–2010 there will be a kind of gradual depletion of the current economic growth model, based on accelerated growth of domestic demand. The consumption growth will drop to below 4%, investments to 7%, whereas GDP to approx. 4%. The growth rate for export and import, after a sudden growth in the previous years, will drop down to approx. 7–8%, whereas the current account deficit will amount to approx. 4% of GDP. In that period a type of disappointment with the effects of Poland's membership in the EU can have place, mainly because of increased competitive pressure on domestic enterprises, not compensated – as before – by an accelerated growth of domestic demand.

As of 2011 the economy will enter a new path of accelerated economic growth, associated with a clear improvement of the degree of competitiveness and with an increased quality and volume of the production assets. In this period the consequences of accelerated investments and increased economic effectiveness coerced by competition will start appearing. The export growth rate will increase gradually to approx. 8–9%, where import will grow at a rate of 7–8%. Maintenance of the domestic absorption growth at a rate similar to that observed before will lead to the GDP growth rate of over 5% and to a gradual reduction of the current account deficit below 4% of GDP.

The above-described stages of GDP growth will be accompanied by a growing macroeconomic stabilisation. After accession, Poland will become a part of the ERM2 exchange-rate mechanism, thus stabilising the Polish currency against euro. Despite an uneasy requirement to meet the convergence criteria – meeting of the fiscal criterion will prove especially difficult – in 2008 Poland will join the euro zone, irreversibly stabilising the exchange rate and exchanging zloty for euro. Inflation during the entire period will be at a low level of 3–4% (long-term maintenance of significant inflation differences after joining the euro zone will coerce a stronger growth of labour efficiency in the trade sector).

An outlined development path would allow for a certain reduction of the development gap between Poland and Western Europe. In 2003 the Polish GDP per capita will constitute approx. 20% of the EU-15's average GDP according to current exchange rates and approx. 40% according to PPP; (the reason for the difference is a decisively lower level of prices for services in Poland). By 2014 Poland should reach a GDP level equal to over 30% of the EU-15's average in that period (according to current exchange rates) and approx. 54% according to PPP. It is worth pointing out that changes regarding GDP according to current exchange rates will be stronger than those regarding GDP according to PPP. This ensues from the fact that in the medium time range a real significant strengthening of the Polish currency will take place, while the pro-growth effects will not be strong yet.

On the other hand, in the **isolation scenario** we assumed that Poland, despite of it not joining the EU, still pursues a reasonable, pro-growth economic policy (so, this is in no way a scenario of economic catastrophe, and its assumptions should be viewed as rather optimistic). Despite that, the scenario leads to different, significantly less favourable results. In case of resignation from the membership – while the other candidate countries do access the EU – Poland must deal not only with the withdrawals of Community transfers, but also with a relative drop in investment trust, which causes a drop in the inflow of direct investments into Poland. These investments will rather be located in Central European countries being members of the EU. Slower modernisation of the economy will make it impossible to reach a GDP growth rate of over 4%. By 2014 Poland should reach a GDP level equal to 20% of the EU-15's average in that period (according to current exchange rates) and below 50% according to PPP.

Despite staying out of the EU, there will surely be an increase in production effectiveness coerced by worldwide competition, though it will be much slower than in the membership scenario due to strong limitation of funds allocated to modernisation of the economy. The labour efficiency in the isolation scenario increases on average at the rate of 3.1% between 2004–2014, and at the rate of 3.6% in the membership scenario. In the isolation scenario there will be no strong growth

of the ratio of investments to GDP that is observed in the membership scenario (Fig. 5), whereas the ratio of consumption to GDP on both scenarios is the same.

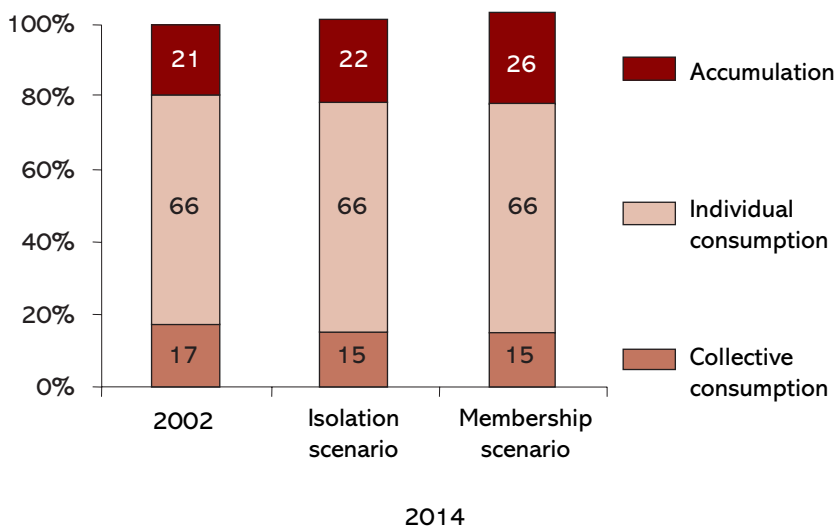


Fig. 5 Changes caused by membership: domestic demand structure in % GDP

The other characteristic difference between the scenarios will be the changes in the payment balance structure (Fig. 6). In the membership scenario we will deal with a higher trade and financial deficit, though in a completely safe manner with transfers from the EU and inflow of direct foreign investments. Under the isolation scenario the deficit will be smaller, but – due to lack of safer methods – it will be financed in half by greater commercial debt (bank loans and treasuries).

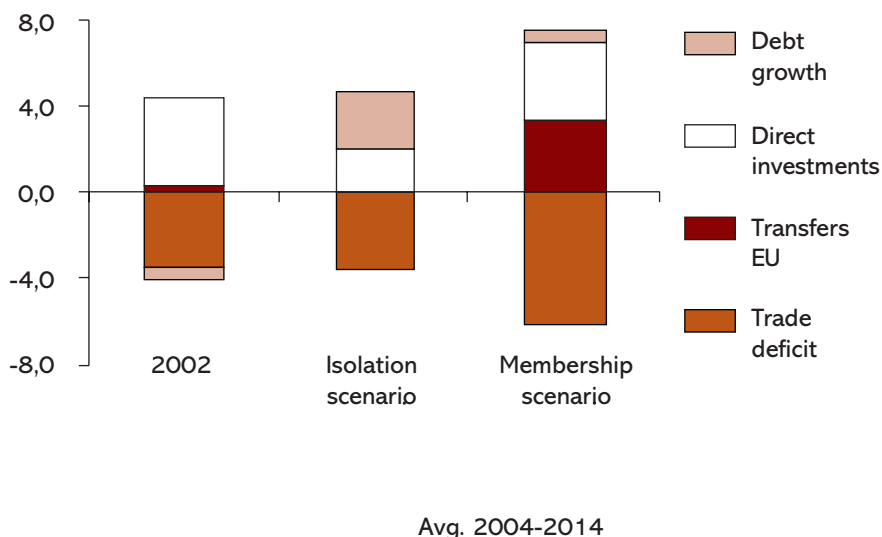


Fig. 6 Changes caused by membership: elements of the payment balance in % GDP

Another significant difference pertains to methods of financing investments (Fig. 7). In the membership scenario, a significantly larger portion of financing comes from abroad, especially from safe sources (direct foreign investments, transfers), savings of the public sector are positive.

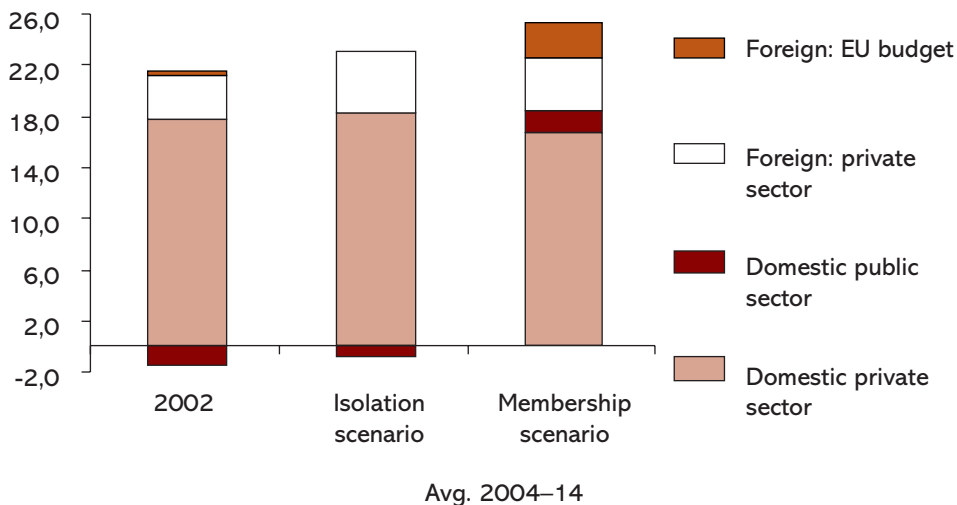


Fig. 7 Changes caused by membership: financing of investments in % GDP

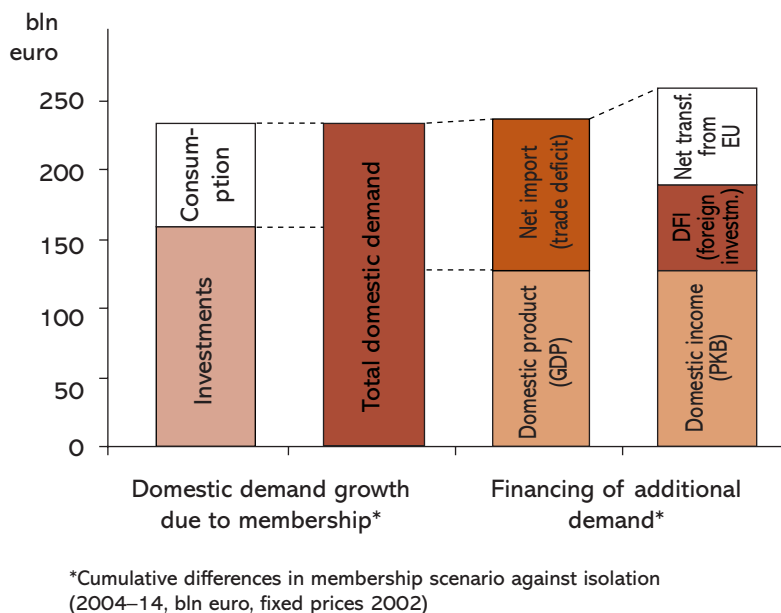
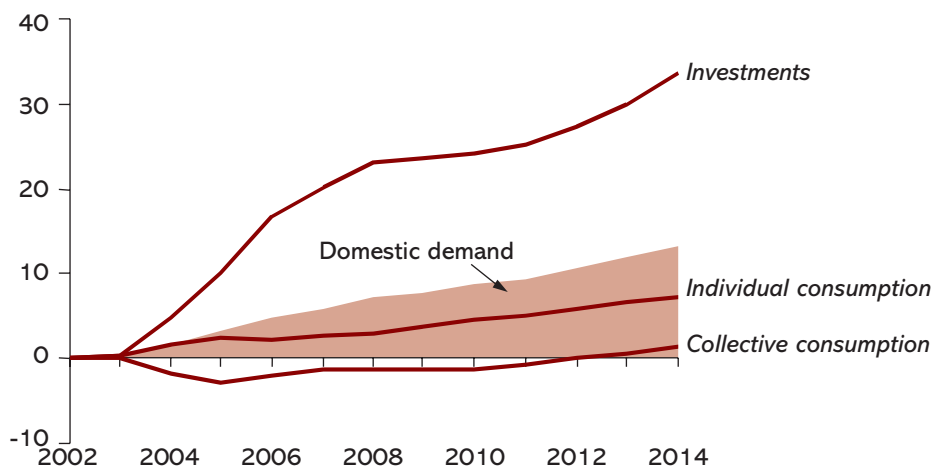


Fig. 8 Schematic presentation of effects of the membership 2004-2014

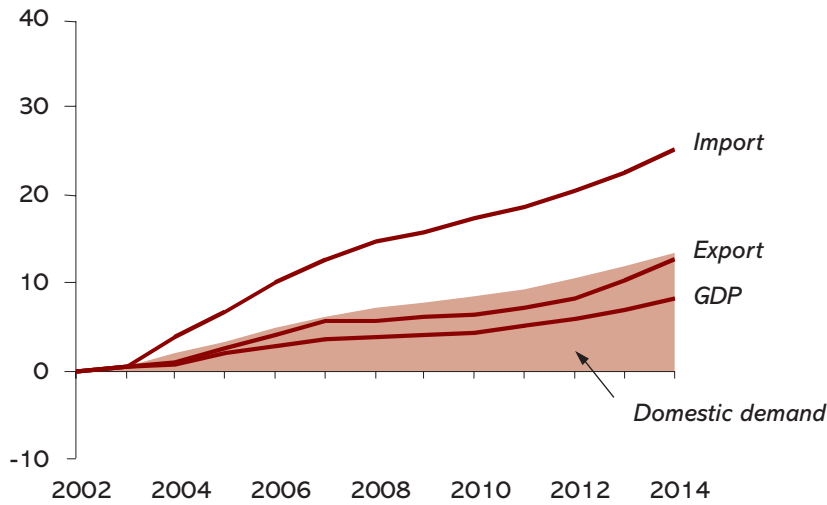
The consequences of membership can be best evaluated by reviewing the total cumulative macroeconomic figures concerning the demand and production for the entire forecasted period (2004–14). Fig. 8 shows the above-mentioned effects in the most schematic way. In comparison to the isolation scenario, in the membership scenario, during the entire 2004–14 period, the cumulative

investments are higher by 160 billion euro, and consumption by 70 billion euro (these are cumulative changes for the entire forecasted period, expressed as fixed prices for 2004). So, in comparison with the isolation scenario, the cumulative investments are higher by 23%, and consumption by 3%. The total difference in domestic demand is thus 230 billion euro (8%) and is divided into growth of the demand for domestic production (greater GDP) by 130 billion (4.5%) and net demand for import by 100 billion (as a result of import growth in the entire decade by 180 billion, i.e. 16% and export by 80 billion, i.e. 7%). The resulting trade deficit of 100 billion euro is covered with a surplus by direct foreign investments higher by 60 billion (over twice as high as in the isolation scenario) and the Community transfers of 70 billion euro (which are nearly null in the isolation scenario). This means that – in comparison to the isolation scenario – Poland's demand for other, less safe methods of financing the deficit (e.g. bank loans) decreases.



*Deviation of results of the membership scenario as % of isolation scenario

Fig. 9 Effects of membership in the EU (1): differences in scenario results in %



*Deviation of results of the membership scenario as % of isolation scenario

Fig. 10 Effects of membership in the EU (2): differences in scenario results in %

Fig. 9 and 10 illustrate the percentage differences of the basic macroeconomic values between the membership and the isolation scenarios. As can be seen the result of medium-term membership is a strong growth of investments and import. The growth effects are poorer where export, overall domestic demand and GDP are concerned, and the weakest where consumption is concerned.

Labour Market

Evaluation of the effects of integration on the labour market was performed using a macroeconomic function of labour demand, connecting the rate of growth of the employed with the rate of growth of GDP. The estimated quantitative scale of the effects of integration of the labour market was limited to demand effects, related to differences in GDP growth between scenarios. This is a significant simplification, although we reckoned that other factors have different effects and, to a large extent, tolerate each other, and consideration thereof in the macroeconomic analysis would require adoption of an entire list of very arbitrary assumptions. In reality membership in the EU may bring a number of other positive effects, which we do not take into account in the quantitative estimates. The problem of unemployment reduction is one of the priorities of the EU and Poland will receive funds allowing it to implement different pro-employment programs.

In the membership scenario, accelerated GDP growth rate translates into a higher demand for labour.

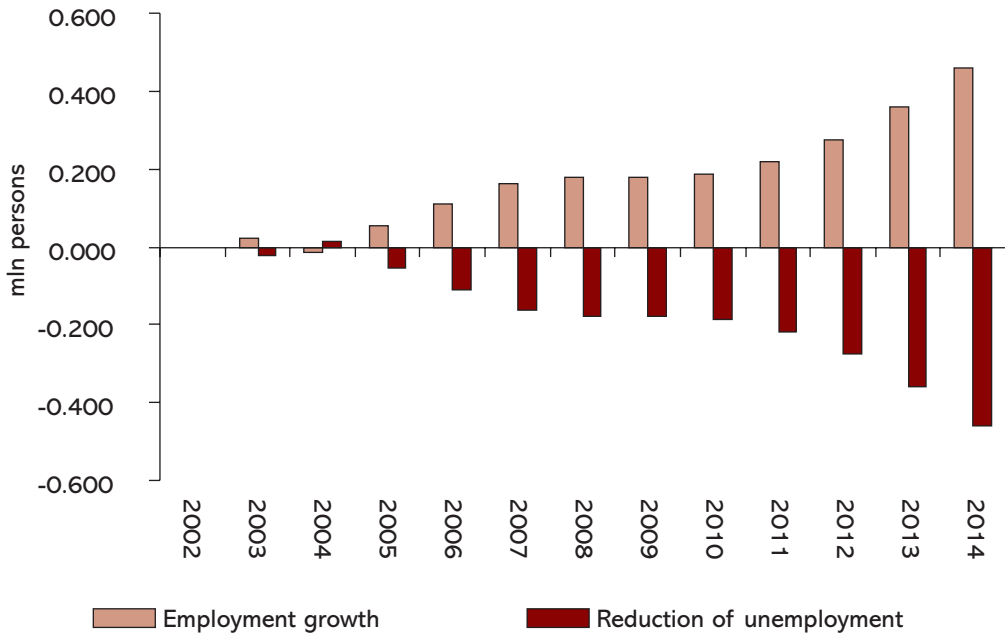


Fig. 11 Effects of membership in the EU on the labour market: differences in scenario results – the membership scenario leads to an increase in the number of employed and reduction of the number of unemployed in comparison to the isolation scenario.

The number of people employed in the economy increases in comparison to the isolation scenario in the years 2005–2006 by 100 thousand people, in the years 2007–2011 by 200 thousand people and in subsequent years, it increases by another 100 thousand people annually. The number of employed in the membership scenario is higher by nearly half a million people in 2014 in comparison to the isolation scenario. Because the supply of the employed will decrease after 2010 due to demographic reasons, the unemployment rate decreases in both scenarios, though in the integration scenario it decreases faster to the level of 8% in 2014, whereas in the isolation scenario the unemployment rate remains at approx. 11%.

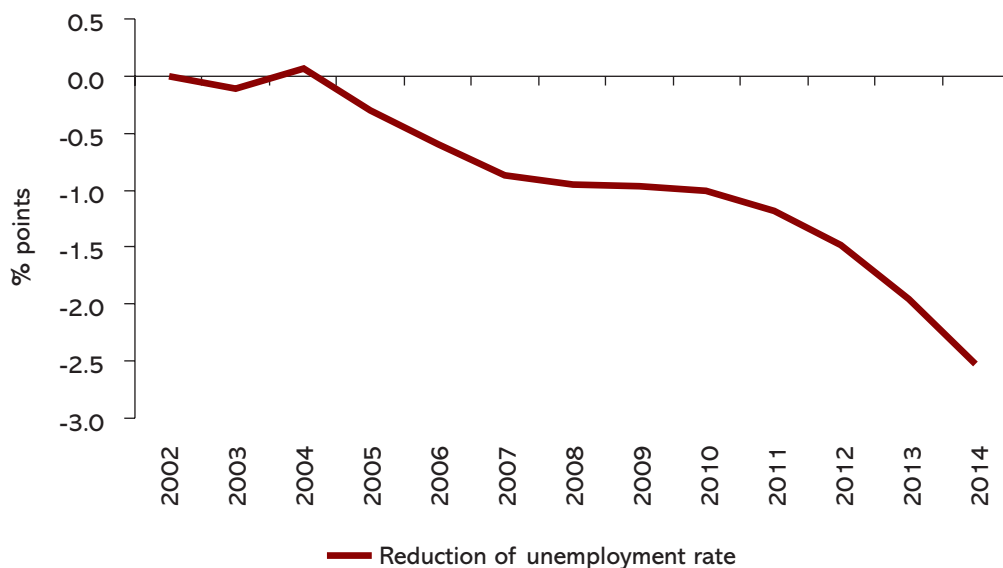


Fig. 12 Effects of membership in the EU on the labour market: differences in scenario results – the membership scenario leads to a reduction of the unemployment rate in comparison to the isolation scenario.

In summary, we can say that the most important medium-term effects of membership are as follows:

- Membership in the EU promotes savings and investments. The effect of greater investments is accelerated growth of production capacities and – in a longer time range – a higher potential for GDP growth.
- Membership in the EU promotes economic stability. This is illustrated by a reduction of the current account deficit and the related risk of currency exchange crisis, such as low inflation rate and low public sector deficit (the end-effect of this process is accession to EMU).
- Membership in the EU promotes inflow of private capital. This pertains in particular to capital inflow in a form most demanded and beneficial to the economy, i.e. in the form of direct investments.
- Membership in the EU promotes competitiveness and openness of the economy. The trade exchange increasing as result of market integration leads to significantly higher trading volume of Poland.
- In result of membership, the number of people employed is growing and – after a temporary slight increase – the number of people unemployed is decreasing.

Long-term Consequences of Poland's Membership in the European Union

The long-term effects of membership have been evaluated using the endogenous growth model. In this model, among the factors having a key meaning for long-term economic development perspectives of Poland, the following can be found: demographic trends, scale of available savings, political and economic stability, degree of economic freedom, speed of reducing technological gap, and the scale of investments in education. It should be pointed out

that as for endogenous growth approach, we fully take into account the pro-effectiveness changes appearing from time to time resulting from membership.

Two scenarios have been taken into account in the calculations: **the membership scenario**, assuming accession to the EU in 2004, and **the isolation scenario**, assuming that Poland stays out of the EU. This scenario assumes though that pursuant to the decisions taken in Copenhagen, 9 candidate countries will become a part of the EU in 2004, and Romania and Bulgaria around the year 2008. Similarly as for medium-term calculations, we assumed that even if Poland does not join the EU, it will pursue a pro-growth, consistent economic policy, and the economy will remain strongly integrated with that of the EU (otherwise the results would be much worse).

Comparison of the results of both simulations over a 25-year membership period is illustrated in Table 2.

Table 2 Long-term consequences of Poland's membership in the EU for economic development (simulated calculations based on the CGE model)

	2003	Annual level			Growth rate
		2010	2020	2030	2004–2030
MEMBERSHIP SCENARIO					
<i>EU-15 level = 100</i>					
GDP per capita accord. to PPP, fixed pr.	39.8	48.1	62.9	75.1	x
GDP per capita, current pr.	20.1	25.9	40.0	52.7	x
<i>In thousands euro</i>					
GDP per capita accord. to PPP, fixed pr.	10.6	14.0	22.6	32.3	4.4
GDP per capita, current pr.	5.8	9.0	19.5	35.7	7.2
<i>In billions euro</i>					
Poland's GDP accord. to PPP, fixed pr.	409	538	868	1229	4.3
Poland's GDP accord. to PPP, current pr.	223	344	751	1361	7.1
ISOLATION SCENARIO					
<i>EU-15 level = 100</i>					
GDP per capita accord. to PPP, fixed pr.	39.7	46.1	53.4	56.8	x
GDP per capita, current pr.	18.9	18.9	23.7	26.5	x
<i>In thousands euro</i>					
GDP per capita accord. to PPP, fixed pr.	10.5	13.4	19.2	24.4	3.3
GDP per capita, current pr.	5.1	6.6	11.5	18.0	5.0
<i>In billions euro</i>					
Poland's GDP accord. to PPP, fixed pr.	405	525	754	944	3.2
Poland's GDP accord. to PPP, current pr.	196	251	454	696	4.1
<i>Deviation of real value of GDP in %*</i>	0%	4%	18%	32%	x

* Deviation of the results of the membership scenario as % of the results of the isolation scenario

Source: NOBE

Poland's membership in the EU causes that our country – similarly to other poorer countries, which joined the EU before us – will enter the path of accelerated growth, allowing for diminution of the development differences in relation to Western Europe. By 2030 the value of GDP per capita in Poland will increase from approx. 20% of the EU-15's average according to current exchange rates and approx. 40% according to PPP to 55% of the EU-15's average for that period (according to current exchange rates) and approx. 75% according to PPP. This pace of reducing the development differences is slightly faster than that of the Iberian countries, though slower than that of Ireland.

Where the isolation scenario is concerned, in the same time span the conditions which are less favourable to modernisation and economic development in general, will lead to a much slower pace of development. The GDP per capita in Poland according to current exchange rates will increase to nearly 26% of the EU-15's average GDP, and according to PPP, to 57%. This

means that the real level of GDP in 2030 would be lower in the isolation scenario in comparison to the membership scenario by 32%.

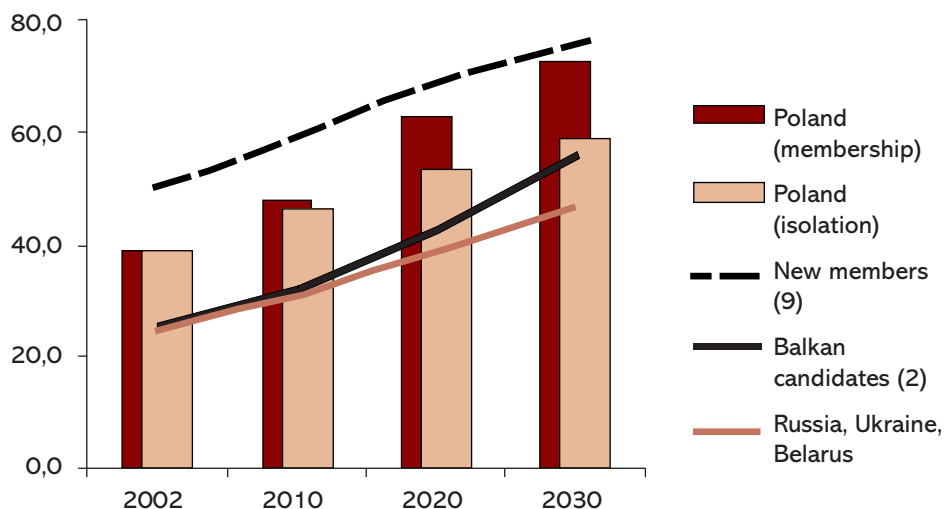


Fig. 13 Long-term consequences of membership: GDP per capita accord. to PPP (EU-15=100)

When discussing the above results one should not forget that significant advancement would be observed in the other Central and Eastern European countries accessing the EU. Poland would participate in it in the membership scenario, where by 2030 it would catch up to the other 9 countries accessing the EU in 2004 with regards to development (Fig. 13). Should Poland choose the isolation scenario, this phenomenon would not have place, and Poland itself would be caught up to with regards to development by currently significantly poorer Balkan candidate countries (Bulgaria and Romania).

Membership in the EU allows Poland to develop faster and to make up many years of developmental neglect, impossible to achieve in any other conditions.

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Annex: Assumptions of Membership and Isolation Scenarios

Assumptions of the Membership Scenario

The membership scenario is based on the following assumptions:

- (a) Poland will access the EU on 1st May, 2004 together with the other 9 candidate countries on the basis of solutions negotiated in the years 1998–2002 and adopted during the Copenhagen summit on 13th December, 2002.
- (b) This will mean elimination of the last barriers for free exchange of industrial goods (of non-tariff nature) and introduction of the common customs tariff, full inclusion of Poland in the common agricultural policy mechanisms (with gradual inclusion of farmers under direct subsidies), full liberalisation of majority of the service markets.
- (c) Where the production factors markets are concerned, there will be an elimination of the last barriers for free exchange of capital. The freedom for workers to move will be implemented over a 7-year period, although Poland will be granted significant concessions in this regard starting in 2004, and restrictions will probably be abolished before the anticipated deadlines. Poland's accession to the Schengen Agreement will be possible after 2–3 years of membership.
- (d) The financial package offered to Poland in the first few years of membership (until 2006) will be relatively modest, especially because of limited possibilities of Poland to absorb the funds in the first few years of membership and the obligation to participate fully in the payments to the budget. In subsequent years Poland will be granted access to significant structural funds and to growing subsidies as part of the common agricultural policy. Pursuant to the assumptions, Poland can count on funds gradually increasing to approx. 5 billion USD in 2006 and 15 billion USD in the years 2012–13 (according to 2004 fixed prices). This means that after taking into account Poland's payments to the EU budget, the net transfers will grow to 3–3.5% of GDP starting in 2009–10.
- (e) Increased financial credibility and investment attractiveness of Poland will lead to a quick inflow of foreign capital being maintained, investments focused on meeting the domestic market demand, as well as – gradually increasing with time – on exports. The annual inflow of direct foreign investments will reach approx. 10 billion euro, and after 2010 it will increase to 15 billion euro (3–4% of GDP), which will be supplemented by significant inflows of portfolio capital (especially in the years 2005–2007 in connection with the so-called convergence play, i.e. application of the differences in profitability of Polish and European treasuries before convergence to the requirements of the euro zone), loans from EIB and commercial loans.
- (f) In the same period Poland will join the ERM2 currency exchange stabilisation mechanism. After meeting the nominal convergence criteria from Maastricht in 2007, Poland will join the euro zone in 2008 (we assume that membership will be put off for a year in relation to the current declaration of the government and NBP, ensuing from the difficulties related to meeting of Maastricht criteria). This means that there is a need to pursue a specially responsible and careful macroeconomic policy, together

with deep structural reforms (privatisation, restructuring of enterprises, reforms of the public sector). Accession to the euro zone will be the beginning of the process of reducing foreign currency reserves in Poland, after growth in the years 2005-07.

Assumptions of the Isolation Scenario

The **isolation scenario** is based on the following assumptions:

- (a) Poland resigns from accession to the EU, e.g. as a result of negative results of the accession referendum. The Poland-EU relations will still be governed by the association agreement, providing for a significant degree of liberalisation of goods and services exchange, excluding agriculture, and a high degree of freedom in capital exchange. The other candidate countries will access the EU in 2004 on the basis of solutions adopted during the Copenhagen summit.
- (b) Poland will still pursue a responsible and cautious macroeconomic policy, attempting to create incentives to encourage the inflow of capital and to increase domestic savings. In spite of the efforts, this will mean a greater degree of economic imbalance, including a higher inflation rate and continuous devaluation against euro. This will not protect Poland against a high current account deficit of approx. 5% of GDP being maintained, which poses a constant threat of a currency crisis breaking out. Structural reforms will be continued, although – in comparison to the membership scenario – their growth will be slower. Also the pace of liberalising the services market will be slower.
- (c) After the currently functioning aid programs end (Phare, ISPA, SAPARD), the Community transfers to Poland will also end.
- (d) Despite a relatively high degree of financial credibility of Poland, our country will clearly lose out on investment attractiveness in comparison to the countries which will access the EU in 2004 (especially in comparison to Hungary and the Czech Republic). A relatively large domestic market will still attract foreign investments, though mainly those focused on meeting the domestic demand, and not export. The annual inflow of direct foreign investments ranges from 4–6 billion euro (2% of GDP), being insufficient to cover Poland's capital needs. Thanks to our quite good financial credibility, Poland will be able though to borrow the missing funds on the market by issuing debt securities and taking out commercial loans.

2. Financial Flows Between the EU and Poland in 2004–2013

Paweł Samecki

1. Introduction

For many years, public opinion has been viewing and still views financial transfers from the European Union to Poland after the accession as the greatest advantage of membership in the Union. This opinion is implicitly based on two assumptions. Firstly, that easily measurable things, i.e. financial flows, are most important in the balance of advantages and disadvantages of Poland's accession to the EU. Secondly, that the inflow of funds from the EU budget to Poland will exceed all outgoing payments resulting from the membership. It has to be added that the common expectation is that financial transfers from the EU after the accession minus Polish payments will be higher than transfers prior to Poland's accession to the EU.

It is impossible to prove the correctness of this assumption – in fact, this report presents an analysis of costs and advantages of the EU membership, among which those directly measurable constitute only one of the many components. Other advantages – perhaps greater – can be seen in much more immeasurable issues: more stable and advantageous business conditions for economic units, improvement and stabilization of law. Besides, we can expect a range of other non-economic advantages – thanks to the participation in European institutions, Poland will really have a share in the shaping of the future of the European Union and Europe guaranteeing a higher level of security and geo-political stability in comparison with its situation as an “outsider”.

It is the purpose of this study to verify the second assumption. Regardless of whether financial transfers will be the greatest advantage, they seem to be important. The use of additional development opportunities, opened thanks to the inflow of additional financial aid due to the Common Agricultural Policy and structural funds¹, can promote an increased rate of

¹ For the purpose of simplification, this term will be used throughout the text to denote jointly structural funds and Cohesion Fund (if not stated otherwise).

economic growth and modernization of the infrastructure necessary to attract foreign capital, as well as mobilize domestic capital. Besides, one can also expect positive economic and social results – not only thanks to a simple increase in the number of jobs but also thanks to the increased flexibility of job supply. However, the comparison of financial inflows to Poland with payments and fees Poland should contribute due to its membership seems equally important. They will constitute a direct financial cost of the membership.

The report will cover the period 2004–2013 on the assumption that the accession will take place on 1 May 2004, while the next financial perspective will cover years 2007–2013. The results of the negotiations concerning years 2004–2006 will indicate the scale of transfers in both directions with a relatively great probability (especially Poland’s contribution to the EU budget), but estimates of transfers in the next financial perspective will have to be based on a range of assumptions concerning the scale, structure of flows and sectoral allocation of funds. The ability to forecast such details for years 2007–2013 is much lower due to the inability to foresee the EU budget framework in those years as well as due to difficulties in forecasting growth and development processes in Poland so far in advance.

This chapter will not analyse financial consequences of the membership resulting from the adaptation of Polish law to the *acquis communautaire*. These consequences are the object of a wide scale analysis in nearly all the subsequent chapters presenting implications resulting from Poland’s participation in key sectoral community policies as well as from the point of view of chosen horizontal views (among others, regional or micro-economic views).

2. The EU Budget. Principles of Income Definition and Source

The budget of the European Union is financed by the member countries within the framework of the system, i.e. own funds. Article 201 of the Treaty about the European Union says that “*With no prejudice to other types of income the budget is financed in whole from own resources. The Council, univocally deciding as suggested by the Commission and after consultations with the European Parliament, decides upon regulations concerning the system of own resources of the Community whose adoption it advises to Member Countries according to their respective constitutional requirements.*” Regulations resolved by the Council and mentioned in article 201 include its Decision 94/728/EC, Euratom, establishing the system of own funds, Decision 2000/597/EC, Euratom, modifying the previous decision as well as Decision dated 29 September 2000 (OJ L253 of 2000).

The economic core of an own resources system includes automatic contribution (fee) provided to the community budget by the member countries. The automatism is based on the formula according to which fee value is calculated and thus there is no need to negotiate contributions of the individual countries every year in a given period covering several (financial perspective).²

The contribution includes four sources of funds. The first and oldest two sources (called traditional own resources) are agricultural charges and sugar levies contributed by the sugar industry as well as customs duties levied on the imports from third countries. The application of customs and charges results directly from the principles defined in legal regulations of the common customs policy and common agricultural policy. The collection of customs and charges is the task of member countries’ administrations but these profits supply only the Union budget.³ Thus, customs and charges constitute the source of a part of member country’s contribution in the literal sense as well as in the scope of point of reference for the calculation of contribution value.

² For more information about the system of internal means see I. Begg, N. Grimwade, *Paying for Europe*, Sheffield Academic Press, Sheffield, 1998, p. 36–58.

³ Except for 25% value of collected customs and charges that will remain in the budget of the member country in order to balance administrative and logistic costs of the collection of charges and customs.

The third source of own resources is taxation of goods and services (VAT). A part of such contribution is calculated applying the uniform rate encumbering the basis, currently calculated as 1% of the volume of VAT, estimated harmoniously for all countries. However, if the estimated VAT basis is higher than a half of 1% of Gross Domestic Product (GDP), the value equal to a half of one percentage of GDP is adopted for the calculation of a portion of the contribution that is to be paid as VAT. In the majority of less affluent EU countries and also in the case of all considerably poorer, newly acceding countries, the basis in the form of a half of one percent of GDP will be applied.⁴

In the situation when previous sources are not sufficient to achieve desired income of the community budget, another “fourth” source of income is applied with its value calculated as a part of the sum of Gross Domestic Product of all member countries. A single method is applied to calculate GDP for each country. In the long term, means from the fourth source become a more and more important source of budget financing for two reasons:

- liberalization of the global trade means that customs levies by the EU for the imports from third countries gradually lose their importance;
- relatively stable share of supply from VAT does not cover growing needs of the EU budget resulting from new elements in the integration process (2nd and 3rd pillar).

Cited estimates of the European Commission indicate that, after 2004, means from the fourth source become the clearly dominating stream of budget supply (over 70% of the whole income).

3. The Estimate of Polish Contribution to the EU Budget and Other Payments for Community Institutions

Previous scientific publications rarely estimated Poland’s liabilities towards the Community budget in years 2004–2006. They ranged from 2 to 2.4 billion Euros.⁵ Few documents prepared by the governmental administration indicated different values.⁶ The *Report concerning advantages and costs of integration of the Republic of Poland with the European Union*, issued by the AWS-UW government, even mentioned a potential level of the lower range threshold amounting to 100 million Euro if it would be possible to negotiate correction mechanism postulated in the negotiating position of Poland (10% of the target contribution in the first year of membership, 30% in the second year, and 50% in the third year, etc.). In turn, the *Economic strategy of the SLD-UP-PSL government* including internal incoherencies in the calculation of contribution in years 2004–2005⁷ assumed the target contribution in the first years of membership as 2.250–3.383 million Euro.

Simulations made by the European Commission in the course of the negotiation process on the basis of a method resulting from the Council Decision, and mentioned in clause 2 are the most probable estimates of the contribution value due to the long experience of the Commission services and advanced “technology” of calculations. According to the summary of estimates

⁴ This results from the estimates of the European Commission in its unpublished internal documents; among others are: *Non-paper from the Commission to the Cabinet. Methodological aspects related to the calculation of net budgetary balances*, (undated paper of 2002).

⁵ See E. Kawecka-Wyrzykowska, S. Ładyka, Estimated Polish payments to the European Union budget and transfers from the Union budget Poland’s behalf (incl.): *Korzyści i koszty członkostwa Polski w Unii Europejskiej*, Instytut Konjunktury i Cen Handlu Zagranicznego, Warsaw 2000, volume 1, p. 91 (estimated 2,3–2,4 billion Euro), W. M. Orłowski, *Koszty i korzyści z członkostwa w Unii Europejskiej. Metody, modele, szacunki*, CASE, Warsaw 2000, p. 107–108, 114–115 (estimated 2 billion Euro).

⁶ *Raport w sprawie korzyści i kosztów integracji Rzeczypospolitej Polskiej z Unią Europejską*, Rada Ministrów, Warsaw, 26 July 2000, p. 125–126 (estimated full contribution amounting to from 1 up to 3,6 billion Euro); *Przedsiębiorczość – Rozwój – Praca. Strategia gospodarcza Rządu SLD-UP-PSL*, the Cabinet of Ministers, Warsaw, January 2002 r., p.61, table 3

⁷ See more information in: P. Samecki, *Transfery finansowe między Unią Europejską a Polską w okresie 2004–2006: próba oszacowania skali, potrzeb współfinansowania oraz czynników ryzyka absorpcji* (in:) *Budżetowo-finansowe skutki członkostwa Polski w Unii Europejskiej*, Szkoła Główna Handlowa, Warsaw 2002, p. 128–129.

made in 2002 and included in subsequent internal documents of the European Commission, differences in estimates were insignificant and resulted from further, more exact approximations of reference values (e.g. VAT basis).

Table 1. Estimated values of Polish contribution in millions of Euro.

Source of estimate	2004	2005	2006
<i>Non-paper from the Commission... op.cit. (prices 2002)</i>	2398	2496	2565
<i>Paper on the methodological aspects related to the calculation of net budgetary balances, unpublished material of the European Commission dated 22 July 2002 (prices 1999)</i>	2429	2470	2560
<i>Financial framework for enlargement 2004–2006. Poland. Estimated net budgetary positions after enlargement, unpublished material of the Danish presidency dated 4 November 2002 (prices 1999)</i>	2337	2407	2492
<i>Financial framework for enlargement 2004–2006. Poland. Estimated net budgetary positions after enlargement, unpublished material of the Danish presidency dated 26 November 2002 (prices 1999)</i>	1557* (2336)	2418	2489
<i>Financial framework for enlargement 2004–2006. Poland. Estimated net budgetary positions after enlargement, unpublished material of the Danish presidency dated 11 November 2002 (prices 1999)</i>	1576* (2364)	2429	2495
<i>Financial framework for enlargement 2004–2006. Indicative allocation of commitment and payment appropriations, unpublished material of the Danish presidency dated 19 December 2002 (prices 1999)</i>	1579* (2369)	2454	2519

* Value within the period of 8 months after the accession as of 1 May 2004; in parenthesis contribution value calculated for the full calendar year.

Estimates presented in the bottom row of the table as the result of negotiations will be binding. Therefore, according to prices in 1999, Poland will contribute 1579 million Euro to the budget in 2004, 2454 million Euro in 2005, and 2519 million Euro in 2006. (table 2)

Table 2. Contribution structure and components according to their sources (millions of Euro, prices in 1999)

Source	2004*	2005	2006	Total	Structure
Customs and customs duties	123	213	213	549	8%
VAT	194	304	310	808	12%
"Fourth" source (GDP fraction)	1114	1707	1752	4573	70%
British rebate**	148	230	244	622	10%
Total	1579	2454	2519	6552	100%

* contribution calculated for 8 months (as of the planned accession to EU on 1.05.2004)

** special part of the contribution involving the financing of the reduction in the contribution of Great Britain defined upon the motion of this country by the European Council in Fontainebleau in 1984.

Source: *Financial framework for enlargement 2004–2006. Indicative allocation of commitment and payment appropriations*, unpublished material of the Danish presidency dated 19 December 2002.

In subsequent years (2007–2013), calculation of Poland's contribution will depend on the assumptions in the scope of a calculation method, initial benchmarks and thresholds for the whole the EU budget. These parameters are unknown at present; they will be revealed in 2005 at the earliest. This is why estimates can be based on the assumptions that the commitment ceiling (funds promised in a given year to be paid in the subsequent years) of the EU budget will remain unchanged (1.335% EU GDP), similarly to the methods of contribution calculation. Summing up, we can expect the contribution to increase proportionally to the growth rate of Gross Domestic Product (according to the results of the macroeconomic analysis in chapter I, the assumed average real rate of economic growth is 4.9%).

Apart from contribution to the community budget, Poland will contribute other payments due to its membership to some institutions of the Union. It is assumed in this report that Poland will pay the following contributions:

- capital subscription to the European Investment Bank (eight annual instalments, worth 80 million Euro each, at prices from 1999)

2. Financial Flows Between the EU and Poland in 2004–2013

- a single payment of 5% of the Polish capital subscription to the European Central Bank (ca. 13 million Euro) in the first year of the membership and the remaining 95% subscription (ca. 250 million Euro at prices from 1999) in the first year (2008) of the participation in the Economic and Monetary Union (EMU)
- premium for the European Coal and Steel Fund amounting to 92.5 million Euro in total as of 2006, divided into four annual instalments: 15%, 20%, 30%, 35%
- a payment – probably as of 2006 – to the European Development Fund (EDF) supporting developing countries; this report assumes that the payment will be equal to 1/8 of the Spanish payment in the current 6-year period of EDF (Spanish payment amounts to 800 million Euro) and will be spread over a period of six years.

Contributions and payments are presented in Table 3 below.

Table 3. Contributions to the EU Budget and other Polish payments (millions of Euro, current prices)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Contribution	1743	2764	2894	3120	3335	3595	3876	4189	4550	4996
Other payments	103	90	128	135	447	157	120	123	21	22
Total	1846	2854	3022	3255	3782	3752	3996	4312	4571	5018

Source: author's estimates (in years 2004–2006 based on the source from Table 2)

4. Estimated Transfers From the EU Budget to Poland

This part of the report should answer the question about the perspective of external support for the Polish economy resulting from Poland's accession to the European Union – support with financial funds from the community budget. This question is important because of high probability of a positive relationship between increased opportunities of financing of both public and private investments and the increase in profitability of the economy as well as competitiveness of economic units – these categories determine long-term tendencies in the economic development.

Financial flows to Poland from other EU institutions (beyond the general budget) will not be analysed in this part of the chapter. For example, Poland will continue to take advantage of convenient credits in the European Investment Bank. It is highly possible that they will amount to a few hundred million Euro annually but this is a completely different financial stream. The difference is in the returnable nature of funds as well as a high degree of uncertainty in the rhythm of credit incurrence, which depends on changeable needs that cannot be planned annually. The analysis will also omit such indirect transfers, such as funds from the European Development Fund or structural funds allocated to other EU countries, that Polish suppliers of goods, services and work can acquire thanks to contracts financed from these funds.

The report does not cover the issues of financial support from foreign capital and financial markets although, undoubtedly, the EU accession and, to an even greater degree, accession to the Economic and Monetary Union has and will have substantially positive influence on the access of Polish enterprises to the international capital and financial markets. Therefore, we can expect that the scale of external support from these sources will increase due to such improved access.

The search for an answer to the question concerning support directly resulting from the EU accession has to be analysed in two temporal horizons. Assuming that Poland will accede to the European Union in May 2004, the first horizon includes the period from May 2004 until the end of 2006, i.e. from the end of the so-called financial perspective 2000–2006 (or the set of political agreements between the EU member countries concerning Community budget for that period). The second horizon includes years 2007–2013 – the next financial perspective. It seems that the attempts to go beyond the year 2013 would be totally speculative.

For both periods, the search for an answer bears the risk of the adoption of assumptions whose correctness will be verified by two factors:

- results of the European Union negotiations in the probably extended group (EU-25) concerning the size, structure and principles of the EU budget execution for the period 2007–2013, with agreements concerning reforms of the agricultural and structural policy and further EU enlargement (by Bulgaria, Romania and possibly the Balkan countries as well as Turkey) will be of key importance;
- actual (and not planned) capacity to absorb funds within the whole membership period – it can be forecasted on the basis of experience concerning the absorption of the EU funds before the accession, however, such forecasts seem to be insufficiently reliable.

In the estimates included in this report, a range of detailed assumptions was adopted, especially for the period 2007–2013.

5.1. Assumptions Concerning the General EU Budget (in 2007–2013)

The EU budget will still be based on a principle of maximum share in Gross Domestic Product amounting to 1.335%. Effective utilization (payments) can amount to 1.15%. Increase in the nominal value of the budget can result only from the increase in the base (EU economic growth) and inflation.

The share of commitments concerning structural operations (structural and cohesion funds considered jointly) will grow slightly and slowly – from 33% in 2002 to 38% in 2013. This means higher concentration of funds in poorer member countries. Within commitments concerning structural operations of structural and cohesion funds, the share of the Cohesion Fund will grow (from the current 8% to 13%, i.e. by 5 percentage points). The principle stating that 4% GDP is the maximum ceiling of transfers from EU will be maintained.

As for the Common Agricultural Policy (CAP), slow growth of funds for direct payments and market intervention will take place (1 percent annually according to the settlements of the European Council in Brussels in October 2002). Expenditures for structural instruments assigned to the development of rural areas will grow with the increasing speed (2 percent annually), which will entail slight drop in the share of direct payments and market interventions in the total amount of funds for agriculture (including funds for the development of rural areas).

Adopted assumptions create the following framework of the next financial perspective (Table 4).

Table 4. The EU budget (limit of commitments) in years 2007–2013, at current prices in millions of Euro.

Year	2007	2008	2009	2010	2011	2012	2013
Agriculture including	54918	55543	56175	56815	57464	58120	58785
Payments and interventions	47363	47837	48315	48799	49287	49779	50277
Development of rural areas	7554	7705	7860	8017	8177	8341	8507
Structural operations including	45130	46033	46954	47893	48851	49828	50824
Structural funds	39199	39983	40783	41598	42430	43279	44145
Cohesion Fund	5931	6050	6171	6294	6420	6549	6680
Other	20492	20902	21320	21746	22181	22625	23077
Total expenditures	120540	122477	124448	126454	128495	130572	132686

Source: author's estimates

5.2. Assumptions Concerning Polish Revenues from the EU Budget

Poland will take advantage of the negotiated opportunity for the increase in the value of direct payments in 2004–2006, relocation respectively 25%, 20% and 15% of funds from commitments planned within the framework of structural instruments (for the development of rural areas) of the Common Agricultural Policy. Thus, the accrual of payments will not change the total limit of commitments from CAP but their structure. It is further assumed that this relocation in the structure of payments will not be continued after 2006.

Although funds in the EU budget assigned for market intervention and direct payments after 2006 are supposed to increase at the real rate of 1% annually, Polish funds for market intervention will grow at the rate of 2% annually until 2013 while funds for CAP structural instruments (development of rural areas) will grow by 3% annually. After 2006, funds for direct payments will be increased only due to the execution of the sequence presented above.

The January 2003 version of the National Development Plan⁸ (NDP) provides for the following proportions within the framework of instruments of the social and economic cohesion policy: 67,2% – structural funds, 32,8% – Cohesion Fund. However, results of the accession negotiations indicate the following proportions: 2/3 – structural funds, 1/3 – Cohesion Fund. These proportions will be adopted as of 2004. Another assumption is that proportions between different operational programs within funds result from NDP and are constant (e.g. between the environmental protection infrastructure and transport infrastructure in the Cohesion Fund).

The arrangement of tables presenting payment estimates deviates from the most frequent “according to funds and operating programs” as the application of the latter leads to the situation in which the same categories of “beneficiaries” or sectors are hidden in various funds (e.g. transport infrastructure is supported by the Cohesion Fund and the European Regional Development Fund. Thus, transformed proportions of the NDP project assume that funding from structural funds (without the Cohesion Fund) support the following three areas:

- production sector (28% of funding from structural funds); including 3 sub-areas: industry without agriculture (mainly small and medium enterprises), services, agricultural farms and food processing firms – the support involves investments as well as “soft” aid (advising, training)⁹. Funds are divided as follows: 15.6% falls to industrial and service enterprises; 12.4% – to farms and food processing firms;
- human resources (30.6% of funding from structural funds): in this case, main beneficiaries are individual people (trained in various forms and according to various methods), institutions of the public sector and non-governmental organizations;
- infrastructure (41.6% of funding from structural funds); including 29% for transport infrastructure and 12.6% for other types of infrastructure (mainly in the scope of environmental protection).

According to NDP, it is assumed that 50% of means from the Cohesion Fund support the transport infrastructure while the remaining 50% – other types of infrastructure (mainly in the scope of environmental protection).

Until 2006 inclusively, the limit of possible commitments and payments will be determined by settlements of EU negotiations (including relocation of funds for direct payments, which was mentioned above). After 2006, gradual increase in transfers to Poland will take place – they should amount to 15% of the total the EU budget in 2013 (equal to the amount Spain was receiving after the comparable membership period). This is rather a farfetched assumption, considering that the Union will be enlarged to 25 members including 10 not very affluent ones.

⁸ *Polska. Narodowy Plan Rozwoju 2004–2006*, document adopted by the Cabinet of Ministers on 14 January 2003, Warsaw, January 2003 (www.mg.gov.pl)

⁹ Unfortunately, it is impossible to separate funds for investments from “soft” forms of support. Intuitively, it can be assumed that 2/3 up to 3/4 funds will be spent on investment support.

Due to probable difficulties in achieving complete planned absorption of funds in the first years of membership, it seems that the achievement of the threshold of payments from structural and cohesion funds amounting to 4% GDP will not be possible to negotiate during the negotiation of terms of the financial perspective 2007–2013.

The public sector will acquire funds not only for the infrastructure but also for the financing of activities resulting from Community policies, initiatives and programmes (growing by 1% annually after 2006) and, in years 2004–2006, also from institution building programmes specific for newly admitted countries, and support to fulfil requirements of the Schengen Agreement. Consideration of the state budget as a beneficiary of the internal EU policies (e.g. Framework Programmes in the scope of scientific research) is rather disputable. These funds are not for a budget of a not predetermined nature, contrary to lump payments aimed at the improvement of liquidity. However, their final beneficiaries will be institutions (e.g. higher schools) from the general governmental sector of public finances.

Assumptions concerning GDP growth rate come from chapter I of this publication (about macro-economic consequences of Poland's accession).

5.3 Estimated Transfers

Estimated transfers (commitments and payments) from the European Union budget for Poland in years 2004–2013 are presented in the tables below. Payments are presented in three schemes: according to funds/policies, according to sectors as addressees of support and according to main beneficiaries. Main beneficiaries are local governments, governmental administration (state budget), private sector and “human resources” – beneficiaries of programs aimed at the strengthening of a human resource potential, such as individual people (training participants), non-governmental organizations and some public administration institutions connected with the labour market.

Table 5. EU commitments to Poland in millions of Euro at prices from 1999; arrangement according to funds/policies

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Structural and cohesion funds, total	3114	3607	4648	6921	8479	10174	10683	11217	11778	12367
Structural funds	1836	2555	3244	4637	5681	6817	7158	7516	7891	8286
Production sector (companies and farms)	514	715	908	1298	1591	1909	2004	2104	2210	2320
Industry and services outside of agriculture	286	399	506	723	886	1063	1117	1172	1231	1293
Farms and food processing firms	228	317	402	575	704	845	888	932	979	1027
Human resources (individuals and administration)	562	782	993	1419	1738	2086	2190	2300	2415	2535
Infrastructure	764	1063	1350	1929	2363	2836	2978	3126	3283	3447
Transport infrastructure	532	741	941	1345	1647	1977	2076	2179	2288	2403
Other types of infrastructure	231	322	409	584	716	859	902	947	994	1044
Cohesion Fund	1278	1052	1404	2284	2798	3358	3525	3702	3887	4081
Transport infrastructure	639	526	702	1142	1399	1679	1763	1851	1943	2041
Other types of infrastructure	639	526	702	1142	1399	1679	1763	1851	1943	2041
Common Agricultural Policy	721	1785	1994	2248	2416	2718	3022	3328	3630	3937
Market regulations	135	350	377	384	392	400	408	416	424	432
Direct payments	0	752	846	929	1061	1326	1592	1859	2122	2388
Development of rural areas (structural instruments)	586	683	772	935	964	992	1022	1053	1084	1117
Internal policies and institutional development	626	602	589	482	500	519	539	559	580	602
Existing internal policies	429	447	464	482	500	519	539	559	580	602
Institution building	104	62	31	0	0	0	0	0	0	0
Support for the eastern border areas	93	93	93	0	0	0	0	0	0	0
Lump sum for the improvement of budget liquidity	443	550	450	0	0	0	0	0	0	0
TOTAL	4904	6544	7681	9652	11395	13411	14244	15104	15988	16906

Remarks: 1. Direct payments increased in years 2004-2006 by commitments of respectively 25%, 20% and 15% re-allocated from structural instruments of CAP. 2. The table covers only commitments anticipated after the accession – no pre-accession aid that will be provided due to commitments made before 2004 was considered.

Source: author's estimates; for 2004-2006 estimates based on negotiation settlements (Financial framework for enlargement 2004-2006. Indicative allocation of commitment and payment appropriations, unpublished material of the Danish presidency dated 19 December 2002)

Table 6. Payments to Poland in millions of Euro at prices from 1999; arrangement according to funds/policies

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Structural and cohesion funds, total	860	1776	2107	6026	7827	9132	9330	9841	10265	10570
Structural funds	834	1482	1578	5219	6526	7361	7061	7061	7061	7061
Production sector (companies and farms)	233	415	442	1461	1827	2061	1977	1977	1977	1977
Industry and services beyond agriculture	130	231	246	814	1018	1148	1102	1102	1102	1102
Farms and food processing firms	103	184	196	647	809	913	876	876	876	876
Human resources (individuals and administration)	255	453	483	1597	1997	2252	2161	2161	2161	2161
Infrastructure	347	616	656	2171	2715	3062	2937	2937	2937	2937
Transport infrastructure	242	430	458	1514	1893	2135	2048	2048	2048	2048
Other types of infrastructure	105	187	199	658	822	927	890	890	890	890
Cohesion Fund	26	295	529	807	1301	1771	2269	2780	3204	3509
Transport infrastructure	13	147	264	404	651	886	1135	1390	1602	1755
Other types of infrastructure	13	147	264	404	651	886	1135	1390	1602	1755
Common Agricultural Policy	352	1572	1913	2122	2356	2693	2996	3301	3603	3908
Market regulations	135	350	377	384	392	400	408	416	424	432
Direct payments	0	752	846	929	1061	1326	1592	1859	2122	2388
Development of rural areas (structural instruments)	217	469	691	809	903	967	996	1026	1057	1088
Internal policies and institutional development	285	407	499	390	395	447	512	531	551	572
Existing internal policies	154	266	359	350	375	447	512	531	551	572
Institution building	37	48	46	45	20	0	0	0	0	0
Support for the eastern border areas	93	93	93	0	0	0	0	0	0	0
Lump sum for the improvement of budget liquidity	443	550	450	0	0	0	0	0	0	0
Pre-accession aid	970	823	509	131	16	0	0	0	0	0
TOTAL	2910	5128	5477	8669	10594	12272	12838	13673	14419	15050

Remark: Direct payments increased in years 2004–2006 by commitments of respectively 25%, 20% and 15% re-allocated from structural instruments of CAP.

Source: author's estimates; for 2004–2006 estimates based on negotiation settlements (Financial framework for enlargement 2004–2006. Indicative allocation of commitment and payment appropriations, unpublished material of the Danish presidency dated 19 December 2002)

Table 7. Payments from the EU budget to Poland in millions of Euro at prices for 2004; arrangement according to sectors

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public sector (capital and "soft" investments)	1215	2063	2356	3719	4870	5830	6314	6899	7389	7749
Transport infrastructure	281	677	797	2117	2808	3335	3513	3795	4030	4198
from structural funds	267	674	505	1671	2090	2357	2261	2261	2261	2261
from the Cohesion Fund	14	163	292	445	718	978	1253	1535	1769	1937
Other types of infrastructure (mainly environmental protection)	130	369	511	1172	1626	2002	2235	2517	2751	2919
from structural funds	116	206	220	726	908	1024	982	982	982	982
from the Cohesion Fund	14	163	292	445	718	978	1253	1535	1769	1937
Internal policies and institution building	315	449	551	431	436	494	565	586	608	632
Existing internal policies	170	294	396	386	414	494	565	586	608	632
Institution building	41	53	51	50	22	0	0	0	0	0
Support for the eastern border areas	103	103	103	0	0	0	0	0	0	0
Lump sum for the improvement of budget liquidity	489	607	497	0	0	0	0	0	0	0
Human resources (individuals and administration)	282	501	533	1763	2205	2487	2386	2386	2386	2386
Production sector (firms and farms)	647	2193	2600	3957	4619	5249	5491	5827	6160	6498
Industry and services outside of agriculture, from structural funds	144	255	272	899	1124	1268	1216	1216	1216	1216
Farms and food processing firms	503	1938	2328	3058	3495	3981	4274	4611	4944	5282
Market interventions	149	386	416	424	433	442	450	459	468	477
Direct payments	0	831	934	1026	1171	1464	1758	2052	2343	2637
Investments and structural instruments	354	721	979	1608	1891	2075	2066	2099	2133	2168
Pre-accession aid	1071	909	562	145	18	0	0	0	0	0
TOTAL	3214	5665	6051	9583	11711	13565	14190	15111	15935	16632

Remark: Direct payments increased in years 2004–2006 by commitments of respectively 25%, 20% and 15% re-allocated from structural instruments of CAP.

Source: author's estimates; for 2004–2006 estimates based on negotiation settlements (Financial framework for enlargement 2004–2006. Indicative allocation of commitment and payment appropriations, unpublished material of the Danish presidency dated 19 December 2002)

Table 8. Payments from the EU budget to Poland in millions of Euro, constant prices for 2004; arrangement according to beneficiaries

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public sector including the state budget (governmental administration institutions)	1215	2063	2356	3725	4870	5830	6314	6899	7389	7749
Transport infrastructure (from the Cohesion Fund)	818	1219	1339	882	1154	1471	1818	2121	2377	2569
Internal policies and institution building	14	163	292	445	718	978	1253	1535	1769	1937
Existing internal policies	315	449	551	437	436	494	565	586	608	632
Institution building	170	294	396	386	414	494	565	586	608	632
Support for the eastern border areas	41	53	51	50	22	0	0	0	0	0
Lump sum for the improvement of budget liquidity	103	103	103	0	0	0	0	0	0	0
Other types of infrastructure (mainly environmental protection)	489	607	497	0	0	0	0	0	0	0
Local governments	397	843	1017	2843	3716	4359	4496	4778	5012	5180
Transport infrastructure (from structural funds)	267	474	505	1671	2090	2357	2261	2261	2261	2261
from structural funds	130	369	511	1172	1626	2002	2235	2517	2751	2919
from the Cohesion Fund	116	206	220	726	908	1024	982	982	982	982
Human resources (individuals and administration)	14	163	292	445	718	978	1253	1535	1769	1937
Production sector (companies and farms)	282	501	533	1763	2205	2487	2386	2386	2386	2386
Industry and services beyond agriculture, from structural funds	647	2193	2600	3957	4619	5249	5491	5827	6160	6498
Farms and food processing firms	144	255	272	899	1124	1268	1216	1216	1216	1216
Market interventions	503	1938	2328	3058	3495	3981	4274	4611	4944	5282
Direct payments	149	386	416	424	433	442	450	459	468	477
Investments and structural instruments	0	831	934	1026	1171	1464	1758	2052	2343	2637
Pre-accession aid	354	721	979	1608	1891	2075	2066	2099	2133	2168
TOTAL	1071	909	562	145	18	0	0	0	0	0
	3214	5665	6051	9589	11711	13565	14190	15111	15935	16632

Remark: Direct payments increased in years 2004-2006 by commitments of respectively 25%, 20% and 15% re-allocated from structural instruments of CAP.

Source: author's estimates; for 2004-2006 estimates based on negotiation settlements (Financial framework for enlargement 2004-2006. Indicative allocation of commitment and payment appropriations, unpublished material of the Danish presidency dated 19 December 2002)

Table 9. Payments from the EU budget to Poland in millions of Euro, constant prices for 2004; arrangement according to funds/policies

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Structural and cohesion funds, total	949	1961	2326	6653	8642	10082	10301	10865	11333	11670
Structural funds	921	1636	1742	5762	7205	8127	7796	7796	7796	7796
Production sector (companies and farms)	258	458	488	1613	2017	2276	2183	2183	2183	2183
Industry and services beyond agriculture	144	255	272	899	1124	1268	1216	1216	1216	1216
Farms and food processing firms	114	203	216	715	893	1008	967	967	967	967
Human resources (individuals and administration)	282	501	533	1763	2205	2487	2386	2386	2386	2386
Infrastructure	383	681	725	2397	2997	3381	3243	3243	3243	3243
Transport infrastructure	267	474	505	1671	2090	2357	2261	2261	2261	2261
Other types of infrastructure	116	206	220	726	908	1024	982	982	982	982
Cohesion Fund	28	325	584	891	1436	1955	2505	3069	3537	3874
Transport infrastructure	14	163	292	445	718	978	1253	1535	1769	1937
Other types of infrastructure	14	163	292	445	718	978	1253	1535	1769	1937
Common Agricultural Policy	389	1735	2112	2343	2602	2973	3308	3644	3978	4315
Market regulations	149	386	416	424	433	442	450	459	468	477
Direct payments	0	831	934	1026	1171	1464	1758	2052	2343	2637
Development of rural areas (structural instruments)	240	518	763	894	997	1068	1100	1133	1167	1202
Internal policies and institution building	315	449	551	431	436	494	565	586	608	632
Existing internal policies	170	294	396	386	414	494	565	586	608	632
Institution building	41	53	51	50	22	0	0	0	0	0
Support for the eastern border areas	103	103	103	0	0	0	0	0	0	0
Lump sum for the improvement of budget liquidity	489	607	497	0	0	0	0	0	0	0
Pre-accession aid	1071	909	562	145	18	0	0	0	0	0
TOTAL	3212	5662	6047	9572	11697	13549	14174	15096	15919	16617

Remark: Direct payments increased in years 2004–2006 by commitments of respectively 25%, 20% and 15% re-allocated from structural instruments of CAP.

Source: author's estimates; for 2004–2006 estimates based on negotiation settlements (Financial framework for enlargement 2004–2006. Indicative allocation of commitment and payment appropriations, unpublished material of the Danish presidency dated 19 December 2002)

Table 10. Payments from the EU budget to Poland in millions of Euro, current prices; arrangement according to sectors

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public sector (capital and "soft" investments)	1215	2104	2451	3946	5271	6437	7110	7924	8657	9261
Transport infrastructure	281	650	829	2246	3039	3682	3957	4360	4721	5017
from structural funds	267	484	526	1773	2262	2602	2546	2597	2649	2702
from the Cohesion Fund	14	166	304	473	777	1079	1411	1763	2072	2315
Other types of infrastructure (mainly environmental protection)	130	376	532	1243	1760	2210	2517	2891	3223	3489
from structural funds	116	210	228	770	983	1131	1106	1128	1151	1174
from the Cohesion Fund	14	166	304	473	777	1079	1411	1763	2072	2315
Internal policies and institution building	315	458	573	457	472	545	637	673	713	755
Existing internal policies	170	299	412	410	448	545	637	673	713	755
Institution building	41	54	53	53	24	0	0	0	0	0
Support for the eastern border areas	103	105	107	0	0	0	0	0	0	0
Lump sum for the improvement of budget liquidity	489	619	517	0	0	0	0	0	0	0
Human resources (individuals and administration)	282	511	555	1871	2387	2746	2687	2740	2795	2851
Production sector (companies and farms)	647	2237	2705	4199	5000	5795	6183	6694	7218	7766
Industry and services beyond agriculture, from structural funds	144	260	283	954	1217	1400	1370	1397	1425	1453
Farms and food processing firms	503	1977	2422	3245	3783	4395	4814	5297	5793	6312
Market interventions	149	394	432	450	468	488	507	528	548	570
Direct payments	0	847	971	1088	1268	1616	1979	2358	2745	3151
Investments and structural instruments	354	736	1018	1706	2047	2291	2327	2411	2499	2591
Pre-accession aid	1071	927	585	153	19	0	0	0	0	0
TOTAL	3214	5778	6295	10170	12677	14977	15980	17358	18670	19877

Remark: Direct payments increased in years 2004–2006 by commitments of respectively 25%, 20% and 15% re-allocated from structural instruments of CAP.

Source: author's estimates; for 2004–2006 estimates based on negotiation settlements (Financial framework for enlargement 2004–2006. Indicative allocation of commitment and payment appropriations, unpublished material of the Danish presidency dated 19 December 2002)

Table 11. Payments from the EU budget to Poland in millions of Euro, current prices; arrangement according to beneficiaries

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public sector including the state budget (governmental administration institutions)	1215	2104	2451	3953	5271	6437	7110	7924	8657	9261
Transport infrastructure (from the Cohesion Fund)	14	166	304	473	777	1079	1411	1763	2072	2315
Internal policies and institution building	315	458	573	463	472	545	637	673	713	755
Existing internal policies	170	299	412	410	448	545	637	673	713	755
Institution building	41	54	53	53	24	0	0	0	0	0
Support for the eastern border areas	103	105	107	0	0	0	0	0	0	0
Lump sum for the improvement of budget liquidity	489	619	517	0	0	0	0	0	0	0
Local governments	397	860	1058	3017	4022	4812	5063	5488	5872	6191
Transport infrastructure (from structural funds)	267	484	526	1773	2262	2602	2546	2597	2649	2702
Other types of infrastructure (mainly environmental protection)	130	376	532	1243	1760	2210	2517	2891	3223	3489
from structural funds	116	210	228	770	983	1131	1106	1128	1151	1174
from the Cohesion Fund	14	166	304	473	777	1079	1411	1763	2072	2315
Human resources (individuals and administration)	282	511	555	1871	2387	2746	2687	2740	2795	2851
Production sector (companies and farms)	647	2237	2705	4199	5000	5795	6183	6694	7218	7766
Industry and services beyond agriculture, from structural funds	144	260	283	954	1217	1400	1370	1397	1425	1453
Farms and food processing firms	503	1977	2422	3245	3783	4395	4814	5297	5793	6312
Market interventions	149	394	432	450	468	488	507	528	548	570
Direct payments	0	847	971	1088	1268	1616	1979	2358	2745	3151
Investments and structural instruments	354	736	1018	1706	2047	2291	2327	2411	2499	2591
Pre-accession aid	1071	927	585	153	19	0	0	0	0	0
TOTAL	3214	5778	6295	10170	12677	14977	15980	17358	18670	19877

Remark: Direct payments increased in years 2004–2006 by commitments of respectively 25%, 20% and 15% re-allocated from structural instruments of CAP.

Source: author's estimates; for 2004–2006 estimates based on negotiation settlements (Financial framework for engagement 2004–2006. Indicative allocation of commitment and payment appropriations, unpublished material of the Danish presidency dated 19 December 2002)

Table 12. Payments from the EU budget to Poland in millions of Euro, current prices; arrangement according to funds/policies

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Structural and cohesion funds, total	949	2000	2420	7060	9354	11132	11601	12481	13279	13947
Structural funds	921	1669	1813	6115	7799	8973	8779	8955	9134	9317
Production sector (companies and farms)	258	467	508	1712	2184	2512	2458	2507	2558	2609
Industry and services beyond agriculture	144	260	283	954	1217	1400	1370	1397	1425	1453
Farms and food processing firms	114	207	225	758	967	1113	1089	1110	1133	1155
Human resources (individuals and administration)	282	511	555	1871	2387	2746	2687	2740	2795	2851
Infrastructure	383	694	754	2544	3244	3733	3652	3725	3800	3876
Transport infrastructure	267	484	526	1773	2262	2602	2546	2597	2649	2702
Other types of infrastructure	116	210	228	770	983	1131	1106	1128	1151	1174
Cohesion Fund	28	332	607	946	1555	2159	2821	3526	4145	4630
Transport infrastructure	14	166	304	473	777	1079	1411	1763	2072	2315
Other types of infrastructure	14	166	304	473	777	1079	1411	1763	2072	2315
Common Agricultural Policy	389	1770	2197	2487	2816	3283	3725	4186	4660	5157
Market regulations	149	394	432	450	468	488	507	528	548	570
Direct payments	0	847	971	1088	1268	1616	1979	2358	2745	3151
Development of rural areas (structural instruments)	240	529	793	948	1080	1179	1238	1301	1367	1436
Internal policies and institution building	315	458	573	472	472	545	637	673	713	755
Existing internal policies	170	299	412	410	448	545	637	673	713	755
Institution building	41	54	53	53	24	0	0	0	0	0
Support for the eastern border areas	103	105	107	0	0	0	0	0	0	0
Lump sum for the improvement of budget liquidity	489	619	517	0	0	0	0	0	0	0
Pre-accession aid	1071	927	585	153	19	0	0	0	0	0
TOTAL	3212	5775	6292	10157	12661	14959	15962	17340	18652	19859

Remark: Direct payments increased in years 2004–2006 by commitments of respectively 25%, 20% and 15% re-allocated from structural instruments of CAP.

Source: author's estimates; for 2004–2006 estimates based on negotiation settlements (Financial framework for enlargement 2004–2006. Indicative allocation of commitment and payment appropriations, unpublished material of the Danish presidency dated 19 December 2002)

Adopted assumptions and estimates show that payments to Poland will grow systematically until the end of the whole period, however, considered as a GDP fraction, they achieve their maximum value in the final years of the current decade (4.7% GDP) with a slight downward tendency in the subsequent years. Payments from the cohesion policy (structural funds) will reach 3.5 % GDP in the peak year (2009) and remain at the level of over 3% in the subsequent years. In current prices they will exceed 10 billion Euro in 2009 and will be able to achieve nearly 14 billion Euro at the end of the period.

The evolution of payments to beneficiaries of various categories is interesting. As a result of accession negotiations (strong emphasis on lump payments improving budget liquidity), the state budget and institutions of the governmental administration will make use of the aid amounting to ca. 3.5 billion Euro at current prices in the first period (2004-2006) of the membership while local governments will receive slightly less – ca. 2.3 billion Euro. As of 2007, local governments will receive over twice as much funds as the budget and governmental institutions. The role of the private sector including agriculture and food processing firms as a beneficiary will also increase and will be generally even greater than in the case of local governments.

In the sector view, most important beneficiaries in years 2004-2013 will include agriculture (31%), transport infrastructure (23%) and other types of infrastructure, mainly in the scope of environmental protection (15%). Only ca. 16% of the whole EU support will be assigned to the development of human resources, which is an evidence of the fact that this area is not treated as a true priority in the assumptions of the National Development Plan.

6. Balance of Transfers

Estimated financial transfers between Poland and the EU indicate the possibility of net advantages for Poland, not only in absolute numbers but also in comparison with the period preceding the EU accession. When calculated at current prices, they grow from 1.4 billion Euro in 2004 to 3.3 billion Euro in 2006. Assumptions concerning the EU budget in years 2007–2013 and terms of Poland's participation in it make net advantages of the Polish economy as a whole grow in the next financial perspective. The first year of the new financial perspective should already bring about nearly a double increase in net transfers. The achievement of the value of direct payments and increased transfers from structural funds provide an opportunity for the achievement of net payments amounting to 11-12 billion Euro at the end of this decade and nearly 15 billion Euro in 2013. As of 2008, net payments should approximate 3.5% GDP and remain at more or less the same level until 2013. (table 13).

However, the balance of advantages is not evenly distributed among the individual beneficiaries (Chart 1). Even if we consider the fact that the majority of payments from pre-accession aid programmes is addressed to the widely understood public sector (state budget, governmental administration institutions and local governments), this sector will show the net balance close to zero in the second and third year of the membership. Net advantages will only grow quickly in the new financial perspective achieving 3.1 billion Euro at the end of this decade and 4.2 billion Euro in 2013. However, if we look only at the state budget (understood as a collectivity of governmental administration institutions), it will be the only beneficiary not to acquire any advantages. The state budget will be the net payer to the EU budget. Net transfers from the state to the EU budget will grow from 0.6 billion Euro in the first year of the membership to 2.5 billion Euro in 2008 to drop below 2 billion Euro starting from 2010. The increase in the state budget income resulting from the economic growth should be the reason why “losses” of the Polish budget in years 2009–2013 (net payments to the EU budget) would be relatively low – not exceeding 2–3% of expenditures from the state budget.

Table 13. Selected indicators with regard to payments and net entries of some categories of beneficiaries

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP in millions of Euro, current prices (according to Chapter I)	223000	241000	257000	277000	296000	319000	344000	372000	404000	440000
Payments as GDP percentage, current prices	1,4	2,4	2,4	3,7	4,3	4,7	4,6	4,7	4,6	4,5
Structural and cohesion funds as GDP %	0,4	0,8	0,9	2,5	3,2	3,5	3,4	3,4	3,3	3,2
The EU budget, current prices, millions of Euro	114020	116300	118636	120540	122478	124448	126455	128394	130572	132686
Payments for Poland as % of the EU budget, current prices	2,8	5,0	5,3	8,4	10,4	12,0	12,6	13,5	14,3	15,0
Poland's contribution in millions of Euro, current prices	1743	2764	2894	3120	3335	3595	3876	4189	4550	4996
Other payments (EIB, ECB, EDF), current prices, millions of Euro	103	90	128	135	447	157	120	123	21	22
Summed up contributions to the EU budget, current prices, millions of Euro	1846	2854	3022	3255	3782	3752	3996	4312	4571	5018
Net position of Poland, current prices, millions of Euro	1368	2925	3274	6921	8894	11225	11984	13046	14099	14860
Net position of the public sector, current prices, millions of Euro	-631	-750	-570	698	1489	2684	3114	3612	4086	4243
Net position of the state budget, current prices, millions of Euro	-1028	-1610	-1628	-2319	-2533	-2128	-1948	-1876	-1786	-1948
Net position of the public sector considering payments from the pre-accession aid, current prices, millions of Euro	254	16	-87	825	1505	2684	3114	3612	4086	4243
Net position of the state budget considering payments from the pre-accession aid, current prices, millions of Euro	-572	-1215	-1379	-2253	-2525	-2128	-1948	-1876	-1786	-1948
Net position of Poland position as GDP %, current prices	0,6	1,2	1,3	2,5	3,0	3,5	3,5	3,5	3,5	3,4
Summed up Poland's contributions as % of anticipated payments from EU	57,4	49,4	48,0	32,0	29,8	25,1	25,0	24,8	24,5	25,2
Summed up Poland's contributions as % of the EU budget	1,6	2,5	2,5	2,7	3,1	3,0	3,2	3,4	3,5	3,8

Source: author's estimates

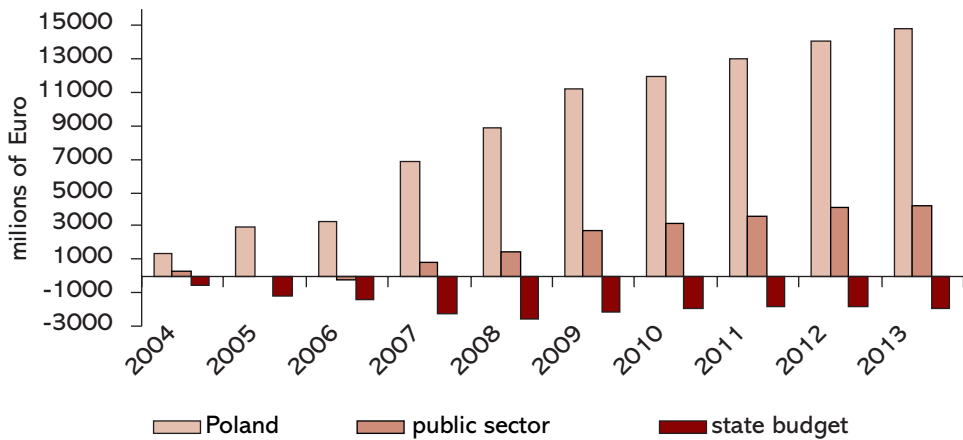


Chart 1. Net position of Poland, public sector and the state budget

Private sector, individual people and organizations taking advantage of the EU support in the scope of human resources development and local governments will be net beneficiaries from the beginning of the membership until the end of the analysed period. **Summing up, the EU membership will entail “self-sacrifice” of the state budget (its net financial cost) so that local governments, production and service companies, farms, individual people and organizations receiving EU support in the scope of human resources development can achieve financial advantages impossible to achieve outside of the European Union.**

7. Main Conditions of the Use of Financial Transfers from the EU

Considerable net advantages Poland can acquire in the medium and long term are not guaranteed in any treaties. They are potential and can only be achieved in full if the Polish administration, acting as an intermediary in the transfer of funds as well as final beneficiaries (companies, farms, etc.), shows a high degree of efficiency in the use of opportunities offered to them. A justified question is whether the estimated scale of payments and flow balance presented above is based on a realistic assessment of capacity to absorb external financial aid.

In order to assess the risk of partial absorption of funds in an orderly and organized manner, the term “the risk of ineffectual use of funds” has to be broken into its individual elements. Three risk factors can be distinguished. The first one includes issues related to the possibility of accumulation – in an appropriate amount – of internal means necessary to co-finance projects and programmes executed under structural funds and other streams of financial support from the EU. The second issue is the degree of institutional and organizational preparation of the public administration to act in line with the principles binding for individual streams of financing. The third issue is the question of ability to prepare a sufficiently large number of projects and suggestions for ventures to be financed by the EU funds. It seems that the first two issues are more important and more difficult than the last one, although one has to point out that this division as a whole is rather unclear and discretionary – for example, the feasibility of preparations is very strongly related to the possibility of their financing.

In order to assess necessary co-financing (Tables 14 and 15) of the financial support from the EU, it is assumed that they are only compared with payments in a given year and not with commitments – and only in those payment categories that require co-financing (e.g. direct payments require no co-financing). Co-financing in pre-accession programmes is assumed to amount

Table 14. Minimum necessary co-financing of the post-accession financial aid streams from the EU (in millions of Euro, current prices, arrangement according to beneficiaries)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public sector including	311	459	506	914	1163	1393	1495	1629	1750	1852
the state budget (governmental administration institutions)	144	211	222	193	231	298	371	433	489	536
Transport infrastructure (from the Cohesion Fund)	2	25	46	71	117	162	212	264	311	347
Internal policies and institution building	57	91	119	108	114	136	159	168	178	189
Existing internal policies	43	75	103	103	112	136	159	168	178	189
Institution building	4	5	5	5	2	0	0	0	0	0
Support for the eastern border areas	10	11	11	0	0	0	0	0	0	0
Lump sum for the improvement of budget liquidity	0	0	0	0	0	0	0	0	0	0
Local governments	167	248	284	721	928	1095	1125	1196	1261	1316
Transport infrastructure (from structural funds)	67	121	131	443	565	651	637	649	662	675
Other types of infrastructure (mainly environmental protection)	31	77	103	264	362	445	488	547	599	641
from structural funds	29	53	57	193	246	283	277	282	288	293
from the Cohesion Fund	2	25	46	71	117	162	212	264	311	347
Human resources (individuals and administration)	70	128	139	468	597	686	672	685	699	713
Production sector (companies and farms)	184	289	335	668	816	923	924	952	981	1011
Industry and services outside of agriculture, from structural funds	36	65	71	238	304	350	342	349	356	363
Farms and food processing firms	88	184	255	427	512	573	582	603	625	648
Market interventions	0	0	0	0	0	0	0	0	0	0
Direct payments	0	0	0	0	0	0	0	0	0	0
Investments and structural instruments	88	184	255	427	512	573	582	603	625	648
TOTAL	566	876	980	2050	2575	3002	3091	3266	3430	3576

Source: author's estimates

Table 15. Minimum necessary co-financing of the post-accession financial aid streams from the EU (in millions of Euro, current prices, arrangement according to sectors)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public sector (capital and "soft" investments)	311	458	506	914	1163	1393	1495	1629	1750	1852
Transport infrastructure	69	146	177	514	682	812	848	914	973	1023
from structural funds	67	121	131	443	565	651	637	649	662	675
from the Cohesion Fund	2	25	46	71	117	162	212	264	311	347
Other types of infrastructure (mainly environmental protection)	31	77	103	264	362	445	488	547	599	641
from structural funds	29	53	57	193	246	283	277	282	288	293
from the Cohesion Fund	2	25	46	71	117	162	212	264	311	347
Internal policies and institution building	57	91	119	108	114	136	159	168	178	189
Existing internal policies	43	75	103	103	112	136	159	168	178	189
Institution building	4	5	5	5	2	0	0	0	0	0
Support for the eastern border areas	10	11	11	0	0	0	0	0	0	0
Lump sum for the improvement of budget liquidity	0	0	0	0	0	0	0	0	0	0
Human resources (individuals and administration)	70	128	139	468	597	686	672	685	699	713
Production sector (companies and farms)	184	289	335	668	816	923	924	952	981	1011
Industry and services outside of agriculture, from structural funds	36	65	71	238	304	350	342	349	356	363
Farms and food processing firms	88	184	255	427	512	573	582	603	625	648
Market interventions	0	0	0	0	0	0	0	0	0	0
Direct payments	0	0	0	0	0	0	0	0	0	0
Investments and structural instruments	88	184	255	427	512	573	582	603	625	648
TOTAL	566	875	980	2050	2575	3002	3091	3266	3430	3576

Source: author's estimates

to 20% of the EU payments value and, as a whole, it is distributed as follows: 42,6% from the state budget, 40% from local governments, 13,8% from the private sector and 3,6% falling to co-financing of human resources development programmes. In post-accession financial streams, the minimum co-financing rates will amount to 25% in proper structural funds, 15% in the Cohesion Fund, 20% in structural instruments aimed at the development of rural areas within the framework of Common Agricultural Policy, 25% in initiatives and community programmes concerned with the internal policy, 10% in institution building programmes (currently in these programmes under Phare).

As for the realistic nature of the guaranteed co-financing in the first period after the accession (estimated at the equivalent of 2.4 billion Euro in years 2004–2006), it can be evaluated in two ways. Firstly, starting from the analysis of the current situation in the scope of co-financing of the pre-accession programmes and, secondly, from more general framework of possibilities available to the main “suppliers” of co-financing, i.e. local governments, state budget and commercial units.

The current co-financing status in the scope of the three pre-accession programmes can be assessed only for the Phare programme. The two remaining – Sapard and ISPA – are only at the initial stage of implementation and a true engagement of considerable domestic co-financing has not been required yet. Systematic monitoring of the whole co-financing for all the three pre-accession programmes is in its initial phase. However, fragmentary observations can be presented.

At the end of 2001 and at the beginning of 2002, the Office for the European Integration Committee calculated the actual level of co-financing of Phare projects in the scope of institution building adopted for execution in 1998 and 1999, on the basis of information acquired from the individual sectors. According to these calculations, ministries actually spent only 40% of the declared co-financing. It is more difficult to assess the true fulfilment of the declaration concerning the co-financing of other Phare elements as the information is insufficient. However, some signals indicate difficulties of some local governments to guarantee internal funds for previously declared co-financing, resulting of course from the currently more difficult general financial situation of local governments.

Considering in more general terms the question whether and how current difficulties in the provision of co-financing can be translated into the future situation after the accession, we have to take into account three additional points of reference. Firstly, if the growth rate in 2003–4 increases according to the optimistic scenario of the governmental strategy this fact will, of course, slightly increase co-financing opportunities thanks to higher revenues from taxes of the state and local governments’ budgets. However, even the 3% growth in 2003 will not be sufficient. The achievement of 5% growth is necessary to considerably increase co-financing opportunities. Although difficult, such growth is not impossible but it will be even more difficult to maintain constant growth until the end of the decade.

Secondly, it is very important into what extent local governments, state budget and private investors have means available for co-financing fitting the rules and procedures included in the binding provisions regulating the functioning of the EU support sources. A co-financing provision involves not necessarily the “creation” or “finding” of totally new means – although this of course is also possible, e.g. through indebtedness – but rather flexible organization of public and private expenditures so that they could be adapted to such rules and procedures. Will there be enough of them? Seemingly, they should suffice. The indebtedness ratio in communes at the end of 2001 amounted to 15% (the relation between the indebtedness and total income) so that there is a possibility of expenditure to co-finance through the accrual of indebtedness.¹⁰ An opinion issued by the Institute for Market Economics¹¹ states that public expenditures of the nature similar to the intervention of structural funds amounted to ca. 6 billion Euro in 1999 and ca. 7 billion Euro in 2000. Another opinion estimates that public development expenditures (except for agriculture) amounted to 16.7

¹⁰ L. Pałeczki, *Nie zmarować szansy*, “Rzeczpospolita” number 74 dated 28 March 2002.

¹¹ M. Mackiewicz, E. Malinowska-Misiąg, W. Misiąg, A. Niedzielski, M. Tomalak, *Ocena wielkości poniesionych w latach 1999–2000 wydatków publicznych odpowiadających kategoriom interwencji funduszy strukturalnych. Raport końcowy*, Instytut Badań nad Gospodarką Rynkową, Warsaw 2002, p. 21–22.

billion PLN in 2000 (at current prices, ca. 4.2 billion Euro) with nearly 60% falling to the local government sector and slightly over 40% to the governmental sector.¹² The category of public development expenditures is undoubtedly wider than the expenditure which can be classified as co-financing but their scale seems to be sufficiently wide to include co-financing as well.

The reason for anxiety is rather a low flexibility of these expenditures. The author of the opinion concludes: an expenditure with the content similar to that for the financing of regional policies (in the meaning of governmental regional policy and regional development policies of the individual districts) is not small but its practical usefulness for the execution of coordinated regional policy of the state is surprisingly small.¹³ There also are signals showing that local governments incur debts at high speed. The average budget deficit in 2001 of 22 largest towns in Poland amounted to 10%, while in Warsaw, Cracow, Wrocław the average deficit was over 15%.¹⁴

The third additional circumstance that has to be taken into account is the fact that the risk of incomplete co-financing is unequally distributed among the individual structural funds. Enclosed Table 16 shows author's assessment of probable distribution of that risk (also for other factors). Some forms of support from the Community budget are completely devoid of risk as they do not require co-financing (e.g. direct payments). Low risk can be ascribed to co-financing of large transport investments from the Cohesion Fund considering that a motorway network development will probably be the priority for each subsequent government regardless of its political orientation. On the other hand, there is a high risk inherent, for example, for the local infrastructure ventures financed from the European Regional Development Fund. In this case, it seems that the majority of communes, communal associations and other local government units can have difficulties with the timely accumulation of funds in sufficient amounts. It can particularly apply to poorer and inferiorly organized local government units.¹⁵

Necessary institutional and administrative preparations are less prone to measurement and thus more difficult to assess. General preparation of the administration to participate in the utilization of means from Structural Funds is still far from the desired situation. The European Commission reached such a conclusion in 2001 after the annual assessment of progress in Poland's preparations on the path to meeting membership requirements. It can be expected that the last several months before the membership actually takes place will be spent on the implementation of the Action Programme agreed upon with the European Commission aimed at the strengthening of public administration and including, among other things, support for the construction of absorption capacity of the administration.

The local government reform in 1999, the law concerning support for regional development and district contracts and, finally, daily basic work in units dealing with pre-accession programmes in governmental and local administration seemed to have been consequent in directing public authorities to their final objective within the last four years. However, weaknesses still exist. At the central level, teams dealing with the practical side of the regional policy and structural instruments in key ministries (Ministry of Economy, Ministry of the Infrastructure, Ministry of the Environment, Ministry of Finance) are too small for future needs. Furthermore, their role is not well defined and there is a lack of "driving force", i.e. strong competences of the Ministry of the Economy and the Ministry of Finance towards other ministries and local governments. Endowment of at least these two ministers with competences not only in the scope of coordination but also authority would increase the chance for prompt and effective cooperation of different units in the phase of programming and implementation of structural funds.

¹² Z. Gilowska, *Wydatki publiczne przeznaczone w 2000 r. na działania "rozwojowe" – identyfikowanie, szacowanie, sposoby racjonalizacji*, www.europa.edu.pl.

¹³ Ibidem.

¹⁴ A. Myczkowska, *Brakuje co dziesiątego złotego*, "Rzeczpospolita" number 55 dated 6 March 2002

¹⁵ M. Mackiewicz, E. Malinowska-Misiąg, W. Misiąg, A. Niedzielski, M. Tomalak, *Sytuacja sektora finansów publicznych w kontekście przystąpienia Polski do Unii Europejskiej*, Instytut Badań nad Gospodarką Rynkową, Warsaw 2002, p. 54.

Table 16. Estimated level of the individual risk factors for structural funds and Cohesion Fund at the initial stage of the membership

Risk factor	European Regional Development Fund		European Agricultural Guidance and Guarantee Fund		Financial Instrument for Fisheries Guidance		European Social Fund		Cohesion Fund	
	Support for small and medium enterprises	Local infrastructure	Guidance Section	Guarantee Section	Instrument for Fisheries Guidance	Section	Low / Medium	High	Transport	Environment
Co-financing	Low	High	High	0	Medium	0	Low / Medium	High	Low	High
Organizational and administrative preparations	Medium	Medium	High	High	High	High	High	Medium	Medium	Medium
Readiness of projects for the implementation	Low / Medium	High	Medium	0	Medium	0	Medium	Medium	Medium	High

0 – the risk not existing by definition

Source: own study

There are no good perspectives for internal financing of preparations necessary to achieve readiness for full utilization of EU fund. These are costly preparations and, what is more, they involve costs in principle permanently encumbering the state budget or budgets of local governments. Preparations entail the need to employ additional staff in the widely understood administration. Preparations for the establishment of appropriate administrative and organizational structures for structural funds and the Cohesion Fund entail the recruitment, training of several hundred people employed as additional staff, as well as technical equipment for them, in Marshall offices, communal office (beneficiaries), districts and ministries. Preparations for the introduction of conditions necessary to conduct Common Agricultural Policy in its current form require the establishment of a wide and complicated system of administration and control including huge IT system and also a great number of employees to control it as well as monitor the sowing, grounds, farms, animal population, turnover, etc. According to estimates presented by some practical experts from the European Union member countries, the desired number of people employed for the execution of CAP in Poland can vary from 4 to 6 thousand. Summing up, a few hundred million PLN have to be “invested” if we want to be appropriately prepared in terms of human resources and institutions to effectively use the Union funds from all sources.

The last risk factor involves the question whether institutions, units and environments being final beneficiaries of structural funds will be able to prepare suggestions of ventures (projects) to be financed from means provided by the European Union. Of course, this is a question of preparations conforming to the principles, the scheduled time, the specified rhythm and, most important, according to the requirements of the individual programmes.

The situation in this case is also different depending on the source of potential support (fund). It seems that enterprises in the European Regional Development Fund will be able to prepare well for the absorption of additional funding within the first three of four years of operation of capital support systems for the private sector – assuming that the rate and perspectives of the economic growth will be at a level at least attractive for investments. In turn, weaknesses of the same Fund include the question whether less affluent or less active local governments will prepare their projects in the conditions of uncertain acquisition of funds, incomplete information, the need to engage some funds in advance etc. In the European Social Fund, the complex nature of preparing programmes relatively small in the financial aspect, and then training programmes generated on the national and local level, can also constitute a difficulty, and even more so their implementation.

We can hope that, in the Cohesion Fund, plans for the development of key roads and motorways will be prepared in time, although we have to remember that activities such as the preparation of engineering and economic documentation, assessment of the environmental impact and local consultations concerning large infrastructure projects can even last as long as two or three years. With regard to the environmental part, readiness of projects adapting sewage treatment plants or solid waste management to the Union standards is by no means obvious in case of less affluent cities in eastern parts of Poland. Summing up, the beginning of new programmes is also a mystery into a certain extent. Long cycle of project design and imperfection of the information can lead to the risk that potential beneficiaries may prepare projects too late or do it improperly.

Summing up, we can see the justified doubt whether the abilities of the governmental administration, companies, local governments and farms to apply complicated procedures, accumulate local co-financing, plan investments well are sufficient. All this is necessary for the appropriate utilization of the expected payments.

In particular, difficulties may occur in the first years of the membership when we “learn” how to use the funds. As a result of negotiation settlements it is assumed that we will use 45% of commitments from the internal policies in the first year (this indicator usually amounts to a few percent in the equivalent pre-accession programme Phare). As for structural funds, it is not

certain whether beneficiaries are able to absorb 2.3 billion Euro in payments from structural funds within the first 20 months (at current prices). They include 30% of means planned in the form of commitments and even 6 times more than Poland received for the equivalent purposes in the Phare Social and Economic Cohesion programme in years 2000–2001, while it has to be noted that funds received in 2000 we only began to spend in 2002.

Polish experiences concerning the pre-accession aid are not necessarily a good point of reference due to the speed of its utilization, and can into a certain extent be referred to more complicated procedures and more strict rigors in the control system of the European Commission which prolong the execution of the programmes. However, even though Scandinavian administrations (Finnish and Swedish) were more “mature” than the Polish, the process of entering into the system of structural funds in the mid 90s was delayed there in relation to the planned duration. Plans proved to be unrealistic, the establishment of new regional monitoring systems and procedure agreement for agencies responsible for the transfer of the Union funds lasted much longer than expected. Because of that, first payments to final beneficiaries in Sweden took place only 1.5 a year after the accession to the EU.¹⁶

Furthermore, absorption difficulties are also reflected in the fact that all EU-15 member countries in the second year (2001) of the current financial perspective with regard to the structural and cohesion funds used only 68% of expected payments (advance payments which are nearly automatic were paid in the first year).¹⁷ Thus, although EU-15 countries have many years of experience in the utilization of support from the EU budget, even they happened to be unable to use in full appropriations for payments.¹⁸ It is not ruled out, however, that member countries will make up for this arrears in the next year, but for Poland – from the point of view of the net position in transfers, state budget liquidity and external equilibrium – such delays would be very disadvantageous. For example, the reduction of effective payments from structural funds in the second year of Poland’s membership to 68% of planned payments (EU-15 level in 2001) would mean the reduction of transfers in 2005 by 640 million Euro at current prices. It would cause the public sector (local governments and state budget) to become the material net payer in that year.

8. Scenario of Poland Remaining Outside of the EU

The scenario of remaining outside of the European Union in the scope of budgetary and financial consequences is, to a great extent, the reversion of Poland’s accession. It would involve the lack of transfers of financial funds to Poland in the form of financial streams from Common Agricultural Policy, structural funds, Cohesion Fund and various internal policies. On the other hand, it would also involve no need to contribute to the budget of the communities and the European Investment Bank as well as – in a longer term – to institutions related to the common development policy in developing countries (European Development Fund).

At first sight, financial consequences of staying outside of the EU would be the exact reversion of the accession scenario. Positive balance of net flows would become a negative balance. Not acquired advantages would be higher than costs not borne (contributions). The distribution of the negative balance would be different for various sectors. The greatest

¹⁶ *Annual Report concerning the Financial Year 1996* (OJ C 348, 18.11.1997), European Court of Auditors, vol. 1, part III (www.eca.org)

¹⁷ *Budget 2001 Implementation*, European Commission, 15 February 2002, p. 4; <http://europa.eu.int/comm/budget/pdf/execution/execution/utilisation/bef02/commentsexec.pdf>

¹⁸ In extreme conditions (Greece and Portugal), absorption in the first year of the current financial perspective varied from 0 to 10%; see *EU Enlargement – Its Impact on the Accession Countries. Special Report*, FitchRatings, 23 September 2002 (www.fitchratings.com)

directly not acquired advantages would exist in industrial and service enterprises, farms as well as agricultural and food processing firms. They would fail to receive financial support amounting to 49 billion Euro (at current prices) in years 2004–2013. In that group of potential beneficiaries, the greatest advantages would be lost, in general, in small and medium production and service enterprises. Farms and food processing firms would have to bear many adjustment costs (e.g. to meet costly sanitary requirements) while this is less the case for services and industry where – apart from some special areas such as metallurgy – adjustment will be less costly as a rule (e.g. requirements of safety standards in the workplace). Thus, the staying outside of the Union, for small industrial and service companies, would mean the lack of opportunities to acquire capital support (investment subsidies) from the European Regional Development Fund as well as other forms of support (advisory and training for the management and line staff).

The second category of potential beneficiaries for whom the scenario of staying outside of the EU involves many unfulfilled advantages includes local governments. This scenario would entail the lack of financing opportunities for many investments modernizing the public infrastructure. This is the case for many sub-types of this infrastructure but mainly for investments in environmental protection (waste water purification, solid waste management), for which means from the Cohesion Fund are spent. The lack of access to structural funds would lead to the slowing of the infrastructure modernization because Poland would not acquire the total amount of 26 billion Euro at current prices during that time, to be spent for the construction of water supply systems, potable water purification, improvement of local road transport or modernization of energy infrastructure. An indirect consequence of Poland's stay outside of the EU would also probably be the fact that changes analysed here would occur more slowly – not only because of the lack of such additional financial means but also due to the fact that, without the requirements resulting from negotiation settlements concerning the horizon of the introduction of the EU standards with regard to environmental protection, local governments could slow down their “autonomous” investments¹⁹.

Considering solely the consequences of financial transfers, the only beneficiary of a kind in the public sector left in the scenario of the failure to join the EU would – paradoxically – be the government administration (state budget). The state budget would not bear the cost of various contributions. Their value exceeds the value of anticipated means from the Cohesion Fund assigned to the development of road and railway infrastructure of international importance and from various community policies addressed mainly to the governmental administration and institutions of the public sector. In the event of the failure to join the EU the state budget would have funds higher by a few billion PLN each year (at current prices) than in the accession scenario: from ca. 2.6 billion PLN at the beginning of the membership to ca. 8–9 billion PLN in years 2007–08 and ca. 7–8 billion PLN after 2011.

Similarly to the situation of local governments, the failure to accede would entail the possibility of many indirect consequences also for the governmental administration and the state budget. They include the possibility of slower rate of “autonomous” investments. The government would not face the need to improve the condition of the public infrastructure and modernization of many administration services. Thus, there are two sides to the maintenance of means for the membership contribution in the state budget (no contribution paid). On the one hand, this involves reduction of stress for the state budget in the macroeconomic aspect and lesser risk of increasing the budget deficit. On the other hand, there is a possibility – or rather a risk – that this situation will be taken advantage of to avoid rationalization of public expenditures and investments improving the conditions for the activity of business units.

¹⁹ Understood here as investments commenced on their own initiative or forced by the internal law and supported only with domestic or foreign funds but without connections with the EU relations.

The shape of the scenario involving the stay outside of the EU depends on whether this would be a definitive or only temporary stay outside the group in the foreseeable future. The first case is the scenario in which the society does not agree to the EU membership in the referendum in such an explicit and clear way that the authorities declare desistance from it as their objective. In such a case, it seems probable that the European Union would withdraw its pre-accession aid for Poland and, undoubtedly, such aid would be considerably reduced. It would result from the very nature and objective of that aid; according to the enlargement strategy adopted by the EU in 1997, it should support the process of preparation of the beneficiary country to meet the conditions necessary to be ready for membership. If the membership ceased to be Poland's objective, EU aid would lose its *raison d'être*. Furthermore, the European Union would also have legal reasons to terminate or considerably reduce the scale of aid as Poland declared in the preamble of the Association Agreement dated 1991 that its objective was the membership in the Communities. Renouncing the membership, Poland would give the Union sufficient legal foundations for withdrawal of the pre-accession aid. Thus, we can assume that definitive rejection of membership would lead not only to an inability to acquire transfers resulting from the membership but also to the loss of the whole or a major part of pre-accession aid whose annual value would amount to ca. 900 million Euro in the form of payments in years 2003–2004.

The second case would take place if, for example, as a result of an unclear outcome of the referendum with the distribution close to the balance²⁰ or a binding result involving a slight dominance of adversaries of the membership, the authorities considered it a lack of society's consent to the membership in the nearest future but would not cease to consider membership (and prior social consent) the objective achievable in the next few years.²¹ In the event of "temporary postponement" of the membership, we have to take into account the sustenance of the EU aid although it is possible that its scale would be temporarily reduced.

9. Conclusion

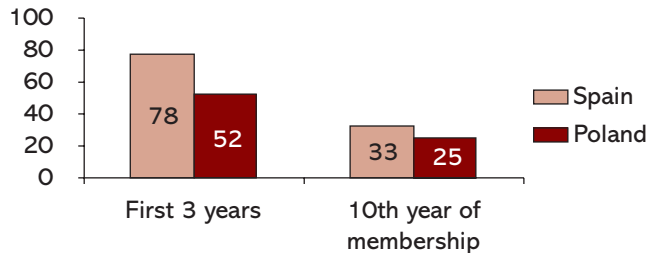
The summary of direct advantages and financial burden for the individual member countries from participation in the process of the European integration in previous decades shows that there is a group of countries which constantly achieve a positive balance as well as a group of countries providing net sponsorship for the community budget. There is no doubt that a positive balance of transfers should not be identified with the general balance of advantages a country can achieve thanks to the participation in the process of the EU integration. If it is so, it would mean that countries such as Germany or Holland have been losing for many years because of their membership in the Union because of the negative flow balance, which would question the rationality of behaviour of the authorities and societies in these countries. However, the positive flow balance seems to be an integral element of the positive evaluation of general advantages resulting from the integration for poorer countries. This is why the positive transfer balance is insufficient for Poland to consider membership successful although it is a necessary condition. Attempts are made to apply various measures in order to evaluate the balance of financial flows but there is no ideal criterion that would allow anyone to consider it absolutely sufficient or "fair".²²

²⁰ Regardless of whether adversaries or advocates of the membership were in the slight majority.

²¹ Such a situation has been taking place for many years in Norway.

²² There are studies, in which the authors try to calculate the "fair" share for the individual countries in the EU budget, including countries of Central Europe (see, e.g. M. Mattila, *Fiscal Redistribution in the European Union and the Enlargement*, University of Helsinki, 2002, www.valt.helsinki.fi/staff/mmattila/euredist/redist.pdf). There are also papers evaluating (and criticizing) early negotiation proposals of UE in the scope of their "fairness" in the context of political acceptability – see A. Mayhew, *The Negotiating Position of the European Union on Agriculture, the Structural Funds and the EU budget*, Working Paper No 52, Sussex European Institute, April 2002. However, it seems that there is no answer to the question what kind of deviation from the "fair" result can be rationally accepted.

Poland has an advantageous initial position – the existence of pre-accession programmes means that payments from them in the pre-accession period (2003 and even the border year 2004) should amount to ca. 0,4%–0,5% GDP. This is the value achieved by Spain – being a frequent point of reference – in years 1991–1992 (after six years of the membership). Table 13 shows that, even in the second year of the membership, the net position of transfers in the Poland-EU relationship should exceed 1% GDP. In Spain, this happened only in the ninth year of the membership (1995). The scenario presented above – assuming that it will become true – means that, as of 2008, Poland would achieve net advantages calculated as GDP percentage (between 3% and 4%) comparable with those achieved by Portugal in years 1992–1998.²³ Another indicator applied is the share of contribution in acquired (planned) payments. Diagram 2 shows that Poland should acquire relatively greater advantages than Spain – in the first membership period (paying ca.1/3 net less than Spain), as well as at the end of the first decade of the membership (paying less than ca. 1/4 less).



Graph 2. Premium as a part of payments

Source: author's calculations for Poland; indicators for Spain calculated according to source data included in *Allocation of 2001 EU...*, op. cit. and I. Begg, N. Grimwade, *Paying for...*, op. cit. p. 96

We should not count on financial transfers greater than presented above. Decisions to limit expenditures for the Common Agricultural Policy made by the European Council in Brussels in 2002 constitute the evidence of the EU's unwillingness to conduct slightly more expansive community budget policy. Its variants analysed in scientific papers usually show that extrapolation of the current budget for the Union enlarged to 25 (later 27) countries is the most probable scenario for years 2007-2013.²⁴ In such a situation it is unlikely that Poland will repeat the result achieved by Ireland that achieved the net balance of 5% GDP in the early nineties. Full utilization of what will be really available seems more important, as risks mentioned in clause 7 are considerable.

Summing up, the accession scenario is positive in terms of the balance of transfers. It provides additional opportunities of financial support for the private sector and local governments. In other words, the state budget, “paying extra” for the Polish membership, will create conditions promoting the development of local governments and private sector that would not exist without Poland’s membership in the European Union. The scenario involving the renouncement of the accession to the European Union is per saldo disadvantageous for Poland. It is particularly disadvantageous for the private sector and local governments although it would reduce stresses on the state budget.

²³ Data based on *Financing the European Union. Commission Report on the Operation of the Own Resources System*, European Commission, 1998, *Statistical Annex oraz Allocation of 2001 EU operating expenditure by Member State*, European Commission, DG Budget, September 2002.

²⁴ Ch. Weise, *How to Finance Eastern Enlargement of the EU*, Discussion Paper 287, June 2002, DIW, Berlin.

3. Analysis and Assessment of the Costs and Benefits of Poland's Accession to the EU in the "Micro-economy" Domain

Zofia Wysokińska, Janina Witkowska

Assessment of the micro-economic effects of European integration concerns the study of the impact of individual phases of the integration process on the behaviour of companies and the degree of their reaction to the reduction of the extent of national regulations and the emergence of the new extent of supra-national regulations such as the common level of protection of the integrated market, common rules of differentiating the degree of preference in access to the common market assigned to companies from third countries, the common technical, ecological, quality, veterinary, sanitary, goods safety norms and standards and the common rules of recognising goods on a single market, common competition rules including common uniform opportunities of using the financial resources and funds supporting business activity (especially the activity of small and medium enterprises regarding their investment activity). Investments which are important from the point of view of the entire organisation play an important role in this area, such as pro-ecological investments or investments in the field of scientific research and development, facilitating the improvement of the innovation of the companies and the economy of the entire organisation.

Micro-economic effects disclose themselves in individual phases of the integration processes, i.e. during the phase of creating a free trade zone and customs union, the common market phase and during the process of implementing Economic and Monetary Union.

The integration theory mentions the internal and external integration benefits for companies in candidate countries. Under this theory integral benefits include: (1) an increase in the size of enterprises and their expansion opportunities leading to the achievement of better negotiating positions, easier and more advantageous access to capital, more efficient use of labour force, better opportunity of mobilising funds for innovation and the acquisition of a better position on

the domestic and foreign market; (2) the opportunity of acquiring results by permanent, practical learning of producing more effectively a larger volume of more competitive products (the so called *learning by doing* effect)²⁵.

The external benefits for companies operating in the integrated area result from the inter-penetration of economic effects. When an enterprise gains a better position on the market thanks to customs union, this positive effect is spread further on to suppliers and customers' companies co-operating with this enterprise, stimulating them to implement technological and product innovations. The integrated market also accelerates the exchange of technological '*know-how*' between companies.

The elimination of administrative, technical and fiscal barriers is characteristic for the next phase of integration, i.e. the common market. This forces changes in the behaviour of companies operating in Member States of the organisation. The process of creating a common market activates the macro- and micro-economic connections in the economy, which on one hand enables benefits to be accumulated and on the other hand creates social and economic costs.

The macro-economic mechanisms set the framework, within which the enterprises function influencing their benefits and costs balance. These mechanisms operate in the following manner²⁶. The progress of the integration process through increased competition has an impact on the reduction of production costs and the reduction of prices. Lower prices then create an increase in the purchasing power of the population, which stimulates demand and therefore stimulates economic growth. At the same time the reduction of costs and prices enables the benefits in the area of price-cost competitiveness to be discounted and this in turn is reflected in an improved trade balance and increased gross domestic product. The liberalisation of the financial market brings about the reduction of banking costs, credits become cheaper, funds for enterprise investment increase, which through the higher dynamics of investment on a macro scale has an impact on the growth of GDP. The growth of GDP, which is a joint effect of the above mentioned connections leads to an improvement of the condition of public finances. The growth of GDP is also accompanied by the creation of new employment.

The operation of macro-economic mechanisms can be affected by the emergence of certain factors reducing the impact of the above mentioned connections. They include inflation and increased imports accompanying the growth of GDP. The other weakening factor concerns the loss of jobs as a result of the elimination of border controls and increasing labour efficiency.

The micro-economic effects of the common internal market disclose themselves through the reduction of the enterprises' operating costs according to the assumption, on which the single internal market creation program was based (reduction of non- Europe costs). This triggers multi-level interrelated adjustments in the activity of enterprises.

Firstly, reduction of costs in the competitive marketplace leads to a reduction in prices. Given the appropriate price flexibility of demand, domestic and foreign demand for goods offered by enterprises and the volume of goods and services produced by these enterprises increase. These processes result in reduced costs, which are associated with taking advantage of the comparative advantages. The benefits of the economics of scale and learning on the micro level emerge. As a result profit margin increases.

Secondly, the reduction of costs as a result of the elimination of non-tariff barriers is directly translated into increased profit margin, which becomes the primary effect felt by enterprises. The increasing competitive pressure triggers effects additionally influencing the level of the margin generated by enterprises. On one hand the reduction of costs resulting from the so called 'X' inefficiency increases this margin, while on the other hand in a more and more competitive marketplace companies might be forced to surrender part of the profit margin, as, due to competitive pressure, they would not be able to keep it at a too high level.

²⁵ W.Molle, *Ekonomika integracji europejskiej*, Fundacja Gospodarcza NSZZ, "Solidarność", Gdańsk 1995, p.103.

²⁶ Z. Wysokińska, J.Witkowska, *Integracja europejska. Rozwój rynków*, PWN, Łódź-Warszawa 2002, p 150-151

Thirdly, competitive pressure triggers the processes of the restructuring of enterprises, which means the intensification of inter and intra sector adjustments. This situation forces innovation and technical progress at the enterprise level.

On the eve of Poland's accession to the European Union (EU) the low level of the profitability of enterprises – characteristic for the entire transformation period – is a negative economic phenomenon. This concerns both the profitability related to revenues and the return on equity, especially that the return on equity is lower than the interest rate of long-term bank deposits, which has not encouraged investment. The low level of profitability achieved by companies has fallen drastically since 1998 to achieve in 2001 the negative ratio of the relation between net financial result to total revenues²⁷. The positive structural trend in the economy concerns the increased share of investments of large companies in the telecommunications sector, banking services, motoring, i.e. in sectors, which on the single European market are also dominated by large enterprises. These companies with the participation of foreign capital have a significant and increasing position in Polish imports and exports. Companies with the participation of foreign capital have therefore played a dominant role in increasing Poland's exports; even this group of enterprises – however well prepared they may be to join the single market – will not be able to reduce costs and prices, in the short-term perspective, as this adjustment process is not yet completed. However, in the long-term perspective we can expect that enterprises with the participation of foreign capital will constitute a developing sector of the Polish economy capable of meeting increasing competition on the internal market and the processes observed in the process of building and functioning of the single internal EU market will appear in the Polish economy as well.

Small and medium enterprises in 2000 accounted for 99.8% of the general number of enterprises and their share has systematically increased over the last 10 years. In the late nineties the financial position of SMEs exporting mainly to the EU had clearly deteriorated in relation to the SMEs exports to Central and Eastern European countries. The reviewed process of the relative deterioration of the financial position of SMEs exporting to EU countries was even more transparent in the industrial processing sector. During this period the gross profitability ratio of enterprises exporting to these countries was nearly twice as low as the ratio of all exporting SME representing the processing industry and over three times lower than companies focused on export to Central and Eastern Europe countries. The highest ratio of the share of the labour costs in total revenues was noted in enterprises exporting to EU countries, which confirms the still high share of labour-consuming products exported to the single European market. This has a negative impact on the perspectives of future exports to the EU given continuing high labour costs²⁸.

The results presented above regarding the financial performance of companies are concerned with the ability to meet competition on the single European market by the majority of companies, including especially small and medium enterprises. After Poland joins the common customs area of the European Union, some companies, including especially those companies threatened by the import of manufactured goods from third countries, will have to undertake additional restructuring efforts in order to meet more severe competition. Companies importing components for production coming from third countries will be able to import them at more competitive prices, which will improve their price competitiveness. In the process of preparing for the competition on the single European market, enterprises should still undertake substantial restructuring efforts aimed at reducing production costs and the modernisation of production processes as well as adjustment to the European and international norms and standards (ISO). Macro-economic studies indicate that although the number of acquired ISO 9000 certificates increased from 130 in 1995 to 2075 in

²⁷ E. Mączyńska, *Kruczość rentowności, Lista 500*, Polityka 2002, p.51.

²⁸ on the basis of the materials of the Ministry of Economy (www.mg.gov.pl)

2000, the Czechs this year already have 3855 certificates in place and the Hungarians have 4672²⁹. These enterprises, which will meet the requirements of European standards, will be able to increase sales to European countries and survive on the domestic market, which will become a part of the single European market. This will enable them to increase production volume and further reduce unit costs. Those enterprises which do not meet these requirements could be wound up. The activities and efforts of Polish companies should also be targeted at looking for market niches and establishing co-operation with EU enterprises as suppliers and co-producers, which could favour the development of intra-sector trade.

The level of innovation of Polish companies systematically decreased during the late nineties (from 37.6% in the 1994-1996 period to 28% in the 1997-1998 period, while in the 1998-2000 period this level was just 16.9%). This highly unfavourable trend creates concern regarding the possibility of meeting competitive pressure on the single European market. For comparison purposes the innovation level in EU countries is significantly higher and on average is at a level of 51% and is characterised by a significantly broader range: from 26% in Portugal to 74% in Ireland.³⁰

Poland's accession to the EU means access of industrial companies to the single market free of customs and quotas (which results from the execution of the rules of Poland's association with the EU within the free trade zone in industrial goods). The enterprises, which meet European norms and standards – ecological, quality (veterinary and sanitary in the case of agri-food products), norms of product safety and also meet the compliance criteria, will acquire full access to the single European market representing about 420 million consumers (15 “old” EU Member States + 10 “new” Member States). Companies which do not meet these requirements, will not only be unable to export their products to the EU as the case is today, but they will also not be able to sell them on our domestic market, which will become part of the single European market (with the exception of some local products such as highland goat's cheese, grass flavoured vodka, cherry vodka, etc).

The adoption of the common external EU customs tariff by Poland means that companies importing manufactured goods from third countries will usually encounter more severe competition, while companies importing components for production from third countries will improve their competitive environment, as they will gain the possibility of reducing the unit costs of their manufactured goods. These conditions refer especially to competition from these third countries, which were granted a relatively high degree of preference in the access to its market by the EU (countries of the European Economic Area and countries of the Mediterranean Economic Area, some Latin America and Asian countries, which were granted access to the EU market on GSP conditions).

More severe competition will put pressure on the reduction of costs by companies, which would increase their ability to compete on the single market and create export conditions to both Member States and third countries for profitable and competitive companies, while the enterprises which fail to meet this pressure will be eliminated from the market. Companies characterised by a higher share of technology, involvement of human resources and a higher degree of product and process innovation will have a special opportunity for development and expansion on the single market by establishing co-operation links. These enterprises have an opportunity of obtaining additional financing for their product and process innovations under EU programs, including especially component 6 of the Framework Technical Development and Presentation Study Program and other EU assistance programs, which will also enable them to establish and participate in co-operation networks with EU companies and companies from Central and Eastern Europe and development of *intra-company* trade. The activities and efforts of Polish companies should also be directed at seeking market niches and establishing co-operation with EU enterprises as their suppliers and contracting parties, which could favour the development of intra-sector trade.

²⁹ M. Moszkowicz, *Państwo i gospodarka-konieczność zmiany formuły działania*, RSSG expert study of 13.12.2002.

³⁰ On the basis of the materials of the Ministry of Economy www.mg.gov.pl

Companies from our country will have the opportunity of benefiting from public support in the following areas according to EU rules: regional objectives, horizontal aid and support for economy sectors (industry, services and rural areas). This aid primarily includes the following subject areas: supporting research and development (R&D), environmental protection, support for small and medium enterprises, training of employees, restructuring and saving enterprises in difficult situations, financial support for goals associated with employment and the retraining of employees, assistance in the process of restructuring enterprises, assistance in revitalising urban areas that are suffering from degradation. These activities will favour quicker restructuring of enterprises in problem industry sectors such as mining, metallurgical, synthetic fibre industry, shipyards, the motor industry, and will also support the restructuring of fishing and rural areas.

The liberalisation of capital flow between Poland and the EU countries was already undertaken at the pre-accession phase resulting in a significant involvement of foreign capital in the Polish economy, also including forms of investment other than direct foreign investments and in operations on the Polish financial market. Accession would indicate that foreign capital – which is a lot more mobile than direct foreign investments – would be stabilised and more predictable. The same results would be enjoyed by domestic investors and consumers. Accession would also have an impact on all sectors of the capital-financial market bringing about consequences for micro-entities. With reference to direct foreign investments Poland can participate both in the creation and shift of investments. This way Poland strengthens its location advantage thanks to the accession, becoming a country more attractive for foreign investors coming from EC Member States and from third countries as well. The degree of stimulating the flow of direct foreign investments will however depend on the degree of the growth of GDP. Along with the gradual disappearance of privatisation, the inflow of direct foreign investments would be made mainly in the form of 'greenfield investments', which means the creation of new employment in the economy and indirectly through co-operation and sub-supplier connections in the environment of investing companies. New jobs and the continuation of existing jobs in the domestic environment apart from other benefits improves the situation of consumers and increases demand with all the positive consequences of this process.

Within the enlarged grouping, the reorganisation and rationalisation process of direct foreign investments will take place. The trans-national companies in the light of the enlargement of the EU by new Member States will face the need to reorganise their international production. For Poland this could mean the liquidation of some branches and outlets of trans-national corporations. However Poland could benefit from the appearance of rationalised investments, i.e. coming from third countries, subject to the emergence of the dynamic effects of the customs union in the form of the reduction of costs in the medium and long-term perspective and benefits regarding the growth of X effectiveness.

For the banking sector in the situation of the disclosed significant advantage of foreign capital in this sector and the already achieved adjustments, accession should entail substantial problems. The banking sector will continue to consolidate, competitiveness will increase, the extent and quality of services will be adjusted to the customers' needs and a reduction of interest rates will be forced. Stability and trust in this sector should not be affected. The availability of investment credits – currently quite difficult – might improve.

The insurance sector should stabilise after accession and then in the long-term it will have a chance to grow along with the progress of economic growth and the increased wealth of consumers. We should expect further foreign investment and improved competition, adjustment of the products to the needs and possibilities of consumers.

The securities market, which is particularly sensitive to any changes, should be positively affected by reduced uncertainty regarding the development of economic policy, determination in meeting the convergence criteria., The behaviour of portfolio investors is the outcome of many factors, however we should expect certain optimism on their side.

Polish enterprises will also encounter more severe competition on the single European market resulting both from the previously disclosed effects of the common market and the economic outcomes of Economic and Monetary Union, which means both positive effects and challenges for companies.

- The positive effects include primarily the reduction of the currency risk associated with settlements made in *euro* and performing calculations in a single currency. The envisaged future adoption of the *euro* by Poland will contribute to the reduction of production costs and operating costs by enterprises, as transaction costs would decrease significantly and information costs and the resulting price discrimination would be substantially eliminated. Enterprises seeking capital will obtain better access to financial credits, which in addition will be cheaper. On the other hand it will be easier for Polish investors to enter into transactions and they will be provided with better investment opportunities. The implementation of the *euro* should in a relatively short period lead to the emergence of a large liquid market of *euro*-debt. Considering the fact of the expected (in relation to Poland's access to the European Union) stronger linkage of the Polish zloty to the euro, the gradual shift towards entering into and settling contracts in this currency should not form a significant threat to Polish companies. However the risk for contracts signed in other currencies, primarily the US dollar, would increase.
- Challenges (especially including those regarding the period before Poland's access to the *Euro* zone) are noticeable in the following areas:

Along with the appearance of the *euro*, the significance of the micro-economic environment of enterprises functioning in the single currency area increases. Labour and transport costs and tax burdens play an increasingly important role in any decision making process. In relation to this process the gradual verification of suppliers will take place. The creation of the *euro* zone favours procurement in this zone, which results from the transparency of prices (offers of suppliers from the entire euro zone will be expressed in one currency), the absence of currency conversion costs and the need to take into account exchange rate risks.

Increased competitiveness will enforce on enterprises additional pressure for the reduction of operating costs. This will lead to further development of the international mergers of enterprises, which for many companies would mean their takeover or the need to reduce activity to market niches. Some *euro* zone enterprises have started invoicing in euro. Gradually more and more pressure will be put on companies trading with countries forming the Economic and Monetary Union to shift to settlements and payments in euro. Euro commonly used in foreign trade transactions enables exporters and importers in the euro zone to transfer exchange risks to partners from third countries³¹.

The above mentioned effects indicate the need for Polish enterprises to consider exporting to markets of countries forming the Economic and Monetary Union and the increased competition and the new operating conditions. This could lead to a decrease in the margins of Polish exporters and therefore to a negative impact on their financial performance. In addition in the case of the occurrence of disturbances in the Polish economy and other Member States as a result of external events (brought about inter alia by sudden financial crises) the adjustment to these disturbances by smaller and economically weaker Member States is limited because of the lack of the possibility of applying traditional tools of the national economic policy such as the exchange rate. Therefore adjustments to external economic factors will have to take place in the domain of the real economy and their cost will depend on the institutional and social flexibility of the entire economy, which as a consequence could bring about increased social costs in the form of higher unemployment.

³¹ Z. Wysokińska, J. Witkowska, *Integracja europejska. Rozwój rynków*, op.cit., p.344–346

Not accessing the EU by Poland would not have a significant effect on the trade in industrial goods. Execution of the no-accession scenario would mean the lack of a need to adjust to European norms and standards by companies, which would reduce their efforts directed at improving competitiveness, which in turn would have an impact on the gradual deterioration of competitiveness on both foreign markets and the domestic market.

If Poland does not join the EU, the legal conditions of investing in Poland should not change, as Poland is consistently implementing the principle of the national treatment of foreign investors required in relation to its membership in the OECD and it should not be expected that it would withdraw from the gradually conducted liberalisation of capital flow with developed countries. However, the investment environment for direct foreign investment would deteriorate. Cancelling accession or postponing it by a few years would introduce an element of uncertainty with regard to the development of the future economic policy of Poland. The continuity of economic policy enabling development to be envisaged in sufficient time is one of the important elements of a good investment environment which investors value highly. Although under the surveys performed, investors do not directly associate their investment decisions with Poland's participation in integration processes, they clearly indicate that the signing of the European Treaty by Poland and preparation for membership of the EU had an indirect impact on their investment decisions³². This means that Poland became a predictable country to them. The political and economic risk associated with foreign investment was reduced thanks to the integration processes. In relation to such a perception of integration issues by foreign investors, we should expect their moderation in making new investment decisions under the 'no access' scenario. The primary economic and social cost of such a situation would involve a stop in the increase of employment associated primarily with the lower 'greenfield' investment. It would entail a reduction of increase in the population's income, which in turn would be transposed into slower consumption growth.

Not joining the European Union also means that the process of removing the administrative, technical and fiscal barriers might slow down or even stop, as there will not be sufficient justification to incur additional costs associated with this process should membership be rejected or postponed for an indefinite period of time. Companies looking for an optimum location or new sources of effectiveness in the integrating area would not have sufficient incentives to switch investments from other EU locations to Poland (including labour-intensive investments).

A 'no-accession' scenario also means cancellation for an indefinite period of time of joining Economic and Monetary Union. For direct investors located in Poland and potential investors considering the new location this means a need to incur exchange risks and higher transaction costs. In addition it is accompanied by uncertainty regarding the consequence of rejecting membership for macro-economic policy, i.e. the degree of the determination of the government and the National Bank of Poland (NBP) to meet the convergence criteria of the Maastricht Treaty (the lack of pressure on controlling the inflation rate and reduce interest rates).

The consequences of not joining the European Union for the capital-financial market would depend on:

- The degree of slowing down the flow of direct foreign investments to Poland by virtue of the deterioration of the investment environment,
- The nature of the macro-economic policy in the perspective of Poland not joining the economic and monetary union,
- The rate of GDP growth under the no-access scenario.

The consolidation of the banking sector in Poland with the participation of foreign capital started in the late nineties and was not directly associated with the integration processes, but with

³² J. Witkowska, Z. Wysokińska, *Foreign Direct Investors Motivations' and their Export Propensity in the Context of the European Integration Process. The Case of Poland*, [w:] Motivations of Foreign Direct Investors and their Propensity to Exports in the Context of European Integration Process. Empirical Studies with Special Reference to Eastern and Central European Countries, J. Witkowska, Z. Wysokińska, (eds), University of Łódź, Łódź 1997, p.107-135.

the process of liberalisation of capital flow under OECD and the implementation of the principle of national treatment. It can be expected that the occurrence of the concentration of capital in this sector will continue irrespective of the decision regarding Poland's accession to the EU. However, the consolidation process of the co-operating banking sector initiated due to the need to meet the requirement of having a determined minimum equity in the perspective of adjustment to the rules binding in the European Union, could stop.

The adjustment of the rules of functioning of the banking sector as a whole and the individual banks to the rules binding on the single European market, currently in progress in Poland, are a separate issue. This applies to:

- Licensing banking activity (conditions of acquiring a banking licence, controlling the flow of ownership of securities),
- External safety regulations,
- Bank equity,
- Concentration limits (limits of bank exposure in determined undertakings),
- Bank reserves,
- Bank supervision.

It does not seem possible to stop the process of adjustments in the area of regulations or depart from some of the solutions. This situation could undermine trust in banking institutions as institutions of public trust. The consequences of losing confidence in the banking sector are so serious that decisions regarding this domain should be made only after due consideration.

The “no-accession” situation could have a negative impact on the insurance market. Though the increasing involvement of foreign investors is also observed in this sector – in the pre-accession phase, inflow of foreign investment into this sector could be stopped. The situation on the insurance market depends on the development of the macro-economic situation and current trends. If postponing accession or rejecting it had a negative impact on the macro-economic processes and were to threaten the economic boom, the situation on the insurance market would deteriorate compared to the situation as currently observed.

Foreign portfolio investments are determined by many factors and their inflow varies significantly. Under the ‘no-access’ scenario, this segment of the capital-financial market could be the most strongly affected by the outcome of rejecting or postponing Poland's membership of the EC. Similar to other forms of capital flow in relations between Poland and the highly developed countries, the suspension of the freedom of conducting these types of transactions should not be envisaged. The decisions of portfolio investors are however dependent on the number of factors sensitive to the integration process. In this context, the potential change of the development of the basic macro-economic values in the Polish economy and their impact on the decisions of foreign investors should be mentioned.

Due to the fact that the substitution between currency flows, bank credits and very liquid securities or various types of securities continuously occurs in the financial market, uncertainty itself regarding the future of the economic events could cause the withdrawal of portfolio investors from the market. In addition this would be accompanied by the consequences of the ‘no-access’ no-accession scenario in the monetary policy domain and uncertainty regarding future Poland's actions in areas covered under the convergence process. The perspective of Poland's access to the Economic and Monetary Union is an important, long-term element of investing in the Polish market and the markets of other countries aspiring to EU membership. It brings about a higher stability of the involvement of foreign investors on the markets of candidate countries in relation to the higher share of long-term investors³³. Not accessing the EU would expose the Polish economy to higher pressures of short-term capital flow. It is also possible that some portfolio investments would be moved from Poland to substitute markets in the enlarged single European market.

³³ J.Osiński, *Inwestycje zagraniczne na rynku dłużnych papierów wartościowych w Polsce w roku 2001*, [w:] *Inwestycje zagraniczne w Polsce*, IKCiHZ, Warsaw, 2002, p. 153

4. The Consequences for Polish Regions of Integration With the EU

Marek W. Kozak

Introduction

Poland's accession to the European Union will take place with a system transformation as yet unfinished and in the course of transfer from an economy based on industry (with a considerable share of agriculture) in the direction of the post-industrial economy producing the majority of income in the area of widely understood services as well as drawing generously from scientific and technological progress, in particular, from the opportunities provided by modern information technologies. Poland has efficiently built up the foundations of democracy and a market economy but institutional reforms will continue. Globalization and the clearly visible deceleration of the global economy overlap these phenomena. After the years of accelerated development, the domestic economy used up basic reserves and is unable to enter the growth path without further, institutional reform costly for society. Polish society, after years of hardships and the high cost of (introduced and waived) reforms and modernization, is dispirited, disoriented, full of fear for jobs and the future and – slightly more frequently than neighbors – expects the consequences of accession to be negative.³⁴ Modernization, restructuring, integration – many people consider them sources of uncertainty.

All this results in the fact that causal relations are difficult to describe, including the isolation of effects that can be brought about for Poland in the short and medium term because of European integration; nor this is not just the impression of society in general. It is even more difficult to assess the impact of integration on the development of individual voivodships.

This document is an attempt to find an answer to the question of how Polish regions will cope with the challenges posed by integration. Which of them will have – and in what areas will there be – benefits; where can difficulties and problems be expected? This problem is important not only because Polish regions differ considerably with regard to economic structures and competitive edges but also because of social expectations – positive and negative – with the tendency to ignore the fact that the integration process is long-lasting and its effects can be seen within a few years only

³⁴ *Gospodarcze skutki przystąpienia do Unii Europejskiej – opinie respondentów w niektórych krajach kandydackich*, Centrum Badań Opinii Społecznej, Warsaw, January 2002. See: L. Kolarska-Bobińska (ed.), *Polacy wobec wielkiej zmiany. Integracja z Unią Europejską*, Instytut Spraw Publicznych, Warsaw 2001.

in exceptional cases. This time factor is decidedly underestimated as long as it plays a much greater role than public opinion would expect. When drawing from the experience of the European Union, we have to remember that, with the generally positive influence of accession on the development of poorer member states, there were also regions that did not enter the path of development despite considerable structural aid and which have experienced relative regression (e.g. some Greek regions). It turned out that the aid offered did not meet with internal growth impulses in these regions. Will Polish regions be ready to take advantage of the opportunity in the form of access to external funds? Will the authorities and the local and regional communities be ready?

It has been assumed that the integration process is a multi-level and multi-dimensional phenomenon where, apart from economic and financial factors, institutional, social and cultural issues play an important role – issues that are difficult to measure but are of growing importance for any increase in the competitiveness of the regions as stressed in the latest literature on that subject. It has also been assumed that the absorptive capacity of the region, the ability to translate opportunities into benefits, depends mainly on the competitiveness of the economy and institutional efficiency.

Thus, the analysis of “integration sensitivity” in the territorial aspect will be conducted on a few general planes, essential to the participation of individual voivodships in the benefits and costs of the integration. First of all, issues concerned with economic structures and the ability of the regions to compete in production and trade, infrastructure equipment, the ability to attract capital, human resources and features of the labor market and, finally, management quality (administrative efficiency) will be discussed. The size and structure of EU aid planned for the post-accession period will also be taken into account.

This document draws from the analyses of the competitiveness of Polish enterprises and regions as the key issue for the balance of benefits and costs of accession. Sector and global approaches dominate among reports concerned with the issue of benefits and costs of integration.³⁵

1. Potential and Differentiation of Regional Economies

The basic Polish problem is the low level of development³⁶. Polish national income does not exceed 40% of the average income in the European Union and will be relatively lower on accession date than the level of income in poorer countries of Western Europe at the time of their accession to the Communities. Among four Visegrad candidate states, Poland has the relatively least open economy: the relationship between the exports and imports of services and GDP in 2000, amounted to 6.2%, and goods – 26.7% (in the Czech Republic: 11.9 and 59.5% respectively and in Hungary, over 11.6 and 56.8%).³⁷ Although comparative data concerning the degree of development in voivodships (units in the category NUTS 2, see fig.1) allow some experts to conclude that differences between regions do not deepen (GDP differences do not exceed the 1:2 ratio) but the data for sub-regions (44 territorial units NUTS 3) show high and growing differences achieving, for example, 1:5 in the Mazowieckie voivodship.³⁸

³⁵ *Raport w sprawie korzyści i kosztów integracji Rzeczypospolitej Polskiej z Unią Europejską*, The Council of Ministers, Warsaw, 26.07.2000; see also: E. Kawecka-Wyrzykowska, E. Synowiec (red.), *Unia Europejska. Przygotowania Polski do członkostwa*, IKC HZ, Warsaw 2001. See: Z. Rykiel, *Skutki przestrzenne przystąpienia Polski do Unii Europejskiej*, in: A. Kuliński, K. Pawłowska (eds.), *Innowacja-Edukacja-Rozwój Regionalny. Innovation-Education-Regional Development*, Wyższa Szkoła Biznesu, Nowy Sącz 1998. Regional effect of Common Agricultural Policy is discussed in the FAPA report; some assumptions have changed because of changes resulting from negotiations in Copenhagen (J. Czaplą, *Potencjalne regionalne efekty przyjęcia WPR w Polsce*, SAEPR FAPA, Warsaw, 2002).

³⁶ Further analysis will not discuss in more detail the issue of spatial differentiation of agriculture. For this issue see chapter by J. Rowiński. See also A. Stasiak (ed.), *Możliwości wielofunkcyjnego rozwoju wsi polskiej w kontekście integracji z Unią Europejską*, KPZK PAN, Studia vol. CX, Warsaw 2000.

³⁷ *Key structural data for the 10 Acceding Countries*, General Statistics, Eurostat, 06.01.03

³⁸ *Rocznik Statystyczny Województw 2002*, GUS, Warsaw, p. CLXXX.

4. The Consequences for Polish Regions of Integration With the EU

Polish voivodships differ in many aspects starting with the economic activity. 54.5% of all business units operating in Poland, 63.3% commercial companies and 68.8% of companies with foreign capital are concentrated in the Mazowieckie, Śląskie, Dolnośląskie and Pomorskie voivodships.³⁹

In 2001, nearly half the industrial production sold was concentrated in the Mazowieckie (20.5%), Śląskie (16.8%) and Wielkopolskie (10.3%) voivodships. In turn, the Lubuskie, Świętokrzyskie and Podlaskie voivodships together had a 6.2% share of the sales. The situation is similar in the case of construction sales⁴⁰, total investments, outlays for innovations, research and development, and value added (table 1). It is the same with the share of voivodships in exports although here, the Pomorskie voivodship occupies first place, not the Mazowieckie voivodship, having the leading position in the scope of all other indicators of the modern economy.⁴¹ Unfortunately, the exports are dominated by low technology goods – labor intensive rather than knowledge intensive.⁴²

Table 1. Investment, innovation, research and development, value added in voivodships.

Voivodship	Investment per inhabitant in PLN (current prices)	Expenditure (a) for innovation in industry in millions PLN	Expenditure for research and development per inhabitant (current prices) (b)	Employment in research and development per 1000 professionally active persons	Gross value added per employee in thousands PLN
Dolnośląskie	3706	718,4	115	4,7	46,0
Kujawsko-pomorskie	2260	1127,4	62	3,5	39,0
Lubelskie	1672	372,7	66	3,4	25,5
Lubuskie	2521	240,5	17	4,0	42,3
Łódzkie	2566	581,2	113	3,4	35,2
Małopolskie	2447	773,5	142	5,7	33,6
Mazowieckie	7406	2207,5	422	11,1	51,8
Opolskie	2048	202,9	36	2,4	38,4
Podkarpackie	1730	517,9	48	1,6	25,4
Podlaskie	1652	256,7	73	2,5	30,1
Pomorskie	2694	436,0	92	4,5	46,5
Śląskie	2598	1959,4	84	3,8	46,4
Świętokrzyskie	1732	683,1	15	1,3	28,3
Warmińsko-mazurskie	1701	129,5	35	1,9	36,9
Wielkopolskie	3248	1110,7	100	3,6	41,7
Zachodniopomorskie	2463	183,6	37	2,7	45,5
Poland	3141	11501,4	126	4,5	40,1

Remarks: (a) Data concerning business units in the following sections: "Mining", "Industrial processing" and the "Production and supply of electricity, gas and water", in which the number of employees exceeds 49 persons. (b) without depreciation of fixed assets.

Source: *Statistical yearbook of voivodships 2002*, GUS Warsaw 2002 page XC–XCI and CXXIII.

Generally speaking, voivodships in the eastern part of Poland have the least advantageous economic structure (with the highest proportion of employment being in agriculture): Lubelskie,

³⁹ *Informacja o sytuacji społeczno-gospodarczej województw*, No 3/2002, GUS, Warsaw November 2002, p.41

⁴⁰ *Ibidem*, p.42–3

⁴¹ Exports per inhabitant do not exceed 1000 USD in Poland while they amount to 20 000 in Ireland. Exports per employee in the Pomorskie voivodship amounted to 263 thousand PLN, Mazowieckie 221, Małopolskie 105 and Zachodniopomorskie 32 in the late 1990s. The least pro-export outlook is characteristic of the economies of the Lubelskie (10,2 thousand PLN per employee), Podlaskie (8,2), Łódzkie (8,1) and Świętokrzyskie (7,5), with Poland's average 17,4 thousand PLN. *Narodowa strategia rozwoju regionalnego 2001–2006*, the Ministry of Regional Development and Construction, Warsaw 2000, p.73.

⁴² Information about the situation..., *op. cit.*, p. 15.

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Świętokrzyskie, Podkarpackie and Podlaskie (table 2).⁴³ Voivodships of Western Poland – apart from the Mazowieckie – show the highest share of the service sector: Zachodniopomorskie, Pomorskie, Dolnośląskie, Lubuskie.

Table 2. Employment in voivodships, 31.12.2001

Voivodship	Employees in %,			
	Agriculture, hunting and forestry, fishery and the fishing industry	Industry and construction	Market services	Non-market services
Dolnośląskie	16,7	29,6	35,0	18,7
Kujawsko-pomorskie	27,2	27,3	29,1	16,4
Lubelskie	53,0	14,5	18,4	14,1
Lubuskie	18,3	28,8	34,1	18,8
Łódzkie	33,0	26,3	26,1	14,6
Małopolskie	36,8	21,7	26,5	15,0
Mazowieckie	25,7	21,3	37,7	15,3
Opolskie	29,8	26,8	26,4	17,0
Podkarpackie	48,2	20,1	18,7	13,0
Podlaskie	47,3	15,9	21,7	15,1
Pomorskie	15,7	29,6	36,6	18,1
Śląskie	12,6	36,6	34,4	16,4
Świętokrzyskie	50,1	17,9	19,1	12,9
Warmińsko-mazurskie	27,3	25,6	28,7	18,4
Wielkopolskie	26,5	29,4	29,7	14,4
Zachodniopomorskie	16,0	27,1	37,9	19,0
Poland	29,3	25,2	29,8	15,7

Note: according to the actual geographical placement.

Source: Rocznik statystyczny województw 2002 (Statistical yearbook of voivodships 2002), GUS Warsaw 2002, page LXXXIV–V.

Expenditure for research and development (only 0.78% of domestic income in 2000; 2.7% in the USA, 1.8% in the European Union) are low (and diminishing).⁴⁴ The general assessment of development of the economy based on knowledge (and thus on innovation) places Poland in the 23rd place among OECD countries (6 points as compared with 30 points for Hungary, 40 in the USA and over 50 in Switzerland).⁴⁵ Alarming factors include not only the low level of innovation but also the drop in the share of production of new and modernized products sold, in industrial production sold, as well as the drop in the number of enterprises planning to introduce innovations.⁴⁶ The inventiveness ratio decreased nearly twice within the last few years (from 1.4 in 1989 to 0.6 in 2000, EU average: 2.6).⁴⁷

The Private Sector of the Economy

The importance for the economy of the private sector today has its origins in the privatization of State enterprises and in so-called ‘bottom-up’ privatization: the creation of new businesses by new entrepreneurs. In 2001, the private sector guaranteed nearly 3/4 of all jobs beyond agriculture and bore nearly 70% of all investment expenditure. 96.7% business units were private (registered in national register REGON). In the voivodship scheme, over one third of units were located in the Mazowieckie (15.8%), Śląskie (11.8%) and Wielkopolskie (9.2%) voivodships. Employment

⁴³ Agriculture, hunting and forestry account for 2,9% of Poland's GDP.

⁴⁴ *Main Science and Technology Indicators*, vol. 2002/1, OECD.

⁴⁵ Komitet Badań Naukowych data, in: *Polska. Narodowy Plan Rozwoju 2004–2006*, working version, 3.01.2003. See: European Commission, EUROSTAT, Innovation papers No 18, *Innovation and creation: statistics and indicators*.

⁴⁶ *Wzrost konkurencyjności gospodarki lata 2004–2006*, working version, SPO, p. 32, Ministry of Economy, Warsaw 2002.

⁴⁷ *Ibidem*, p.41.

was similarly concentrated in these voivodships. The smallest number of businesses falls to the Opolskie (2.4%), Lubuskie (2,7%), Świętokrzyskie (2,8%) and Podlaskie (3,2%) voivodships.⁴⁸

According to the analysis of enterprises employing 49 or more persons in the first three quarters of 2002, private firms with a 53% share in the employment had a 75.6% share in revenue, an 88.3% share in exports, a 71.7% share in investments, and a 75.6% share in industrial production sold and higher net profitability (1% as compared with minus 1.2 in the State-owned sector).⁴⁹

Small and medium enterprises (SME) constitute the dominating element in the private sector. Most of them (of the total number in Poland) operate in the Mazowieckie and Śląskie voivodships (16.2% and 12.6% respectively) while the fewest of them are present in the Podlaskie and Opolskie voivodships (2.4% each).⁵⁰

Privatization

Privatization commenced with regard to 5426 of our 8453 State-owned enterprises in the period from 1 August 1990 to 30 June 2002⁵¹. On 30 September 2002, the register included the 1993 remaining State-owned enterprises (p.p.). Most of them were located in the Mazowieckie (373) and Śląskie (287) voivodships. The fewest of them – in the Opolskie and Podkarpackie voivodships (36 and 41 respectively).⁵²

Privatization processes progress differently in various voivodships. Economic or geographic location do not have any visible influence on the progress of privatization in the region. Voivodships with most advanced privatization processes include poorly developed ones (Podkarpackie, 80.1% of State-owned enterprises subjected to privatization) and relatively well-developed ones (Śląskie, 71.4%). In turn, the least advanced privatization processes take place in the Zachodniopomorskie (51,8%), Pomorskie (53,9%), Lubuskie (57,6%) and Mazowieckie (58,6%) voivodships.⁵³

There are various types of privatization. Stock dispersal (or State ownership) and the lack of a strategic investor does not promote innovation and expansion, especially in a period of downtrend.⁵⁴ Unfortunately, privatization of the economy is nowhere near completion but, perhaps worse, it is losing momentum⁵⁵, which can mean that many voivodships will enter the European Union with unfinished privatizations (and economic restructuring). Furthermore, Treasury corporations⁵⁶ and enterprises still belonging to the State do not represent a high technological level and require additional capital and improved management. Because of that, they are not competitive and will not be considered to be an asset on accession date. It is to be expected that the final opening of the Polish economy (considering transitory periods) will accelerate the privatization and restructuring of enterprises in regions with least advanced economic changes, which entails, among other things, further job losses. This will be an important concern for the

⁴⁸ Without individual farmers. *Rocznik statystyczny województw 2002*, GUS Warsaw 2002, p. CIII.

⁴⁹ *Polska Gospodarka 2002–2004*, CASE, Warszawa 2002, table 5.

⁵⁰ *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2000–2001*, PARP, Warszawa 2002., tables 2.11 and 2.12.

⁵¹ Not applicable to 1654 liquidated State-owned enterprises of the agricultural economy.

⁵² *Dynamika przekształceń własnościowych*, nr 54, Ministerstwo Skarbu Państwa, wrzesień 2002.

⁵³ Poland's average 64,2%. *Ibidem*, p.81.

⁵⁴ S. Krajewski, *Skutki prywatyzacji dla przedsiębiorstw*, in: M. Jarosz (ed.) *Pułapki prywatyzacji*, Instytut Studiów Politycznych PAN, Warsaw 2003.

⁵⁵ M. Jarosz (ed.) *Pułapki prywatyzacji*, op.cit., Warsaw 2003. In 2002, the revenue of the State Treasury in respect of privatization amounted to only 3 billion PLN while in 2000 it reached 27 billion PLN.

⁵⁶ That is former state owned companies transformed into commercial code companies (corporations).

Zachodniopomorskie, Pomorskie or Lubuskie voivodship despite their relatively advantageous geographic location. The problem is particularly serious in the Śląskie voivodship, currently the largest area of restructuring in mining and heavy industry in Europe (except for the CIS countries).

Foreign Direct Investment

The value of foreign direct investment in Poland amounted to 62 billion USD as from 1989, including 68% from the countries of the European Union.⁵⁷ Factors promoting the acceleration of the inflow of investment capital to Poland include, in particular, political and economic stability and the changed attitude to foreign investors and investment incentives.⁵⁸

The majority of investors choose the Mazowieckie (696; only the management of companies is frequently located in Warsaw), the Śląskie (315), the Wielkopolskie (244) and the Dolnośląskie (200) voivodships with the total number of 59% investments located there.⁵⁹ As for the structure of investments depending on the country of origin, the most important investors come from France (11.5 billion USD), the United States (8 billion), Germany (7.5 billion), the Netherlands (5 billion) and Italy (3.7 billion).⁶⁰

The State made an attempt to control investment via incentives in 17 Special Economic Zones (SEZ) located in areas of high unemployment resulting from rapid economic restructuring. After nearly 6 years have passed since the establishment of the last SEZ we can conclude that they had little influence on changes in the choice of regions by foreign (and domestic) investors. The closure of three SEZ in 2000 is evidence of this fact.⁶¹

Generally speaking, it is clearly visible that investors were driven by their own location criteria independent of incentives provided by the authorities and only took advantage of those incentives when they overlapped these criteria. Investors in their location decisions preferred large agglomerations with modern economic infrastructures, good international communications, telecommunications, educational and scientific background as well as regions located in the western and southwestern part of the country. Other areas, i.e. away from agglomerations and, in particular, regions in eastern Poland met with relatively little interest. It is interesting that the western borders of agglomerations are preferred, which is evidenced by the direction of co-operative relations (Tarnowo Podgórze near Poznań; Bielany near Wrocław; Janki and the Pruszków strip near Warsaw).

Despite the undoubted modernization of the Polish economy that has taken place thanks to the inflow of foreign capital (and technology) we should notice that most investments are not based on high technologies (the leading areas are, according to the State Agency for Foreign Investment – PAIZ – data, food processing, vehicles, paper manufacture, chemicals).

2. Infrastructure

Specialist literature stresses that so-called hard infrastructure is indispensable but not sufficient for the development of a region (country). The main element of contemporary infrastructure influencing a region's competitiveness is the communications' infrastructure

⁵⁷ Applies only to investments worth over 1 million dollars. State Agency for Foreign Investment (PAIZ) data, www.paiz.pl, 30.12.02. In 2000, 2,8% of the total foreign investment of companies from the European Union came to Poland (of all the candidate countries: 6,1%). (*Key structural data for 10...*, op.cit.).

⁵⁸ G. Gorzelak, *Regional and local potential for transformation in Poland*, European Institute for Regional and Local Development, UW, Warsaw 1998, p. 77

⁵⁹ Status valid for 30.06.2002. PAIZ, www.paiz.pl, 30.12.2002

⁶⁰ PAIZ data, www.paiz.pl, 30.12.2002.

⁶¹ Information of the Ministry of the Economy (www.mg.gov.pl), December 2002.

connecting the region with European (and global) development centers – highways, fast rail links, multi-modal transport interchanges, information “highways”. New, qualitative development factors also emerge – these will be discussed later.⁶²

Because of this, it is difficult to select appropriate indicators that would sufficiently consider these elements of the infrastructure that will in fact promote development in the 21st century and, at the same time, reject those typical for the industrial economy and losing their importance.

Technical Infrastructure

The existence of the basic local infrastructure is considered so obvious in developed countries that its improvement – important for inhabitants of poorly developed regions – will not necessarily entail any substantial improvement in the attractiveness of the region. However, the situation in Poland regarding the domestic transport infrastructure looks bad. Transport systems, formally well developed, are outdated, weakly connected and are getting obsolete more quickly than in neighbouring candidate countries.⁶³

From the point of view of the investment attractiveness of regions and the country as a whole, convenient highway connections and if there are no such connections, dual carriageways are most important and decisive for inter-regional communications. In total, Poland had 2715 km of such roads in 2001 (including less than 400 km of highways). With an average density 0.9 km per 100 sq. km, the Śląskie (4,2 km), Łódzkie (1,6) and Małopolskie (1,4) voivodships are in the best situation while the Warmińsko-Mazurskie (0,1), Podlaskie (0,2), Lubelskie (0,3) and Podkarpackie (0,3) are the worst.⁶⁴ In practice, this entails isolation from the center of the European economy regarding communications and influences the low attractiveness of investments in the east of Poland. Nearly all the main roads in Poland require repairing and modernizing as a matter of some urgency.

The situation is the same with the railway. The highest saturation with normal track railways per 100 sq. km occurs in the Śląskie (15,3 km), Dolnośląskie (9,3) and Opolskie (8,8) voivodships. The lowest: weakly populated and relatively poorly urbanized eastern voivodships, i.e. Podlaskie (3,9 km), Lubelskie (4,2) and Mazowieckie (4,8).⁶⁵ The rapid drop in the volume of railway transport (by 50% in the 90's) caused by structural economic changes and the high costs of such transport⁶⁶ resulted in the closure of subsequent local railway connections which are less busy but also more exploited and in need of considerable expenditure for potential maintenance and modernization. The most serious railway problem from the point of view of competitiveness of voivodships and the whole country is the insufficient number of quick connections between main agglomerations and the unfinished modernization of trans-European lines used for transit as well as the promotion of improved communication accessibility of other countries in the region and the European Union. Polish airports and sea ports are weakly integrated with the domestic transportation system.

As for the development of the **telecommunications network**, there is a considerable gap between Poland and the developed countries despite the great progress made in the last few years; the gap is greatest in the telecommunications market sectors showing the highest

⁶² B. Gruchman, *Geneza innowacyjnego paradygmatu rozwoju regionalnego*, in: M. Klamut, L. Cybulski (eds.), *Polityka regionalna i jej rola w podnoszeniu konkurencyjności regionów*, Publisher: AE Wrocław 2000. See: T.G. Grosse, *Przegląd koncepcji teoretycznych rozwoju regionalnego*, in: *Studia Regionalne i Lokalne*, EUROREG UW and the Polish Section of RSA, No 1/2002.

⁶³ *Unity, solidarity, diversity for Europe, its people and its territory, Second report on Economic and Social Cohesion*, European Communities, 2001, p.51.

⁶⁴ Calculations on the basis of: *Rocznik statystyczny województw 2002*, GUS Warsaw 2002, table 2 (223).

⁶⁵ *Ibidem*, table 1 (222).

⁶⁶ Not to mention the quality of management.

development dynamics in the last few years, i.e. cellular telephony and Internet data transmission.⁶⁷ Saturation with fixed lines and mobile phones is best in agglomerations and the western voivodships. Voivodships best equipped in land lines in 2001 included: Mazowieckie (363 connections per 1000 inhabitants), Kujawsko-Pomorskie (332) and Zachodniopomorskie (311). Those least equipped included: Świętokrzyskie (223), Podkarpackie (229), Opolskie (250) and Małopolskie (274).⁶⁸ Underdevelopment of the network infrastructure is a serious problem (especially wideband network connecting voivodships and the country as a whole to the global network) and impedes the use of modern information technology.

According to research conducted in February and March 2002, 27% of Polish households were equipped with **personal computers** (40% in the Czech Republic, 25% in Hungary), 13% had access to the Internet (24% and 8% respectively). According to Eurostat data, 37.7% of households in the European Union had Internet access in the preceding year (2001).⁶⁹ According to CBOS data, 61% Czechs, 40% Hungarians and 32% Poles had cellular phones at the beginning of 2002. The situation in all the countries described is relatively similar but only with regard to fixed telephony (84% in the Czech Republic, 78% in Poland). The main factors influencing Internet access in Poland include education, wealth and domicile (rural – urban areas).⁷⁰ The cost of Internet access in Poland is higher than in the European Union and other candidate countries.⁷¹

As for the saturation with computers and cellular phones, the situation is worst in eastern Poland.⁷² Data for 1999 shows that the number of computers per 1000 people employed in industry (Poland's average 82.0) was highest in the Mazowieckie (118.0), Opolskie (104.9), Dolnośląskie (99.9) and Kujawsko-Pomorskie (96.8) voivodships. Enterprises were least equipped in the Śląskie (57.7), Podlaskie (60.4), Łódzkie (64.7) and Lubelskie (70.5) voivodships.⁷³

In the recent years, environmental pollution has been reduced to a great extent – partly as a result of investment introduced in the **pro-ecological infrastructure** and partly from the restructuring of the economy and the liquidation of most outdated technological lines and reduced production, for example, in the mining industry. In the scale of the whole country, the emission by enterprises of dust pollution seen as particularly noxious for the environment was reduced by nearly 2/3 and gaseous pollution – by 1/3 in 1995–2001.⁷⁴ However, great expenditure is still required to meet European standards in that area (not for standards but for environmental protection) so that the structural aid of the European Union will be of much help just like it was and still is in the poorest (cohesion) countries of the Union. To this end, the majority of Union funds will be assigned to the largest and costliest investment in

⁶⁷ See: T. Świderek, *Uniarkowany wzrost w Europie Wschodniej*, Rzeczpospolita, 23.01.2003.

⁶⁸ *Rocznik Statystyczny Województw 2002*, p. CXIX.

⁶⁹ *Key structural data for the 10...*, op. cit., 143/2002. According to this data, an average of 72 cellular phones, 30 personal computers and 31 Internet per 100 inhabitants in the EU in 2001. Corresponding data for Poland is: 25, 9 and 10. Results similar to the EU were achieved only in Slovenia (76, 28 and 30).

⁷⁰ *Komputery, internet, telefony komórkowe: wyposażenie gospodarstw domowych i użytkownicy w niektórych krajach Europy Środkowej i Wschodniej*, report from research No 83/2002, Centrum Badań Opinii Społecznej, Warsaw 2002.

⁷¹ *Polska. Narodowy Plan Rozwoju...*, op. cit., diagram 16.

⁷² The problem is illustrated by data concerning access to the Internet in industrial enterprises employing 49 or more persons: in total, 6492 such enterprises were recorded in Poland in 2001 including: in the Śląskie voivodship: 792, Mazowieckie: 735, Wielkopolskie: 702. The smallest number of such enterprises was found in Podlaskie – 166, Świętokrzyskie – 189, Lubuskie – 200 and Warmińsko-Mazurskie – 218. *Rocznik Statystyczny Województw 2002*, table 9(188)

⁷³ R. Chmielewski, T. Stryjakiewicz, J. Twardowska, J. Wąloszczyk, *Innowacyjność przemysłu i jej różnicowanie w układzie wojewódzkim*, in: T. Czyż (ed.), *Zróżnicowanie społeczno-gospodarcze w nowym układzie terytorialnym Polski*, KPZK PAN, number 197, Warsaw 2001, table 2.

⁷⁴ The emission of dust fell from 432 to 162 thousand tons and gases (without carbon dioxide): from 2785 to 1995 thousand tons. *Rocznik Statystyczny Województw Polska 2002*, op. cit., pp. CXVII–CXVIII

environmental protection, to solve the main, concentrated problems (purification plants for large cities, supra-local investments, etc.).

The pollution of water and, in particular, the ground can be a material barrier to development, especially in the Śląskie voivodship where many places are environmentally degraded in areas which have been intensely industrialized for two centuries.

Poland has serious failures in the scope of technical infrastructure as a whole, which considerably reduces its attractiveness for investors, especially in the eastern regions (except for the Warsaw agglomeration). A particularly weak point is the low quality of the existing infrastructure on the one hand and the extreme underdevelopment of modern trans-European transport and information networks on the other hand.

Social Infrastructure

The so-called social infrastructure requires separate commentary: access to health care, culture or social welfare. Regional differences are seemingly small here (1:2). As this area is, to a major extent, beyond the range of market regulation, there is no material connection between the social infrastructure and geographic location of a voivodship in the light of the state statistics. Thus, for example, the Podlaskie voivodship has more poly-clinics and medical doctors per 10 thousand inhabitants than the much wealthier Wielkopolska region.⁷⁵ There is also no visible scheme of differentiation in the scope of access to cultural units. However, if we look at the supra-local infrastructure and institutions rendering higher standards of service, we can see that access to them is offered mainly in agglomerations. The greatest differences in the scope of social infrastructure are found within regions, especially between rural areas and cities giving a privileged position to large cities. It also has to be stressed that statistics do not include a particularly important differentiating factor, i.e. the quality of the infrastructure and the services provided. Here, there is a lot in favor of material differentiation to the detriment of less developed regions of Poland.

Business Environment Institutions

Business environment institutions (financial, advisory, intermediary, etc.) have a material influence on economic development. Differentiation is considerable in that area. At the end of the last decade, employment in that sector amounted to 880 thousand people in total (5.5% of the total number of employees in the domestic economy); this fraction exceeded 7% in the Mazowieckie voivodship, was 6–7% in the Pomorskie, Dolnośląskie and Śląskie voivodships and in the eastern voivodships (Podlaskie, Lubelskie, Podkarpackie, Świętokrzyskie), it varied from 2 to 4%.⁷⁶

Generally speaking, the western regions of Poland (especially those occupying the leading positions in the scope of transformation processes) are better equipped with such organizations than are the eastern regions.⁷⁷

An additional problem is the model of inter-institutional co-operation dominating especially in less developed regions, where the most desirable partnership network scheme is overbalanced by formal and hierarchical schemes of the lack of true co-operation.⁷⁸ This, in turn, entails an inadequate use of business environment institutions for planning and the execution of pro-development activities.

Apart from business support institutions, culture, attitudes, norms and behavior patterns are also very important as they create the climate of economic activity (favorable or not). Some

⁷⁵ This phenomenon is promoted by low urbanization level. *Raport o rozwoju społecznym POLSKA 2000 – Rozwój obszarów wiejskich*, UNDP, Warsaw 2001, table 5.19. See also: *Rocznik Statystyczny Województw 2002*, op. cit., p. CXIII and CXIV.

⁷⁶ W. Toczyński, A. Mikołajczyk, *Polityka regionalna*, Gdańska Wyższa Szkoła Humanistyczna, Gdańsk 2001, p. 87. See also: J. Kropiwnicki, R. Szewczyk, *Regionalne profile Polski*, Polska Agencja Rozwoju Regionalnego, Warsaw 1999.

⁷⁷ A. Nawrot, *Bilans instytucji promocji rozwoju regionalnego i otoczenia biznesu w nowym układzie terytorialnym*, Polska Regionów number 1, Instytut Badań nad Gospodarką Rynkową, Gdańsk-Warsaw 1999.

⁷⁸ J. Hausner, T. Kudłacz, J. Szlachta, *Instytucjonalne przesłanki regionalnego rozwoju Polski*, PWN, Warsaw 1997.

experts indicate the existence of serious regional differences in that area, favoring the urbanized and long industrialized western voivodships, especially Wielkopolska and Silesia.⁷⁹ The importance of these factors is also reflected by the analyses of local success stressing the influence of mobilization of the whole community on the speed of development.⁸⁰

3. Human resources and labor market

Education is considered the more and more (if not the most) important indicator of the quality of human resources that determines development opportunities of states and regions while the modernity indicator adopted most frequently is university education and not – as it was not so long ago – secondary education.⁸¹ From this point of view, Poland with a 12% ratio is no worse than the Czech Republic, Portugal or Italy (9–11%) but remains far behind Finland, Sweden, Great Britain and Estonia (25–35%).⁸² In the mid 90's, the percentage of people with a university education among inhabitants of rural areas amounted to ca. 2% while it was five times higher in the cities, i.e. 10%. Scientists draw attention to the smaller educational aspirations of people living in rural areas but also their poorer educational background.⁸³ Another disquieting phenomenon is also the high ratio of functional illiteracy in Poland. Another disadvantageous phenomenon is the inadequate adaptation of education to the needs of the domestic economy, which has an influence on the increase in unemployment, among other things, among university graduates.⁸⁴

The largest number of students per 10 thousand inhabitants can be found in the Mazowieckie, Zachodniopomorskie and Małopolskie voivodships; this number is smallest in the Podkarpackie, Lubuskie and Opolskie. The importance of education in vocational schools diminished in the last few years although it still plays a vital role in education in the Kujawsko-Pomorskie, Wielkopolskie and Małopolskie voivodships.⁸⁵ Dynamic changes in the educational level of Poles taking place to a great degree thanks to increased social ambitions and the activity of the private sector in education (1.7 million students, 4 times more than in 1989) are a good omen. Poland occupies 21st place in the world in the scope of the number of scientific publications.⁸⁶

The rapid growth of the average education level is not necessarily translated into a better use of available human resources as it is influenced by a range of other factors – from the economic situation and the labor code to fiscal and macro-economic policy. As with the European Union, Poland shows a relatively low level of professional activity as compared with the United States and regional differences are moderate, at least in the light of the official statistics.⁸⁷

⁷⁹ G. Gorzelak, B. Jałowiecki, *Konkurencyjność regionów*, Studia Regionalne i Lokalne, EUROREG and the Polish Section of RSA, No 1, vol. 1, 2000. See: T. Zarycki, *Nowa przestrzeń społeczno-polityczna Polski*, EUROREG, Warsaw 1997. See: M. Szczepański, in: G. Gorzelak, M. S. Szczepański, T. Zarycki (ed.) *Rozwój – Region – Społeczeństwo*, EUROREG and the Institute of Sociology UŚ, Warsaw-Katowice 1999.

⁸⁰ For Polish examples see: *Historie sukcesu lokalnego*, EUROREG, Warsaw 1998.

⁸¹ If we consider that the quality of secondary schools influences opportunities for the further education of young people, the share of secondary schools in eastern voivodships (Warmińsko-Mazurskie, Podlaskie, Lubelskie, Podkarpackie, Mazowieckie) in the first 100 with an all-Polish ranking is slightly higher than their population share (39% as compared with 30%). Among 39 described schools: 14 were located in Warsaw and only 1 was in the Warmińsko-Mazurskie voivodship. *Szkoły z olimpijską marką*, Rzeczpospolita, 8.01.2003.

⁸² *Unity, solidarity, diversity for Europe...*, op.cit., s.56.

⁸³ *Raport o rozwoju społecznym POLSKA 2000 – Rozwój obszarów wiejskich*, UNDP, Warsaw 2001, p. 40 and further.

⁸⁴ *Wzrost konkurencyjności gospodarki...*, op. cit., p. 31.

⁸⁵ *Rocznik Statystyczny Województw 2002*, GUS, Warszawa 2002, p. CXI–CXII.

⁸⁶ *Polska. Narodowy Plan Rozwoju 2004–2006*, p. 17.

⁸⁷ Activity indicator for the Śląskie voivodship (the lowest position) amounts to 51,0%, Świętokrzyskie: 52,2% and Warmińsko-Mazurskie 53,4%, and, on the second edge of the scale for Małopolskie: 57,5%, Podkarpackie: 58,9% and Lubelskie: (the lowest position) – 59,1%. *Aktywność ekonomiczna ludności Polski*, 2nd quarter of 2002, Informacje i opracowania statystyczne, GUS, Warsaw 2002, p. XXIII.

Education is an important regional resource but unemployment is the evidence of the depth of restructuring and a particular problem associated with the economic transformation after 1989, mainly due to its intensity and related numerous negative social phenomena: marginalization, pathologies. The problem is even more difficult because it was only revealed after several decades of formal full employment.

On 30 September 2002, the unemployment rate reached 17.6%. Over 80% of the unemployed have no rights to unemployment benefit (87.6% in the Lubelskie, 86.0 in the Podlaskie and Śląskie and 84.5 in the Mazowieckie voivodships).⁸⁸

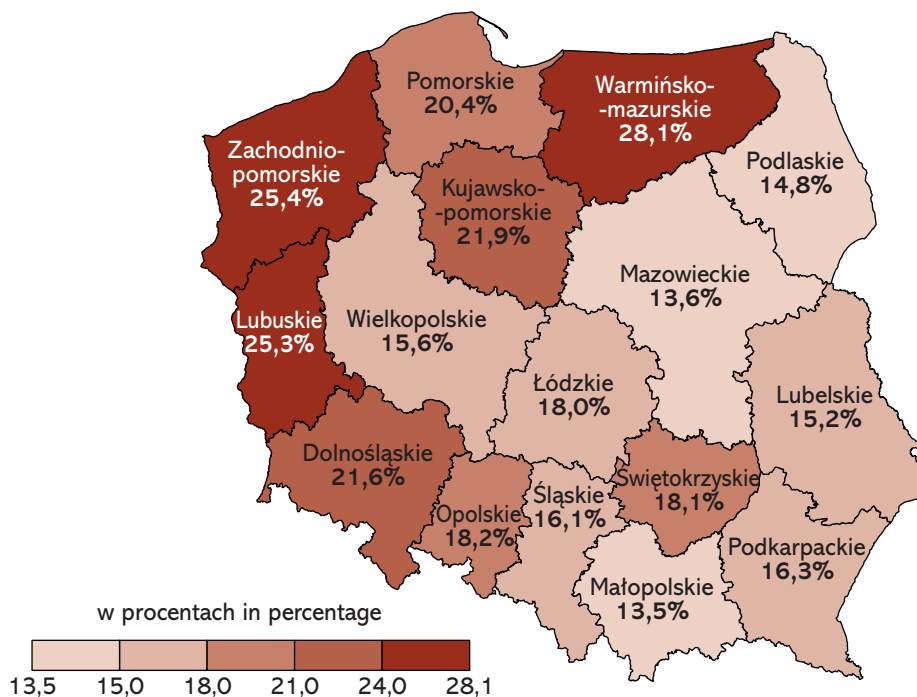


Fig. 1. UNEMPLOYMENT RATE IN THE VOIVODSHIPS
The situation on 30 September 2002

On 30.09.2002, the highest unemployment rates (fig. 1) were to be found in the Warmińsko-Mazurskie (28.1%), Zachodniopomorskie (25.4%) and Lubuskie (25.3%) voivodships. The lowest unemployment rates occurred in the Mazowieckie (13.6%), Małopolskie (13.5%) and Podlaskie (14.8%). As for the inflow of the unemployed, the highest rate (on 30.09.2002) was recorded for the Lubuskie (6,1%), Zachodniopomorskie (6,0) and Warmińsko-Mazurskie (5,82), while it was lowest in the Mazowieckie (2,7), Małopolskie (3,1), Lubelskie (3,2), Podkarpackie (3,4) and Podlaskie (3,5).⁸⁹

Unemployment rate is lower than the average in eastern voivodships dominated by agriculture. Unemployment in such regions is partly unregistered and agrarian. Total hidden unemployment is estimated at 0.8 up to 1.1 million people. According to some analyses, the

⁸⁸ Informacja o sytuacji społeczno-gospodarczej województw, No 3/2002, GUS, Warsaw 2002.

⁸⁹ Ibidem, p. 21.

hidden unemployment rate in Poland averages 7.7% but is estimated at 26.8% in the Podkarpackie, 24.4% in the Świętokrzyskie and 21.5% in the Małopolskie voivodship.⁹⁰

The scale and quality of the problem is also reflected by data concerning long-term unemployment lasting over 12 months. It achieves the highest values in the eastern regions of Poland.⁹¹

Thus, the main problem is the fact that Polish unemployment, especially in eastern regions, is of a structural nature and we cannot expect its radical reduction without radical institutional reforms (insurance, pension system, the load on enterprises because of labor costs).⁹² This fact is also reflected, for example, in the experience of Spain and Ireland, where it was only thanks to institutional reforms and the liberalization of the labor market that unemployment could be radically reduced.⁹³

A very important feature of the Polish labor market is the low mobility of the labor force which, in the next few years, will consolidate current regional differences and will limit the spatial range of benefits resulting from the increased number of jobs in the west of Poland, especially in the agglomerations.

4. Institutional efficiency in the regions

“For relatively poor countries on their way to affluence – such as Poland – good State policies are the most important instruments for guaranteeing an appropriate level of system competitiveness and the opportunity to catch up with well developed countries”.⁹⁴ This truth is equally important for regions.

In Poland, we can observe considerable territorial differentiation of the efficiency of functioning of the public administration; this is shown by the differences between the regions as well as the internal ones. This fact is of obvious importance not only for the comfort of citizens' lives but also, and mainly, for business and opportunities for successful participation in activities financed by the European Union and – more widely – for absorption and utilization of all other means. Another aspect, namely the territorial image and marketing, should be considered here.⁹⁵

Institutional efficiency of local governments

Analyses on a communal level have shown not only the generally lower activity (economic and social) of communes in eastern Poland but also the lower innovativeness of their governments in the scope of support of the development processes. As for the most interesting aspect of institutional efficiency (being only one of the many aspects analyzed), the higher efficiency of the communes in Wielkopolska and, in particular, in other areas of the western part of the country was stated. The scientists looked for reasons for this phenomenon in the dynamics of the sociologically young societies of western areas (except for Wielkopolska) and its demographical

⁹⁰ W. Orłowski, *Polskie regiony na tle...*, op. cit., tab.4.

⁹¹ In the Podkarpackie voivodship, the long-term unemployed in December 2001 constituted 54,3% of the total number of the unemployed, Warmińsko-Mazurskie 53,9%, Świętokrzyskie 52,6% (Poland's average – 48,3%). *Rocznik statystyczny województw 2002*, GUS Warsaw 2002, table 12 (76).

⁹² Only outlays for pensions at the turn of the century reached 15% of GDP and were considered one of the highest, if not the highest in the world. Gorzelak G., Jałowicki B., Herbst M., Roszkowski in: *Transformacja systemowa z perspektywy Dzierzgonia*, EUROREG, Warsaw 1999.

⁹³ See: I. Pietrzyk (ed.), *Polityka regionalna Unii Europejskiej w praktyce krajów członkowskich*, Publisher Akademia Ekonomiczna in Cracow, Cracow 1999; T.G. Grosse, *Europejska polityka rozwoju regionalnego. Przykład Irlandii, Włoch, Grecji i wnioski dla Polski*, Instytut Spraw Publicznych, Warsaw 2000.

⁹⁴ J. Szomburg, *Publiczna debata pomaga rządzić*, in: Rzeczpospolita, 2.01.2002.

⁹⁵ See: T. Markowski (ed.), *Marketing terytorialny*, Studia vol. CXII, Komitet Przestrzennego Zagospodarowania Kraju PAN, Warsaw 2002.

youth.⁹⁶ The latter argument seems to be losing momentum with time as a result of demographic changes.

In the inter-regional scheme, other analyses considered the variables of the economic and material situation as well as opinions about the functioning of chosen institutions. In general, a relation was found between the level and dynamics of economic development and the perception of the general efficiency of institutions and the assessment of the general situation. Here, the main border passed between western and mid-eastern areas of Poland.⁹⁷

Research comparing institutional efficiency of new voivodships considered a range of criteria (quality of service, honesty, innovativeness, quality of planning and financial management, quality of law, political stability, economic development policy)⁹⁸.

A summary and synthetic list of voivodships according to the institutional efficiency of local governments is presented in table 3. The group of four voivodships with most efficient institutions include the Opolskie, Lubuskie, Śląskie and Zachodniopomorskie. All these are voivodships located in the western part of the country. Let us add that all western voivodships were included in the top ten with only one voivodship from another part of the country occupying such a high position, namely the Małopolskie voivodship. Attention should be directed to a distant position of the Warmińsko-Mazurskie voivodship accompanied by the Lubelskie and Podlaskie at the end of the table.

Table 3. Institutional efficiency of local governments in voivodships – synthetic indicator.

Voivodship	Position	Indicator
Opolskie	1	+0,60
Lubuskie	2	+0,49
Śląskie	3	+0,48
Zachodniopomorskie	4	+0,45
Wielkopolskie	5	+0,37
Kujawsko-pomorskie	6	+0,34
Małopolskie	7	+0,25
Pomorskie	8	+0,18
Dolnośląskie	9	+0,11
Podkarpackie	10	+0,08
Łódzkie	11	-0,13
Mazowieckie	12	-0,21
Świętokrzyskie	13	-0,41
Lubelskie	14	-0,67
Warmińsko-mazurskie	15	-0,76
Podlaskie	16	-1,26

Note: the 0 indicator value means the country average; positive values indicate an efficiency higher than the average; negative values – lower than the average.

Source: P. Swianiewicz, *Sprawność instytucjonalna administracji samorządowej w Polsce – różnicowania regionalne*, table 1; in: J. Szomburg (ed.), *Polityka regionalna państwa...*, op.cit.

“Summing up, the research conducted confirmed the thesis (...) that civic traditions and the development of civic society constitute a better factor in explaining the efficiency of public institutions than social and economic modernization”.⁹⁹

From the point of view of the assessment of the institutional efficiency in the effective participation of structural activities financed by the European Union, a lot of interesting information could be

⁹⁶ G. Gorzelak, B. Jałowiecki, (eds.), *Koniunktura gospodarcza i mobilizacja społeczna w gminach*, EUROREG UW, Studia Regionalne i Lokalne 25 (58), Warsaw 1998.

⁹⁷ Collective work, *Nowe Województwa – fakty, opinie, nastroje*, Polska Agencja Rozwoju Regionalnego and Centrum Badań Opinii Społecznej, Warsaw 2001.

⁹⁸ P. Swianiewicz, *Sprawność instytucjonalna administracji samorządowej w Polsce – różnicowania regionalne*, in: J. Szomburg (ed.), *Polityka regionalna państwa wśród uwikłań instytucjonalno-regulacyjnych*, Instytut Badań nad Gospodarką Rynkową, Gdańsk 2001.

⁹⁹ *Ibidem*, p. 104–5.

provided by the analyses of utilization of aid funds in individual voivodships. Unfortunately, the current formula for the assignment of funds for development among voivodships (mainly according to the number of inhabitants or location near the border with Germany in the case of the cross-border co-operation program Phare CBC) as well as actual centralization of their management progressing for several years makes it impossible to draw more detailed conclusions.¹⁰⁰

Only the inflow of considerable structural aid funds to Polish voivodships will allow us to compare ex post their efficiency in the management of large external funds. Previous analyses of the preparation of the administration to accession suggest that it is still not very well prepared to manage aid funds and requires strong support in the scope of professional personnel, especially in the field. The practice shows that the key factor is the choice of person responsible for the co-ordination and execution of the program in the voivodship on the basis of leadership and managerial skills and not political relations. Partial and informal comparisons of programming efficiency of subsequent editions of regional, social and economic cohesion programs PHARE give evidence of considerable susceptibility to changes in the management system and administration, e.g. as a result of elections. In general, the thesis that the earlier a region is covered by development programs according to EU standards, the greater is the number of high quality projects.

Efficiency of State Institutions in the Regions

A partial indicator of institutional quality is the correctness of decisions made by the governmental territorial administration. Data of the Supreme Administration Court (NSA) proves that this quality is generally low. Every third decision of the Polish governmental territorial administration questioned in the NSA is considered incorrect (34.2%). The number of incorrect decisions with no appeal submitted to the NSA is unknown. According to NSA data, the lowest value can be ascribed to activities of the governmental territorial administration in the Łódzkie (42.7% decisions questioned by NSA), Małopolskie (39.9%), Mazowieckie (38.8%), Pomorskie (37.2%) and Warmińsko-Mazurskie (36.1%) voivodships. The best result was achieved in the Lubuskie and Wielkopolskie voivodships (21.2 and 28.6%).¹⁰¹

In the event of NSA appeals concerning self-government appeal tribunals (Samorządowe Kolegia Odwoławcze), information is not collected on the voivodship level but according to headquarters of these tribunals in the capitals of 49 small regions which no longer exist. This data does not allow the definition of a clear pattern of territorial differences. Huge differences in the quality of the work of the colleges have to be stressed. The NSA did not acknowledge any of the complaints lodged in the local appeal college in Cracow but it did acknowledge as much as 60.2% complaints in Kalisz, 41.9% in Słupsk and 41.1% in Bielsko-Biała. Many complaints are also acknowledged in Poznań (34.9%) and Warsaw (36.5%).¹⁰²

Functioning of the Sector of Non-governmental Organizations

The activity of non-governmental organizations in Poland is considered an important indicator of civic activity as a whole and thus – as mentioned before – a critical factor influencing the efficiency of public institutions.

There is no clear definition of non-governmental organizations in Poland. Two options compete here. The first one is more general and considers all the registered associations, social

¹⁰⁰ The only instrument applied within the last few years on a sufficiently large scale (over 1000 investments) and in line with the principle of competition of entrepreneurs in various voivodships for investment subsidies was executed within the framework of Phare STRUDER. This led to the conclusion that success in the management of such funds depended mainly on the level of development of a voivodship achieved and the share of the private sector in its economy. M. Kozak, A. Pyszkowski (ed.), *Phare-STRUDER. A pilot regional development programme*, Polska Agencja Rozwoju Regionalnego, Warsaw 1999. The Program of Local Initiatives Phare in the early 1990s proved that financial aid provided to 9 communes brought effects only in those areas where local elites were prepared to manage it. See: J. Drażkiewicz, G. Gęsicka, J. Szczucki, *Local Initiatives. Polish Experiences*, Cooperation Fund, Katowice 1996.

¹⁰¹ Poland's average: 34,2%. *Informacja o działalności Naczelnego Sądu Administracyjnego w roku 2001*, NSA, Warsaw 2002, table 8.

¹⁰² *Ibidem*, table 10.

and political organizations, foundations, labor unions, churches and employers' unions. There are 95500 organizations registered in the REGON system that meet these requirements. According to the narrower definition preferred by the KLON/JAWOR Association, non-governmental organizations include only 36500 associations and over 5000 foundations while, e.g. numerous voluntary fire-brigades, parties, labor unions, etc. are not taken into account. Unfortunately, the latest research¹⁰³ cited below only concerns the group covered by the narrower definition so that the view of non-governmental institutions is limited in it.

From the point of view of the description of the institutional material in the inter-regional scheme, differences are visible in the saturation of voivodships with non-governmental organizations (NGOs).

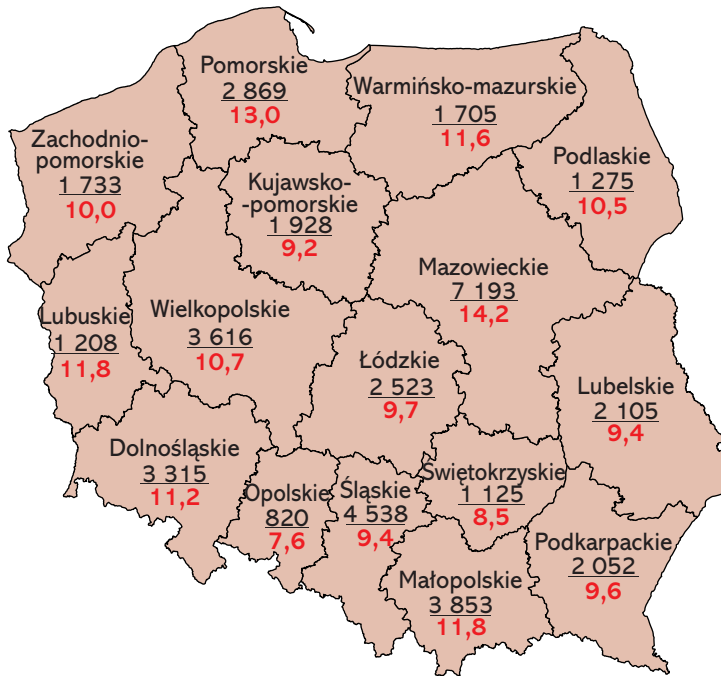


Fig. 2. Non-governmental organizations in Poland, 2002*.

* Only associations and foundations.

Legend: the number of registered organizations / the number of registered organizations per 10 thousand inhabitants

Source: Kondycja sektora organizacji pozarządowych w Polsce 2002, op. cit., p. 2.

In the view of the territorial arrangement (the map) most NGOs are recorded in the Mazowieckie, Śląskie, Małopolskie and Wielkopolskie voivodships. In turn, the relatively greatest number of NGOs (per 10 thousand inhabitants) falls to Mazowieckie and Pomorskie. It has to be stressed that 49% of organizations registered in the REGON system have headquarters in large cities (former and present voivodship capitals, especially in Warsaw). The analysis of the

¹⁰³ *Kondycja sektora organizacji pozarządowych w Polsce 2002*, Report from the research, KLON/JAWOR Association, December 2002, www.ngo.pl. More on Polish NGOs: S. Nałęcz, *Organizacja społeczeństwa obywatelskiego w III RP*, in: I. Jackiewicz (ed.) *Budowanie instytucji państwa: w poszukiwaniu modelu 1989–2001*, Wydawnictwo Sejmowe, Warszawa 2003.

business area of organizations considered non-governmental shows that ca. 10% declare their main activities related to the economy, development and education.

5. Regional Financial Funds Assigned for Development

The extent of benefits for regions resulting from accession depends, among other things, on the terms defined within the framework of the cohesion policy of the European Union and also – which is generally stressed – on the financial abilities of voivodships (units of the self-government) and the existing structure of expenditure. Financial issues – especially in less affluent regions – have a basic influence on their absorptive capacity and widely understood competitiveness. In turn, the arrangement of public finances (especially development expenditure) at individual administration levels influences the supply of projects to be financed under regional structural policy and thus also the structure of programs and their adaptation to the needs and abilities of the regions. The analysis of this problem is very difficult because, as a result of the unclear composition of the State budget, it is not easy to identify a batch of expenditure assigned for development activities. The majority of available data includes estimates.

Table 4. Revenues and expenditure of self-government units in PLN per inhabitant, 2001.

Voivodship	COMMUNES (a)			POVIATS (b)		VOIVODSHIPS	
	Revenues in PLN	own income as % of total income	expenditure in PLN	Revenues in PLN	expenditure in PLN	Revenues in PLN	expenditure in PLN
Dolnośląskie	1349	54,9	1393	1135	1224	126	129
Kujawsko-pomorskie	1252	41,1	1289	1064	1148	118	120
Lubelskie	1152	35,4	1177	871	904	115	124
Lubuskie	1316	46,7	1339	983	1008	170	168
Łódzkie	1223	49,1	1237	1030	1091	82	87
Małopolskie	1224	41,4	1247	913	1012	100	109
Mazowieckie	1939	66,2	2088	624	643	115	114
Opolskie	1255	53,6	1247	765	760	117	120
Podkarpackie	1199	36,1	1216	785	801	129	130
Podlaskie	1193	35,5	1214	995	1025	130	133
Pomorskie	1339	46,9	1374	1166	1248	125	124
Śląskie	1307	56,2	1291	1361	1387	132	131
Świętokrzyskie	1167	37,6	1201	801	805	139	150
Warmińsko-mazurskie	1254	42,1	1298	899	917	118	120
Wielkopolskie	1253	46,9	1312	938	966	108	123
Zachodnio Pomorskie	1361	48,4	1391	1104	1165	134	132
POLAND	1371	50,4	1418	976	1020	119	123

Note: (a) without towns with Poviats rights; (b) including towns with Poviats rights.

Source: Rocznik statystyczny województw 2002, op.cit., p. CXXI.

In 2000, the share of own revenues of all self-government units in total income of the public finance sector amounted to only 11.9%.¹⁰⁴ The situation in voivodships, poviats and communes varies considerably in that scope.

Income and expenditure from commune budgets are – except for the Mazowieckie voivodship clearly different than the rest – relatively undifferentiated and vary on the debit side

¹⁰⁴ Z. Gilowska, *Możliwość finansowania polityki rozwoju w Polsce*, in: J. Woźniak (ed.), *Polskie regiony a fundusze Unii Europejskiej*, PRO ANIMATIVA, Cracow 2001.

between 1152 PLN per inhabitant in the Lubelskie voivodship to 1361 PLN in the Zachodniopomorskie voivodship (table 4). If we compare the share of own revenues, the differences will be much higher. And thus – again except for the Mazowieckie voivodship – the lowest internal income of local government units falls to the Lubelskie voivodship (35.4% of total income), Podlaskie (35.5%) and Podkarpackie (36.1%) while it is highest in the Śląskie (56.2%), Dolnośląskie (54.9%) and Opolskie (53.6%).

Poviats and towns with Powiat rights have a considerable share in the revenues and expenditure of public finances with greater regional differences. Their revenues per inhabitant amounts to 624 PLN in the Mazowieckie, 765 in the Opolskie and 785 in the Podkarpackie, 1135 in the Dolnośląskie, 1166 in the Pomorskie and 1361 in the Śląskie. A decisive majority of revenues on the Powiat level results from transfers from the central budget (their share amounted to 92% of total Powiat revenues in 2000).¹⁰⁵

The outcome of Poland's European Union Membership for the Łódź Voivodship

T. Markowski, D. Stawasz

The economy of the Łódź region, dominated by light industry, has been subjected to intense competition with the globalized economy since the beginning of the transformation period. The whole complex of the light industry has crashed. At the same time, other areas of the industry have been subjected to market pressure. The opening of the economy to external influence verified the economic structure and cleared the way for new sectoral development processes. The development of new forms of economic activity confirms that they are built on healthy market foundations.

The following trends can be expected in the economy of the Łódź voivodship in the coming 10 years:

A. positive;

- further development of the construction and wholesale trade in building materials,
- development of medical and paramedical services for EU citizens,
- intense development of the garment industry dealing with finishing,
- improvement of technical infrastructure including further development of logistic and storage centers,
- development of a power industry based on brown coal resources in Bełchatów and development of industries depending on power,
- development of business-to-business (B2B) service companies,
- further development of Small and Medium Enterprises (SME) with the improvement of spatial organization, i.e. network and cluster relations

B. negative;

- emigration of talented and educated young people to EU countries,
- temporary set-back in the scope of development of agriculture and food industry for the period required to adapt to new EU standards
- a set-back in the development of construction companies specialized in the execution of infrastructure projects due to their inadequate adaptation to open international tenders,
- maintenance of systemic unemployment due to unavoidable restructuring in rural areas and agriculture.

¹⁰⁵ Ibidem.

In comparison with communes and poviats, voivodship self-governments have not only the lowest share in the revenues and expenditure of local government units but are also highly dependent on transfers from the central budget (80.6% of total revenues of the voivodship government¹⁰⁶). Small wonder that funds available to voivodships are even less related to the GDP level in voivodships than in the case of poviats. The greatest budget income per inhabitant falls to the Lubuskie (170 PLN), Świętokrzyskie (139) and Zachodniopomorskie, and the lowest to the – Wielkopolskie (108), Małopolskie (100) and Łódzkie (82). To what extent can such a great role of transfers modify vindicative attitudes or promote the creation of independent development strategies?

According to the analysis of income of the government sector (State budget, State agencies and State non-budget economy), the Mazowieckie (28.8% of income) and Śląskie (11.8%) voivodships contribute to in the greatest degree. The lowest income is to be found in the Opolskie (1.5%), Warmińsko-Mazurskie (1.7%) and Świętokrzyskie (1.8%) voivodships.¹⁰⁷

Only two voivodships have a positive balance and show a surplus of public income over expenditure (Mazowieckie and Pomorskie). Particularly deficit voivodships include the Lubelskie, Podkarpackie and Śląskie.¹⁰⁸ In general, nearly all voivodships are dependent on the income redistribution mechanism – especially those of a rural nature where taxation and the load from social insurance premiums from farmers are insignificant.

Public expenditure on developmental purposes are of key importance from the point of view of development differentiation and dynamics. Empirical research conducted in 1990s showed the considerable differentiation of local authorities (only communal ones then) in the scope of their willingness to assign funds to development: higher in the western part of Poland and lower in the eastern part.¹⁰⁹ In general, poorer communes – most of them concentrated in the voivodships of the central and eastern part of Poland – spend the least funds on development.

Development expenditure (investments in the infrastructure and support for business units) are generally low and do not exceed 3% GDP including – according to the latest data – 1.6 percentage point falling to the self-government sector and 1.4 – to the central government (table 5).

Table 5. Public expenditure for development in Poland in 2000 divided into units and sectors.

Sector/unit	Development expenditure	Expenditure structure	Development expenditure
	in mio PLN	in %	in GDP %
Governmental sector	9432,3	46,90	1,1376
state agencies (fundusze celowe) in it	2220,7	10,90	0,324
Self-government sector	10867,1	53,50	1,585
Including:			
Communes	5455,5	26,90	0,796
Poviats	194,2	1,00	0,028
Towns with Poviat rights	2925,4	14,41	0,427
Voivodships	559,9	2,75	0,082
Self-government agencies (f. celowe) and voivodship environmental protection funds	1732,1	8,54	0,252
Governmental and self-governmental sectors combined	20299,4	100,0	2,961

Source: on the basis of Z. Gilowska, *Możliwości finansowania polityki rozwoju w Polsce, table 1, in: ssibility of financing development policy in Poland, table 1, in: J. Woźniak (ed.), Polskie regiony a fundusze Unii Europejskiej, PRO ANIMATIVA, Cracow 2001.*

¹⁰⁶ Ibidem.

¹⁰⁷ S. Owsiak, R. Kucharczyk, K. Stepaniuk, *Przepływy finansowe w układzie: centrum-województwa*, Studia Regionalne i Lokalne, EUROREG and the Polish Section of RSA, No 2-3/2001, table 5.

¹⁰⁸ Ibidem, table 11.

¹⁰⁹ G. Gorzelak, B. Jałowiecki, *Koniunktura gospodarcza i mobilizacja społeczna w gminach*, EUROREG 1998.

Development funds are relatively small and attention should be directed to the very low share of voivodships in development expenditure. The shortage of funds (also the need to concentrate them on social infrastructure resulting from statutory competences of local governments) stresses the gap between statutory tasks of voivodships in the scope of economic development and their true financial capabilities. An important problem includes the increased indebtedness of self-governments (in total: from 6.2 billion PLN in 1999 to 17.0 billion in the 3rd quarter of 2002). The greatest debts occur in the largest cities and among gminas: Mazowieckie voivodship gminas; among poviats – Mazowieckie and Dolnośląskie; among voivodships: Śląskie, Dolnośląskie, Łódzkie and Małopolskie. This will limit the financial freedom of many units of self-government as well as their ability to use European funds.¹¹⁰

We can assume that development expenditure is particularly limited in the voivodships of eastern Poland where the technical infrastructure and the enterprise sector require prompt and considerable intervention. This fact is confirmed by the results of the analysis of expenditure incurred for activities in areas typical for the intervention of structural funds. They show that structural expenditure in 1999 and 2000 were concentrated in voivodships with the highest level of development.¹¹¹

6. Competitiveness of Polish space

Previous analyses have given evidence of radical differences between Polish regions in the scope of many features considered important for their competitiveness. The degree of economic development and economic transformation dynamics, infrastructure, human resources or institutional efficiency change quickly and are influenced by globalization and European integration, possible thanks to the system change after 1989.

The condition and dynamics of development of individual regions define their position in the scale of general competitiveness and allow the forecasting of their opportunities for development in the immediate near future. However, we have to remember that factors taken into account in many documents show a tendency to present various dimensions of economic development, often perceived in the long-term perspective as not subject to change in the territorial scheme. They are not always able to consider new qualitative factors that often escape the on-going notice of the statistics – such as access to state-of-the-art information technologies. It is also difficult to measure factors defining institutional efficiency – also varied in the territorial aspect but, according to the research, modified locally by the quality of the elite and leaders. Likewise, local and regional culture, – as a factor influencing the functioning of enterprises, public institutions and social activity, – is difficult to capture in statistical analyses. Its importance is stressed in many analyses. This is why typologies of development in Polish voivodships should not be perceived as an explicit and final indicator of the chance for effective participation in the economic life of the Union after accession. Undoubtedly, competitive and absorptive ability will depend on the level of development already achieved – at least in the initial stages. In the long term, the effects of the differentiation processes already initiated will become visible. Also in the long term, the backwardness of individual regions or their disadvantageous location can be compensated by the efficiency of public institutions, especially the local and regional administration responsible for the stimulation and co-ordination of development processes in the region. However, it is assumed as a rule that competitiveness in the short and medium term (including

¹¹⁰ *Większe długi samorządów*, Rzeczpospolita 23.01.03. For the issue of financial limitations against the background of other limitations see also: J. Szlachta, *Uwarunkowania wyboru modelu polityki rozwoju regionalnego związane z Unią Europejską*, in: A. Pyszkowski, J. Szlachta, J. Szomburg (eds.), *Model instytucjonalny polityki rozwoju regionalnego w Polsce*, Instytut Badań nad Gospodarką Rynkową, Polska Regionów No 11, Gdańsk-Warsaw 2000.

¹¹¹ M. Mackiewicz, E. Malinowska-Misiąg, W. Misiąg, A. Niedzielski, M. Tomalak, *Ocena wielkości poniesionych w latach 1999–2000 wydatków publicznych odpowiadających kategoriom interwencji funduszy strukturalnych*, Raport końcowy, Instytut Badań nad Gospodarką Rynkową, Warsaw 2002, typescript. See also: P. Swianiewicz, *Czy wielkie gminy są bogate?*, Studia Regionalne i Lokalne, EUROREG and the Polish Section of RSA, No 4/2001.

a region's ability in the scope of absorption of external funds) mainly depends on features of the economy and the size of regional financial resources. They can be treated as a starting point.

In-depth analyses of the differences between Polish regions have been conducted within the last few years to assess their social and economic structure, development potential and competitiveness. As a matter of fact, they are convergent.

Grzegorz Gorzelak¹¹² distinguished four types of region based on two key criteria (starting position before the transformation and the progress of transformation after 1989):

- positive continuity of development (large agglomerations)
- negative discontinuity (old industrial regions)
- positive discontinuity (western regions of Poland)
- negative continuity (eastern regions of Poland).

His subsequent publications indicate that poorly developed regions (eastern) in the first stage of transformation (early 1990s) did not transform their economy as profoundly as the stronger regions "... and, as a consequence, did not create a strong enough foundation for sustained growth in the second, growth phase of transformation".¹¹³

Marek Dutkowski¹¹⁴ based his typology on three kinds of criteria:

a. historically conditioned level of development and nature of social structures; b. importance of the regional center and c. importance of rural areas and agriculture. On this basis, five types of region were distinguished:

- western/metropolitan/non-agrarian: Dolnośląskie, Pomorskie, Wielkopolskie voivodships
- western/non-metropolitan/non-agrarian: Kujawsko-Pomorskie, Opolskie, Śląskie
- western/non-metropolitan/agrarian: Lubuskie, Warmińsko-Mazurskie, Zachodniopomorskie
- eastern/metropolitan/agrarian: Małopolskie, Mazowieckie
- eastern/non-metropolitan/agrarian: Lubelskie, Łódzkie, Podkarpackie, Podlaskie, Świętokrzyskie.

Tadeusz Kudłacz based his analysis on the territorial scheme valid before 1999 distinguishing six groups of regions ranged according to the synthetic development indicator: 1. Mazowieckie, 2. Śląskie, 3. Zachodniopomorskie, Pomorskie, Lubuskie, 4. Małopolskie, Dolnośląskie, 5. Wielkopolskie, Łódzkie, Opolskie, Kujawsko-Pomorskie, 6. Podlaskie, Podkarpackie, Warmińsko-Mazurskie, Świętokrzyskie, Lubelskie.¹¹⁵

In analyses conducted by Witold Toczyski and Adam Mikołajczyk, competitiveness is at the highest level in the Mazowieckie, then the Śląskie and Wielkopolskie voivodships, the third place falls to Dolnośląskie, Pomorskie and Zachodniopomorskie, the fourth – to kujawsko-Pomorskie, Lubuskie, Małopolskie, Łódzkie and Opolskie and the last – to the group of least competitive of the voivodships: Świętokrzyskie, Warmińsko-Mazurskie, Podlaskie, Podkarpackie and Lubelskie.¹¹⁶

Teresa Czyż considered that very well developed regions include only the Mazowieckie voivodship. The category of good development covered the Wielkopolskie, Dolnośląskie and Pomorskie voivodships as well as the Śląskie – also affluent but considerably burdened with current and future costs related to environmental degradation and the unfinished restructuring of industry.

¹¹² G. Gorzelak, *Regional and Local Potential for Transformation in Poland*, EUROREG, 14, Warsaw 1998, pp. 144–147.

¹¹³ G. Gorzelak, *Historia – Transformacja – Przyszłość*, in: G. Gorzelak, M. S. Szczepański, T. Zarycki (eds.), *Rozwój Region-Spoleczeństwo*, op. cit., p. 33.

¹¹⁴ M. Dutkowski, *Typologia polskich regionów*, in: J. Szomburg (ed.), *Polityka regionalna...*, op. cit.

¹¹⁵ T. Kudłacz, *Rozwój regionalny Polski lat 90 – ocena dominujących procesów oraz spodziewanych tendencji*, in: J. Szomburg (ed.), *Polityka regionalna na tle...*, op. cit.

¹¹⁶ W. Toczyski, A. Mikołajczyk, *Polityka regionalna Unii Europejskiej i Polski*, Gdańska Wyższa Szkoła Humanistyczna, Gdańsk 2001.

The category of voivodships on the average level of development included Łódzkie, Małopolskie, Kujawsko-Pomorskie, Zachodniopomorskie and Lubuskie. Poorly developed voivodships according to that typology are mainly those in the eastern part of Poland (Warmińsko-Mazurskie, Podlaskie, Lubelskie, Podkarpackie, Świętokrzyskie) and the Opolskie voivodship.¹¹⁷

The diagnosis found in the National Development Plan does not deviate from these findings: most competitive regions include Mazowieckie and Małopolskie, Pomorskie and Wielkopolskie. The least competitive regions include the eastern voivodships with unprofitable agriculture, backward industry and services and low quality human capital.¹¹⁸

Zbigniew Rykiel forecast in 1997 that benefits resulting from accession to the European Union would mainly go to centers (cores) and axes of development (Warsaw and Poznań agglomerations as well as the Tri-city (Gdańsk, Sopot and Gdynia), Cracow, Wrocław and the corridors connecting them to one another and to the western border). Risk regions doomed to failure in the European market included industrial regions of Lower Silesia, post-PGR (State farms) areas of Zachodniopomorskie, western border areas and wide parts of eastern and middle Poland with subsistence farms and a weak non-agricultural sector.¹¹⁹

Typologies described here as well as other sources of information stress the vital differences in development in the west-east axis and negative consequences of the burdening of economy in eastern voivodships with weak agriculture.¹²⁰ Except for T. Kudłacz, everybody believes that the differentiation process is intensifying.

According to some analyses (e.g. UN), the opposition between urban and rural areas plays the role of the factor dividing Poland into separate civilizations.¹²¹ Others stress that – in the light of the key importance of human capital for development – the greatest individual threat to regions in eastern and middle Poland is its low quality.¹²²

This is perhaps where we should look for the core of differences in benefits for Polish regions resulting from European integration as this issue requires many years' investments and care. In the case of the eastern voivodships, it cannot be compensated with internal investments (lack of capital) or foreign investments (low appeal), budget transfers or aid from the European Union if they are more oriented into the quality of life than investments in development. The path to development of these voivodships depends on institutional efficiency in the scope of utilization of internal resources and mobilization of external support for well prepared, innovative development strategy able to deviate from the old development paradigm, based on development of the basic technical infrastructure. We can say that the chance for their quicker development lies in the improved quality of human resources, better management of development and the opening to the world (not only in the communication aspect). However, it would require changes in the way of thinking about development factors and the achievement of consensus in the region.

“In the fight for maximum benefits – wrote Jerzy Kołodziejcki – winners are places (towns, regions) with historically shaped and potential opportunities (conditions) promoting the achievement of competitiveness thanks to:

¹¹⁷ T. Czyż, Zróżnicowanie regionalne Polski w układzie nowych województw, in: T. Czyż (ed.), Zróżnicowanie społeczno-gospodarcze w nowym układzie terytorialnym Polski, KPZK PAN, issue 197, Warsaw 2001.

¹¹⁸ Polska. Narodowy Plan Rozwoju 2004–2006, The Council of Ministers, 14.01.03, p. 33.

¹¹⁹ When writing about the potential negative influence on large areas of western Poland, Z. Rykiel assumed the continuation of quick increase in turnover with CIS counties and the “fading” of the eastern border. Reality rejected these assumptions. Z. Rykiel, *Skutki przestrzenne przystąpienia Polski do Unii Europejskiej*, in: *Innowacja-Edukacja-Rozwój Regionalny...*, op. cit.

¹²⁰ See, e.g.: M. Klamut, L. Cybulski (ed.), *Polityka regionalna i jej rola w podnoszeniu konkurencyjności regionów*, Wyd. AE we Wrocławiu, Wrocław 2000; K. Gawlikowska-Hueckel, *Atrakcyjność inwestycyjna nowych województw*, Polska Regionów 1999 No 3, IBnGR, Gdańsk.

¹²¹ *Raport o rozwoju społecznym Polska 2000. Rozwój obszarów wiejskich*, UNDP, Warsaw 2000, p. 101.

¹²² W. Orłowski, *Polskie regiony na tle...*, op.cit. See also M. Kozak, A. Kukliński, J. Szlachta (eds.), *Polityka rozwoju regionalnego: innowacje i restrukturyzacja*, Polska Agencja Rozwoju Regionalnego, Warsaw University, Central Planning Office, Warsaw 1997.

- advantageous location in the global system (geographical and economic, institutional, etc.)
- multifunctional communication, information and logistics hub,
- social conditions for the creation of innovations (absorptive capacity of the authorities and society relating to innovations), features of human capital (openness to new ideas, speed of learning, etc.), concentration of science and education,
- efficient functioning of the “location” (standard of infrastructure, efficiency of management, foreseeability of attitudes and decisions – trust etc.),
- conditions enabling the achievement of a high quality of life and environment”.¹²³

These factors will be least characteristic for eastern voivodships in the near future. They should, in fact, define strategic directions in the activity of regional authorities as the only chance for accelerated development and, at least, intolerance of the increase in differences in comparison with metropolitan regions and those located in the west of the country.

7. Supply of Structural Funds in the Regional Perspective

The extent of funds assigned to Poland for the period of 2004–2006 as a result of the final settlements of the Copenhagen summit was reduced in comparison with initial allocations adopted during the Berlin summit in March 1999. A radical change introduced in Copenhagen included the limitation of some funds initially assigned to structural activities and the transfer of a created “surplus” to the budget. It is difficult at the moment to define the distribution of funds among individual voivodships. The division criterion is defined only for funds assigned to regional programs. For funds assigned to the common agricultural policy, the division formula depending on the inflow of projects was finally adopted (except for direct subsidies) so that calculations are difficult. For cohesion fund expenditure, a considerable part of the funds (for transportation systems) cannot be logically assigned to individual voivodships but their route is known. Furthermore, funds assigned will not necessarily be used for various reasons so that the structure of expenditure can be different.

Funds for regional development are most important from the point of view of development activities executed directly by voivodships. The majority of structural funds for regions (total 2.9 billion Euro) was assigned for the development and modernization of the infrastructure (1.6 billion Euro, i.e. 55.9%), for the development of economic base and human resources 0.6 billion (21.0%) and local development 0.64 billion Euro (22.4%). They will be supplemented by national public expenditure (total 1.13 billion) and private contribution (mainly from entrepreneurs) amounting to 0.39 billion Euro.¹²⁴

The analysis of the division of the fund into individual priority areas in voivodships gives evidence of very slight territorial differentiation. Regardless of the degree of development in voivodships, their social and economic structures, and geographic location, all of them seem to see their key to development in the construction of infrastructure (55–60%, only in Zachodniopomorskie and Pomorskie – 50%), local development also including the development of infrastructure (10–15%) and, finally, development of the economic base (15–20%) and human resources (8–15%).¹²⁵

¹²³ J. Kołodziejski, *Paradygmat zintegrowanego planowania regionalnego w nowych uwarunkowaniach rozwoju kraju*, in: Z. Mikołajewicz (ed.), *Uwarunkowania i strategie rozwoju regionalnego w procesach integracji europejskiej*, PTE, Opole University and KPZK PAN, Opole 2000.

¹²⁴ EU contribution only. *Polska. Narodowy Plan Rozwoju...*, op.cit, p. 116.

¹²⁵ *Zintegrowany Program Operacyjny Rozwoju Regionalnego 2004–2006*, (draft), Warszawa, June 2002.

The Outcome of Poland's European Union Membership as Seen in the Pomorskie Voivodship

Marek Dutkowski

The structure of the Pomorskie Voivodship allows this region to absorb the EU Funds and there is also high level of political acceptance to this process. According to the majority of experts, the voivodship will bear accession quite well economically. Analyzed areas of social and economic life of the region include five groups, distinguished according to forecasted benefits and costs in 2004–2006 as well as opportunities and threats in 2007–2010. These areas are:

1. fishery, high technology industries, tourist services and gastronomy, road infrastructure – areas wherein benefits and opportunities overbalance costs and threats;
2. agriculture and food processing, shipbuilding, sea and inland shipping, yachting, labour market, environmental protection – areas wherein benefits overbalance costs or opportunities overbalance threats;
3. metropolitan services, telecommunication, and collective security – which are characterized by the balance of benefits, costs, opportunities and threats;
4. trade, logistics and distribution – areas wherein threats overbalance opportunities while benefits and costs are balanced;
5. seaports – where the costs overbalance benefits and the threats overbalance opportunities.

The priority area “infrastructure” also contains funds for the development of the information society. Only the Kujawsko-Pomorskie voivodship plans to assign as much as 20% for that purpose, others: 5-10%, Lubuskie and Łódzkie – 2% each, Dolnośląskie 1%, Podlaskie, Świętokrzyskie and Warmińsko-Mazurskie 0%.¹²⁶ This is, in part, the consequence of the general division but partly also the evidence of the wishes of regional communities. Interestingly, unlike its quoted draft version, Integrated Regional Development Operational Programme adopted by the European Integration Committee in February 2003 does not present information on structure of activities in individual voivodships.¹²⁷

It is more difficult to assess the territorially located consequences of sector policies that can be incomparably more important for some voivodships than funds from regional programs.

Within the framework of the Cohesion Fund, 1.9 billion Euro (plus 0.33 billion worth of national funds) is assigned to large environmental projects and another 1.9 billion Euro (plus 0.33 billion worth of national funds) to the transportation sector. Because of the requirements of necessary additional financing levels, the largest Polish agglomerations will be the main beneficiaries of environmental expenditure. In the case of the development and modernization of transportation systems, the advantageous effects of highway construction and modernization of national roads and railways will be felt, first of all, in western voivodships (especially areas located along latitudinal routes) and agglomerations in the middle and western part of Poland. The accumulated effect of activities under the Cohesion Fund and regional funds can be expected there within the next few years.

Within the framework of Common Agriculture Policy (CAP) funds for the development of rural areas and agriculture, the largest amount was assigned to direct payments (1,23 billion Euro).¹²⁸ 25 to

¹²⁶ Ibidem.

¹²⁷ *Zintegrowany Program Operacyjny Rozwoju Regionalnego 2004–2006*, Komitet Integracji Europejskiej, 14.02.2003.

¹²⁸ Up to 20% of funds earmarked for rural development (that is euro 508 mio) will probably be transferred to direct payments. Data do not cover Polish contribution. See: CEC (DG Budget), *Financial framework for enlargement 2004–2006 – Indicative allocation of commitment and payment appropriations*, Copenhagen Package, webtables, 19.12.02.

35% of those can be assigned to direct payments depending only on the farm size (simplified system covering all farms) what guarantees their full absorption but will serve consumption rather than farms restructuring. Outlays for the rural development (2,54 billion euro) due to their nature (e.g. structural pensions, agri-environmental programmes, afforestation) will have a limited direct developmental effect (in particular when, as can be expected, 20% of those outlays shall be transferred to direct payments. Even if we consider moderate additional financing from national funds (optionally large only for direct payments), the developmental effect will not be substantial in the short and long term. The high share of direct simplified payments can temporarily¹²⁹ promote the consolidation of the high share of small farms in Polish agriculture. 0,86 billion euro is earmarked for market measures.

Other funds (compensatory payments to the budget increased by 1 billion Euro in line with Poland's suggestion at the expense of structural activities during the Copenhagen summit, funds for internal policies) amounting to 3.3 billion Euro in total – except for outlays for border co-operation and the tightening of the eastern border – will not have a regional aspect.

The Outcome of Poland's European Union Membership as Seen in the Zamość Subregion

Bogdan Kawałko

The Zamość Voivodship covers an area of 7,000 sq. Km. It is inhabited by 0,5 million people 70% of whom live in rural areas. The region is underdeveloped with regard to economic and civilization aspects, peripheral and monofunctional with fixed structural faults, has a dominate agrarian economy and the lowest per capita GDP level in all of Poland, and is threatened with marginalization.

The analysis of the regional situation and the research conducted to assess and identify results possible from Poland's Membership in the European Union (EU) as they affect the Zamość region indicate, first of all, the existence of many threats and negative phenomena including: potential bankruptcy of ca. 40% individual farms, accelerated insolvency of up to 70% of enterprises and economic units, the increase in real unemployment to 40%, no chance to immediately arrest the downward spiral of the local economy with adaptation to EU requirements (the so-called „vicious circle“), reduction in border traffic by 50% (arrivals of citizens from Ukraine), reduction in trade turnover (near the border) by 80-85%, reduction of imports of raw materials and goods from the Ukraine.

Potential advantages include the opportunity to initiate deeper structural changes in agriculture, abolishment of illegal trade (contraband), predominantly in consumables (alcohol, cigarettes, drugs), reduction in the employment of illegals, a possibility to construct modern border (passes, terminals) and near-the-border (access roads, city highways, agencies, service institutions etc.) infrastructures, and the creation of attractive jobs (primarily, related to 4 types of border service – customs, border guards, phytosanitary, and veterinary service).

Relocation of funds from structural activities to compensatory payments to the budget as well as the introduction of a simplified system of direct payments in agriculture constitute, in fact, evidence of the government's doubts concerning the preparation of the Polish administration to meet all the requirements in the scope of European aid (hard budget constraint, inactive IACS system, doubts concerning absorptive abilities of the construction system in the aspect of structural funds). This decision will facilitate the absorption of amounts planned for Poland in 2004–2006 but it also means that Polish voivodships will make a practical attempt to manage

¹²⁹ Until the potential reform of the Common Agricultural Policy.

large funds for development only after 2006. And this really requires another type of management. Effects will also emerge later.¹³⁰

Conclusions

Regional disparities measured with GDP are rather slight in Poland but more detailed indicators, especially related to the effectiveness and modernity of regional economies, quality of infrastructure, institutions and human resources, social activity, show much greater (and growing) differences. The main axes of diversification are defined by the division of the land area into a more competitive western one and a less competitive mid-eastern one as well as division in the urban areas (or rather agglomerations) – rural areas scheme. These factors will have a decisive influence on the regional distribution of benefits and the costs of European integration in the short and long term. An important element defining opportunities for development activity is the considerable centralization of public finances, their disadvantageous structure (relatively small development expenditure) and a dominating share of transfers in the income and expenditure of communes and, in particular, voivodships and poviats. The seemingly low level of general differences results – to a great extent – from the existing system of public finances.

How, in such conditions, can accession influence Polish voivodships? When looking for an answer to this question we should not forget that their modifications in the near future will be shaped by the combination of spontaneous phenomena in the economy, accession and related adjustments as well as – most difficult to foresee – consequences of institutional reforms in Poland (also those independent from European integration). Postponement of institutional reforms and the maintenance of centralized system of public finances will mean that development conditions and opportunities will be determined by macroeconomic factors, monetary, fiscal and social policy of the government and not by internal strategies and the activities of voivodships. Thus, it will not promote the launch of internal development mechanisms in regions. It is worth adding that institutional changes do not bring about immediate effects so that even their prompt introduction does not have to be reflected in the short term by opportunities and effects of development in the sector or regional aspect.

The greatest (and promptest) benefits of accession will fall to large agglomerations and regions located in the western part of Poland, best connected to the markets of the European Union (main economic partners), modern communication infrastructure (international airports, highways, high-speed railways). It particularly favors metropolitan areas located in the west, these are “doomed” to development (Dolnośląskie, Wielkopolskie, Zachodniopomorskie and also, with some reservations, Śląskie and Pomorskie). Mazowieckie or, in fact, only the Warsaw agglomeration remains the absolute leader as the only one able to compete at a European level even if not in the first line of metropolises. In the case of western Poland, not all areas will achieve equal benefits. Prompt development should not be expected in wide and weakly populated regions of Middle Pomerania¹³¹ or the Lower Silesian Forests. Restructuring of copper mines in Lower Silesia, dangerously dependent on unstable global copper markets could prove costly. The fate of Pomorze also depends, to a degree, on the situation in the global market. Accelerated development is unlikely to occur in the Lubuskie voivodship devoid of a growth center and located in the shadow of Berlin and – with appropriate proportions maintained – Poznań. The situation is similar for the Opolskie voivodship. The Śląskie voivodship, despite strong growth impulses, will bear the costs and experience the consequences of restructuring in mining, metallurgy and the heavy industry sectors for many years.

¹³⁰ In this book, Paweł Samecki writes about financial transfers from the Union in more detail.

¹³¹ That is eastern parts of Zachodniopomorskie and western parts of Pomorskie voivodships.

Accession will increase the chance for development in the Kujawsko-Pomorskie, Małopolskie and Łódzkie, thanks to their future connection to trans-European transportation routes (communication opening). Their development will depend to a great extent on the ability to launch internal growth mechanisms and use their resources in a better way.

Accession benefits will appear at a relatively late date and to a smaller degree in the eastern voivodships of Poland: Podlaskie, Lubelskie, Podkarpackie, Świętokrzyskie and Warmińsko-Mazurskie (also eastern Mazowieckie). The main reasons include disadvantageous economic structure, load from subsistence farming, low quality of human resources and the resulting low income level and low competitiveness of these regions. Due to the low level of development of neighboring areas of Belarus, Ukraine and Russia, the border will not stimulate growth – just as it is today.

It has to be stressed that, in the first membership period to 2006, accession will not (because it cannot) bring about any visible changes in the level and nature of differences between regions. National demand, the inflow of foreign investment or structural funds will not yet have any perceivable influence on regional economies although they will have a share in the creation of foundations for future growth in the medium term. This cumulative effect will undoubtedly be perceivable later in the whole country but development processes will not progress evenly.

The uneven speed of development will result from a few interrelated factors.

Firstly, from the structure of regional needs resulting from an inherited development level and social structures. These special needs exist in eastern voivodships, weakly urbanized, economically dependent on rural areas and agriculture, with low quality human resources, weak institutional development and a resulting low investment appeal. The level of backwardness generates needs they will be unable to meet in full with the use of internal funds and there is no guarantee that they will be able to absorb external funds. The backwardness of these regions also results in pressure on investment in the communal infrastructure having only slight influence on the improvement of their competitiveness.

Secondly, from differences in internal income and the freedom of investment decisions. More poorly developed eastern voivodships (except for Warsaw) cannot think of independent financing of their development policies or even of co-financing of the Union's structural policy projects without budgetary support.

Thirdly, from differences in economic attractiveness and competitiveness. The analyses of foreign investments show that investors have precise expectations and generally prefer large agglomerations or western and south-eastern voivodships. The backwardness of the eastern voivodships makes them an unattractive partner for the majority of external investors while their peripheral location, far from modern communications routes and dynamic economic centers consolidates this situation.

Fourthly, taking into account the structure of aid funds of the Union and their assignment in Poland in 2004–2006 we can see that they will first of all promote accelerated development in western areas (perhaps except for the Lubuskie) and southwestern of Poland as well as agglomerations although their effects will be seen only after 2007 due to the duration of investments. If we analyze the structure of outlays planned within the framework of structural funds and prerequisites of their availability (many requirements from the administration and co-financing from national and private funds) we can see that they will be more easily used by the richer, better managed western regions and especially the agglomerations, which even today generate the majority of investment projects of supra-local importance. Rural areas, especially in the east of Poland, will soon be threatened – not only for financial reasons – with low absorption of external funds for purposes other than local infrastructure. However, the structure of outlays of structural funds in the National Development Plan seems to be the reflection of the paradigm of favorable influence of infrastructure construction on regional development, which is a disputable thesis at present.

Unfortunately, expenditure planned by weakly developed voivodships within the framework of the National Development Plan only slightly consider the basic problem of the most backward (probably not only) Polish voivodships, i.e. the low quality of human resources and low innovativeness. It seems that their attention is still concentrated on infrastructure projects and not necessarily those of strategic importance.

As for the funds assigned to the development of rural areas, they will be unable to overcome the backwardness of rural areas or the peripheral nature of, in particular, eastern Poland while improving the quality of the local economy by means of their modernization and infrastructure improvement. Direct subsidies made available to farmers in part or in whole without a specification of purpose and prerequisites for utilization but in small amounts will improve their quality of life but are unlikely to promote investment and development – especially in the so-called simplified system. Thus, there are no grounds to believe that direct payments will significantly promote restructuring and the development of farms and even if they do, their influence will be indirect and only on highly-productive farms.

The analysis of the purpose of the Cohesion Fund (trans-European transportation networks and large environmental projects) also shows that their main beneficiaries will include large investment projects implemented in large cities or – in the first place – regions through which fast railway routes and highways connecting the main economic centers of the country with the economic center of the European Union, will pass. Thus, these regions located to the west of Cracow and Warsaw and regions relatively closest to the border with Germany will be first to achieve benefits. Taking into account the time-consuming character of large investments in the infrastructure and their cost (including the cost of necessary additional financing) a relocation of the wave of benefits to eastern voivodships in the medium term is unlikely. What is more, the development problems of these regions can be a reason why there will be no economic stimuli for the further development of a costly infrastructure to the east.¹³²

Summing up, impetuous economic processes promote the accelerated growth of differences between the regions, especially sub-regional differences. Accession to the European Union will promote this phenomenon with the expiry of transitory periods. It will also be promoted by the necessary reform of public finances, the mitigation of fiscal policy and a liberalization of the labor market, i.e. institutional reforms that can be postponed no longer. Activities of structural policy in Poland, at least initially and in the medium term, will not play the role of a substantially differentiating factor as a/ they will include all regions (because all of them have an income considerably below 75% of average income in the Union) and b/, the accumulated effects will appear in 5–10 years. The adopted principles of the division of funds give preference to particularly backward areas threatened with unemployment but the instruments suggested for 2004–2006 and their application which largely ignores the specificity of individual regions do not allow us to believe that any further increase of differences in the agglomeration-rural areas and the east-west aspect can be avoided in the near future. The individualization of development strategy in voivodships – especially with such a high centralization of public finances – is a true challenge.

The unquestionable economic benefits (and not only) of accession to the European Union will not be perceivable everywhere in the foreseeable future. Most disillusioned regions will be those located in the east, for whom integration will soon be associated with reforms on the Polish side (especially KRUS¹³³) as well as the expected further reform of the common agricultural policy (i.e. limitation of outlays for agriculture).¹³⁴ Some authors forecast deep crises in parts of

¹³² Political considerations as well as those related to NATO membership can be important though (eastern NATO border).

¹³³ KRUS is a social insurance fund for (mostly) farmers; heavily subsidised by the State.

¹³⁴ *Ma być prościej i sprawiedliwiej*, Rzeczpospolita 23.01.03.

the eastern sub-regions.¹³⁵ The 2007–2013 period could become a period of a much delayed and painful restructuring of Polish agriculture. And here again, it will be so especially in eastern Poland where the transformation is the least advanced.

Contemporary literature on the subject stresses that among factors determining the success of regions in the competition for resources, those related to a particular territory play a growing role: division of some values by the community of a region, the willingness and ability to establish cooperation to achieve common objectives, the ability to create networks of co-operating institutions and persons, in the formal and informal aspect, in the public and non-governmental sector. The importance of civic society institutions for the “enforcement” of efficient and responsible actions of the authorities is stressed. Fundamental importance is ascribed to the optimization of use of regional resources as the basis for development. It is stressed that only the ability of regional authorities to use internal resources creates bases for absorptive capacity and allows effective competition for foreign investment or other external resources. Good management of the region founded in the partner, strategic establishment of regional objectives is the key factor in influencing conditions of economic activity, attitudes, expectations and behavior of its units as well as external actors interested in commercial exchange, investment or other forms of economic cooperation. Elements of concepts cited and widely described in the literature considerably draw from long observed changes in investment location factors leading to the decline of former growth economy paradigms.¹³⁶ Analyses of the effects of cohesion policy in the European Union confirm the thesis that even a mass inflow of aid funds to a country (region) is not sufficient to initiate and accelerate development processes¹³⁷. An efficient elite may prove to be the hope for weakly developed regions. Will these regions be capable of selecting such an elite?

Thus, taking into account all the factors mentioned in the analysis that could substantially influence the consequences of accession for Polish regions it would be no exaggeration to state that until 2013, it will be mainly the western agglomerations and regions which will take advantage of accession (i.e. areas with most advanced transformation) although the first visible benefits will appear only in the medium term. No visible acceleration in the development of eastern areas awaiting economic and social restructuring will take place in the short or medium term. Accession will allow serious reduction in its costs and the counteracting the most painful symptoms (unemployment, social marginalization) but it will not initiate internal growth mechanisms – it can only support their establishment.

The worst solution for Polish eastern voivodships would be to remain outside the European Union. For western agglomerations and regions, it would only (?) entail the deceleration of the development processes (limited access to capital, etc.) but for the east of Poland (except for Warsaw), it would, in fact, mean stagnation and a progressive deterioration of the situation in many sub-regions. Silesia, environmentally degraded and still burdened with mining and heavy industry, would feel the consequences of foregoing accession most painfully. Without the structural aid of the European Union, the inflow of private investment and technology based on knowledge, the cost of economic modernization and the increase in standards of living could be too great not only for them but also for the whole country.

Accession will be advantageous only on condition that Poland implements the necessary institutional reforms. Experience of cohesion (less developed) countries of the EU shows clearly that their entry to the path of growth took place not at the moment of accession but later,

¹³⁵ B. Kawalko, *Skutki przystąpienia Polski do Unii Europejskiej na przykładzie regionu zamojskiego*, photocopy., European Center in Natolin, Warsaw 2002.

¹³⁶ See: T.G. Grosse, *Przegląd koncepcji teoretycznych rozwoju regionalnego*, in: *Studia Regionalne i Lokalne*, EURORREG UW and the Polish Section of RSA, No 1/2002.

¹³⁷ *Unity, solidarity, diversity for Europe...*, op. cit. See: T.G. Grosse, *Europejska polityka rozwoju regionalnego. Przykład Irlandii, Włoch, Grecji i wnioski dla Polski*, Instytut Spraw Publicznych, Warsaw 2000.

when institutional reforms had been implemented. The hope that accession can solve Polish development problems without any effort on our part is wishful thinking. We cannot forget that Poland is, in fact, completely integrated economically with the Union but has no influence on its economic decisions and only accession will allow us to have a share in their modification with due consideration to national interests.

5. Polish Legal System in Light of Membership Within the EU – Losses and Gains

Maciej Szpunar

Introduction

The definition of the legal system covers not only the legal norms, but also the principles behind the application and enforcement of these norms. This means that when analysing the impact of membership in the EU on the Polish legal system, we should take into account the changes relating to the sources of the law (I) as well as all aspects concerning the functioning of the courts and the administration (II).

This module will not analyse the individual fields of the EU laws (this is covered by detailed modules), but a general evaluation will be performed.

I. Sources of the Law

1. Consequences of Poland's Accession to The European Union

Poland's accession to the EU will cause that the domestic legal order, as defined in the Constitution (art. 87 par. 1 of the Constitution of the Republic of Poland), will be supplemented by the legal order of the European Union based on the founding treaties as well as on the secondary legislation enacted by the institutions of the European Union. We can boldly hypothesise that this event will have a revolutionary impact on the sources of Polish law.

We should point out from the start that the term “European Union law” or the “European Union's legal system” covers two different categories of legal regulations. On the one hand, we are dealing with an autonomous legal order covering the first pillar of the European Union which

is primarily based on treaties establishing the European Community (EC) and establishing the European Atomic Energy Community (Euroatom) and the legal acts adopted by the Community institutions (Community law). By virtue of the principle of direct effect and supremacy, this legal order profoundly influences almost all types of legal relations in the Member States.

On the other hand, the legal instruments shaping the second and third pillar of the EU should be evaluated in a different way. In this case, the functioning of both pillars is based on institutionalised international cooperation rather than on instruments shaping the autonomous legal order. The contrasting of both categories of legal instruments corresponds to the division of the methods of integration, as stipulated in the literature, into a community method and an intergovernmental method.

a) Catalogue of Sources of the Community Law

Among the sources of the Community Law we can distinguish the sources of primary law and of secondary law.¹³⁸

The community primary law includes:

1. The Treaty on European Union, the Treaty establishing the European Community and the Treaty establishing the European Atomic Energy Community, together with the amending and supplementary treaties, as well as protocols and annexes attached to them.
2. General principles of law.

The accession treaty will be particularly important to Poland as it constitutes the legal basis for a candidate country's accession to the European Union.

The Community secondary law includes:

1. International agreements concluded by the Community.
2. Legal acts adopted by Community institutions in accordance with art. 249 of EC (art. 161 Euroatom):
 - a) **regulations** – these are legal acts directly applicable in all Member States; their nature corresponds to the Polish “statutes” (“ustawy”);
 - b) **directives** – these are legal acts which oblige the domestic legislators to adapt the internal laws to the provisions stipulated in them (in other words, a directive is a “specimen” for legislators in Member States);
 - c) **decisions** – these are legal acts individually addressed to specific subjects (these can include Member States or natural or legal persons); their nature corresponds to the Polish “administrative decisions” (“decyzje administracyjne”);
 - d) **recommendations and opinions** – these are non-binding legal acts which should be taken into account in the law enforcement process.

b) The Principle of Supremacy

One of the foundations of the European integration is the supremacy of the Community law over the domestic law. We should point out though that this principle is understood differently by the European Court of Justice and differently by the courts – mainly constitutional ones – of the Member States.

Without going into details of the doctrinal disputes regarding the meaning and the scope of application of the principle of supremacy¹³⁹, the position of the Court of Justice is based on the following assumptions:

¹³⁸ See M. Ahlt, M. Szpunar, *Prawo europejskie*, Warszawa 2002, pg. 22 and the following.

¹³⁹ See A. Soltys, *Spór o zasadę supremacji* [in:] *Studia z prawa Unii Europejskiej*, ed. S. Biernat, Kraków 2000, pg. 13 and n.; C. Mik, *Europejskie prawo wspólnotowe*, Warszawa 2000, pg. 550 and n.; M. Ahlt, M. Szpunar, *Prawo europejskie*, Warszawa 2002, pg. 36 and n.; S. Biernat [in:] *Prawo Unii Europejskiej*, ed. J. Barcz, Warszawa 2002, pg. 230 and other.

- a. The principle of supremacy does not stem from the constitutions of the Member States, but has its roots in the Treaty itself. This means that the supremacy of the Community Law over the domestic law is independent of how the domestic law regulates the relation of the international law to the domestic law.
- b. The functioning of the principle of supremacy is independent of the moment the Community Law or the domestic law comes into force (a provision of the Community Law takes precedence over a previous as well as a future domestic provision).
- c. The principle of supremacy applies even to the constitutional norms of the Member State.
- d. The supremacy of the Community Law over the provisions of national law does not render the later invalid. It requires that a Community provision be applied instead of a conflicting national provision.
- e. Although non-compliance with the Community law does not result ipso iure in invalidity of the domestic provisions (see item d), Member States should repeal such provisions in order to ensure the transparency of the legal system.
- f. The obligation to apply a Community provision and to set aside the contradicting domestic provision must reside within the competence of the body(ies) responsible for the application of law in each Member State.
- g. The body responsible for the application of law must be empowered to determine discrepancies between Community Law and domestic provision independently of any decision of another body (e.g. the constitutional tribunal) and to refuse to apply a domestic provision that does not comply with the Community law.

The above-indicated understanding of the principle of supremacy deviates from the views represented by the highest judicial bodies of such Member States as Germany, France or Italy to name but three. It is not possible at this time and place to make a detailed analysis of each legal system found in the European Union. However, we should point out that there are such Member States, in which the courts of highest instance have easily adopted the principle of supremacy in their jurisprudence (Belgium for instance).

Conclusions for Poland

There is no doubt that Poland – future member of the European Community – will have to make full application of the principle of supremacy. This means that should there be a conflict between the tenor of the domestic legal norm and the tenor of the Community law, a Polish court or an administrative body will have to apply the Community law. We should expect that although the binding force of the principle of supremacy will not cause significant controversies, its doctrinal justification will not be unequivocal. As we mentioned above, the case law of the Court of Justice presents a view that the principle of supremacy results from the Community law itself, whereas pursuant to the views presented in the case law and doctrine of law of some Member States, the supremacy of the Community law has its roots in the domestic constitutions.

Referring the said controversies to Poland's future membership in the EU we should point out that even if we are to fully adapt the stance of the Court of Justice, then the justification for the principle of supremacy should be sought also in the Polish Constitution. This is necessary to maintain a cohesive hierarchy of the sources of law in Poland, to properly identify the role of the Community law and to establish possible limits on the supremacy of the Community law.¹⁴⁰

As for the principle of supremacy with respect to the Treaties (Community primary law), it stems from art. 91 par. 2 of the Constitution of the Republic of Poland, which stipulates that "An international agreement ratified upon prior consent granted by statute shall have precedence over statutes if such an agreement cannot be reconciled with the provisions of such statutes".

¹⁴⁰ S. Biernat [in:] *Prawo Unii Europejskiej*, pg. 237.

Other provisions pertain to the principle of supremacy with respect to the sources of law adopted by the institutions of the European Union (Community secondary law). A supplement to the said provision is art. 91 par. 3, according to which, “if an international agreement constituting an international organisation, ratified by Poland, so provides the law enacted by it shall be applied directly, **having priority should there be a conflict with the statutes**”.

Special attention should be given to an evaluation of the principle of supremacy with regards to the norms contained in the Constitution of the Republic of Poland. In this case the case law of the Court of Justice, which absolutely extends the principle of supremacy over the norms contained in the constitutions of the Member States, clearly differs from the solutions stemming from the Constitution of the Republic of Poland. Provisions of art. 91 par. 2 and 3 of the Constitution of the Republic of Poland stipulate the priority of an international agreement and the law created by an international organisation **exclusively over the statutes**. It seems thus that after Poland joins the EU, the provisions of the Community law will not have priority over the Constitution of the Republic of Poland.¹⁴¹ This conclusion is confirmed by art. 8 of the Constitution of the Republic of Poland, which expresses a fundamental principle that the Constitution is the highest law of the Republic of Poland. The primacy of the Constitution over the Community law can also be sought in art. 188 item 1 of the Constitution of the Republic of Poland, pursuant to which the Constitutional Tribunal has the right to adjudicate the conformity of “international agreements to the Constitution”.¹⁴²

It is difficult at this point to predict what stance the Constitutional Tribunal will take on this issue after Poland joins the EU. Despite the fact that the Constitution of the Republic of Poland expresses its supremacy over international agreements in many instances, we should not expect that the absolute supremacy of the Constitution over the Community law be adopted. Such a stance would constitute clear evidence that the foundation upon which the case law of the Court of Justice is established is being questioned. This could result in political complications. No constitutional court in the Member States has allowed itself to make such a radical statement in this matter. On the other hand, the Constitutional Tribunal will not make a judgement on absolute subordination of the Constitution of the Republic of Poland to the Community law, since it would clearly conflict with the tenor of the Constitution itself.

c) Principle of Direct Effect

The principle of direct effect of the Community law means that the provisions of this legal order can create rights and impose obligations on individuals.¹⁴³ The practical meaning of this principle can be expressed in that the individuals are entitled to invoke directly Community law before national authorities.

It should be pointed out that similarly to the case of the principle of supremacy, the case law of the Court of Justice has taken a stance that direct effect has its roots in the Community law itself, and not the constitutional norms of Member States concerning the rules on applying international law in the domestic legal order.

Conclusions for Poland

It seems that, in light of the provisions of the Constitution of the Republic of Poland, the principle of direct effect of the Community law does not raise any objections. Where the

¹⁴¹ See. K. Wójtowicz [in:] *Prawo Unii Europejskiej*, pg. 428 and 429; C. Mik, *Europejskie prawo...*, pg. 815; L. Garlicki, *Członkostwo Polski w Unii Europejskiej a polskie sądy* [in:] *Konstytucja dla rozszerzającej się Europy*, ed. E. Popławska, ISP, Warszawa 2000, pg. 210 and the following; K. Wojtyczek, *Konstytucyjno-prawne aspekty członkostwa w Unii i Wspólnotach Europejskich* [in:] *Akcesja do Unii Europejskiej a Konstytucja Rzeczypospolitej Polskiej*, ed. H. Zięba-Zalucka, M. Kijowski, Rzeszów 2002, pg. 102. Also: R. Szafarz, *Międzynarodowy porządek prawny i jego odbicie w polskim prawie konstytucyjnym* [in:] *Prawo międzynarodowe i wspólnotowe w wewnętrznym porządku prawnym*, (ed.) M. Kruk, Warszawa 1997, pg. 34.

¹⁴² Similar correlation ensues from art. 133 par. 2 of the Constitution of the Republic of Poland.

¹⁴³ S. Biernat [in:] *Prawo Unii Europejskiej*, pg. 243.

provisions of the treaties are concerned, the obligation of direct application thereof results from art. 91 par. 1 of the Constitution of the Republic of Poland. Whereas the Community secondary law will be directly applied by virtue of art. 91 par. 3 of the Constitution.

d) Legislative Powers After Accession to the European Union

Poland's accession to the EU will have consequences related to legislative powers of public authorities. On the one hand, the legislative competencies of the Polish Parliament will be reduced and, on the other hand, Poland will start participating in adopting the laws of the Community and the European Union. Membership in the EU is also associated with the obligation of further harmonisation and unification of law.

2. Consequences of Poland's Non-Accession to the European Union

a) Continuity of the Current Legislative Measures.

Pondering over the issue of the sources of the Polish law while assuming that Poland will not join the EU, it should be pointed out that the Polish legal system is currently significantly adapted to the European law. A decision not to join the EU will result only in the fact that Poland will not be obliged to adapt itself to the Community law, which will enter into force in the future.

In an attempt to predict the consequences of non-accession, one fundamental question should be answered whether the current process of adaptation is permanent.

It seems that in a predictable future we should not expect that a significant portion of the achievements of the Polish legislator will be abolished. This means that the Polish legal system will remain – particularly as regards economic law – a modern system. Potential changes will pertain to those regulations, which result in negative economic consequences for our country, and which were necessary to abide by the requirements of the single market.

b) Legislative Powers After a Decision to Remain Outside the European Union

Rejection of membership in the European Union should not result in a blockage to the reform of the Polish legal system. Experiences show though that possible reforms would be only of a partial nature. The factor that determines the current measures taken by the Polish legislator is membership in the EU in the end. This factor causes support for the adaptation process by all pro-European political forces, which currently constitute a majority in the Parliament. It is hard to imagine that a reform on such large scale would be possible if this factor were missing.

While attempting to predict the direction of the measures of the Polish legislator should a decision be made to remain outside the EU, two elements can be pointed out:

On the one hand, Poland will be forced – even partially – to adapt itself to the laws regulating the functioning of the single market. Otherwise, we would become a country that would not be very attractive to foreign investors, who, in order to operate on our market, would have to overcome the problems ensuing from different regulations regulating business in Poland. If we are to assume that other countries of our region would become members in the EU and would participate in the single market, Poland could not afford to determine on its own how the economic law should look like. It should be pointed out here that Poland would have to adapt itself to the legal regulations, on the adoption of which it would have no influence as a non-member.

On the other hand, Poland would avoid applying these laws of the single market, which limit the possibility of supporting its own economy. We are considering mainly the competition law, state aid for entrepreneurs, the customs law or subsidising of agricultural production. However, it should be noted that such measures would cause a reaction of the other party (imposing of

anti-dumping charges or quantitative restriction of trade), which would significantly hamper the export of Polish goods and services, and would result in a negative impact on our economy.

It seems that a variant should be ruled out where Poland, should it decide not to join the EU – like Norway or Iceland – becomes a member of the European Economic Area and thus becomes obliged to abide by the significant portion of the single market regulations. First of all, it is unsure whether the other party would express such readiness. Second of all, it would not be beneficial from the Polish point of view. It would mean a need to adapt a majority of the single market regulations – including those, which weaken the Polish economy – without being able to have a say in the formation of these regulations. In other words, it would mean participation in the single market almost to the same extent as participation of the Member States, with the difference that we would not take advantage of such membership privileges as participation in the creation of the law or financial support.

3) Final Remarks

The deliberations presented herein show that Poland's membership in the EU will guarantee that the reform of the Polish legal system will be continued. We will have a guarantee that all legal regulations being in force in Poland – domestic and Community laws alike – will be based on proven solutions adopted by the most developed countries. The fact that uniform legal regulations will cover the whole of Europe will facilitate trade and free movement of people. It seems, then, that the final balance sheet of losses and gains unequivocally speaks in favour of a decision to join the European Union.

II. Polish Courts and Administrative Authorities in the Perspective of Membership in the European Union

1. Consequences of Poland's Accession to the European Union

a) Principles Concerning Application of the Community Law

The moment our country joins the European Union, Polish law enforcement bodies – courts and administrative authorities – will also be responsible for applying the Community law.

The Community law contains mainly legal norms of a substantive nature. Its provisions define only rights and obligations of individuals, but do not provide for the appropriate remedies (e.g. which bodies are responsible for the application of the Community's provisions and what procedure is to be followed). It is settled case law of the Court that in the absence of appropriate remedies it is for the domestic legal systems of each Member State to designate the courts having jurisdiction and to determine the procedural conditions governing actions at law intended to ensure the protection of the rights which citizens have from the direct effect of Community law¹⁴⁴ (**the principle of procedural autonomy of the Member States**¹⁴⁵). The Community law stipulates the procedural regulations only in specific cases (e.g. the European Customs Code in the form of a decree).

¹⁴⁴ For instance, if a natural person will claim damages for a damage caused by a Polish state authority resulting from action that violates the Community law, the conditions for liability will be stipulated in art. 417 and the following of the Polish civil code, and court proceedings will take place according to the Polish civil procedure. Similarly, if a domestic body (e.g. a Polish treasury department) levies a tax on taxpayer X, and then it is determined that this tax does not comply with the Community law, the rules concerning reimbursement of that tax will be governed by the domestic law (e.g. in Poland it is the tax ordinance and the code of administrative proceedings).

¹⁴⁵ See M. Ahlt, M. Szpunar, *Prawo europejskie*, pg. 70.

The principle of procedural autonomy defined in this way has a double limitation:

- 1) The applicable national procedural and remedial rules must not be less favourable than those governing similar domestic actions (**principle of non-discrimination**)¹⁴⁶.
- 2) The applicable national procedural and remedial rules must not render virtually impossible or excessively difficult the exercise of rights conferred by Community law (principle of effectiveness).

Application of the Community law by the courts of Member States is facilitated by the institution of preliminary references. It gives a possibility for national courts to ask the Court of Justice to give the ruling on the interpretation of Community law or on the validity of the acts issued by the Community institutions.

Conclusions for Poland

- Polish courts and administrative authorities will be responsible for the application and enforcement of Community law;
- Polish courts and administrative authorities will apply Polish procedural regulations;
- The application of Polish procedural regulations can be excluded if they are proven to be discriminatory or if they render the enforcement of Community law “practically impossible” or “excessively hindered”;
- The Community law should be applied ex officio;
- Regardless of the duty to apply directly effective provisions of Community law, Polish courts and administrative authorities will be responsible for interpreting the domestic law in such a way, so that the result thereof is closest to the tenor of the Community law (principle of pro-community interpretation of the law);
- Polish courts (but not the administrative authorities) will be able to refer to the Court of Justice for preliminary rulings, the subject of which will be the interpretation or evaluation of validity of the provisions of Community law.

b) Practical Aspects of Application of the Community Law

Numerous problems, which the Polish law Polish courts and administrative authorities can come across during the first few years of membership, will be of a practical nature. First of all, we should point to a lack of knowledge of European law and the principles of use thereof by Polish judges, officials or entities providing legal services (lawyers and legal counsellors).

Significant complications will ensue from impeded access to the sources of the Community law¹⁴⁷. Lack of official and publicly available texts of the legal acts will be felt in particular. We should expect that preparation of the Polish version of the Official Journal of the European Union will be a slow process, and we don't even know if it will cover all legislation in force.

Application of the Community law by Polish court and administrative authorities will require access not only to the sources of the law, but also to a rich jurisprudence of the European courts. It is doubtful that in the first few years of membership a Polish version of the “European Court Reports” (*Recueil in French*) will be published, which would cover the case law prior to the accession of Poland to the EU (it is worth pointing out that publishing of the full Swedish and Finnish versions was abandoned, that is in the languages of the countries which joined the EU in 1995). Even if unofficial translations of the European case law appear, they will contain only some of the more important judgements.

¹⁴⁶ For instance, if a given person requests reimbursement of the tax levied in contradiction to the Community law, then the domestic procedural regulations cannot be less favourable for that person than if the tax was collected in violation of the domestic law.

¹⁴⁷ E. Łętowska, *Sędziowie wobec prawa europejskiego [in:] Konstytucja dla rozszerzającej się Europy*, ed. E. Popławska, ISP, Warszawa 2000, pg. 235.

Problems related to negative “habits” of judges and officials can be significant. The tendency to refer to the literal tenor of the regulations present in Polish judicature (“text-centrism”)¹⁴⁸ may hamper Polish courts in enforcing the principle of supremacy of the Community law, which requires that the law enforcement body make an individual evaluation of how the domestic acts comply with the Community law. Quite often the discrepancy between both legal systems may not ensue directly from the tenor of the provision, but it may become necessary to refer to the functioning interpretation of the Community law¹⁴⁹.

Conclusions for Poland

The above indicated threats may cause that the efficiency of the Polish judicial system will deteriorate in the first few years of membership. With time, however, and as the Community law is “accepted” by the law enforcement bodies, the situation should start improving. The fact that ever more legal entities (e.g. entrepreneurs, employees or consumers) will invoke the Community law before the courts and administrative authorities will not be left without an echo. It will cause that the judges and officials will be “forced” to become better acquainted with the Community law and how it is applied.

Functioning of the Polish judicial system and administration in the European Union may also entail other changes. We should mention that the reports of the Commission on the progress of the candidate countries point to lengthy proceedings, insufficient financing and corruption in the judicial system and administration. Membership in the EU is not just an opportunity to acquire additional funds to support both institutions. We can expect that the political pressure exerted by the Community institutions and Member States can result in Polish authorities adopting more assertive measures than they have currently to eliminate these negative phenomena. Experience of other Member States in this field will play an important role.

A great challenge for Polish law enforcement bodies will be participation in cooperation related to justice and home affairs (the former third pillar of the European Union). This will result in “internationalisation” of the Polish judicial system through cooperation in joint undertakings and the related exchange of experiences. First of all, opening up of the courts and administration to institutionalised international cooperation will result in a more effective fight with all types of organised crime, will facilitate a free movement of people and will improve the position of participants in the single market.

2. Consequences of Poland’s Non-Accession to the European Union.

Poland’s decision to stay out of the European Union will cause that Polish courts and administration will function under similar conditions as today. We will surely avoid revolutionary changes which will surely be brought about by integration with the EU.

However, staying out of the European Union may cause negative phenomena, currently observed in the judicature and administration, to be strengthened. We are considering, primarily, the length of proceedings, financial incapacity and corruption. We should also expect that the European standards of functioning of the courts and administration will permeate Poland in a much slower fashion. Another factor, which in recent years constituted an extremely significant reason for the reforms begun in the judicial system and its administration, will cease to exist. This factor was the political pressure exerted on Poland as a contender for future member to the European Union.

If Poland remains outside the EU, we can doubt whether Polish authorities will be interested in continuing the reform of the Polish judicature and administration. It seems that

¹⁴⁸ See E. Łętowska, *Sędziowie wobec prawa europejskiego...*, pg. 235 and other.

¹⁴⁹ A. Wyrozumka, *Członkostwo w Unii Europejskiej a sądy polskie [in:] Konstytucja dla rozszerzającej się Europy*, ed. E. Popławska, ISP, Warszawa 2000, pg. 222.

these issues could drop further down the list of political interest, consequently losing priority alongside political will.

Rejection of membership in the EU will also result in isolation of the Polish judicial system and administration. Poland will then be deprived of the benefits ensuing from participation in cooperation related to justice and home affairs.

3. Final Remarks

It appears that the balance sheet reflecting gains and losses of EU membership is less clear as regards the functioning of the courts and administration than to the sources of the law. It is undeniable that the functioning of two legal orders in Poland (domestic and the Community's) will constitute a change of almost revolutionary nature, which will surely have a negative effect on the efficiency of the judicial system and administration in the initial stages of membership. Nevertheless, a careful analysis of all consequences of membership allows us to assume that these problems will be temporary and in the end the Polish judicial system and administration will become more efficient and will adapt themselves to the needs of the modern world. One should be aware that rejection of membership in the EU may mean a total forfeiture of the opportunities to reform Polish courts and administration.

6. Agriculture – Costs and Benefits of Poland’s Membership in the EU

Janusz Rowiński

1. Scope of the Study and Definitions of Key Words.

This study is of a sectoral character, which means that the analysis hereunder centers around Polish agriculture, the necessary costs to be encountered by the sector as well as its likely benefits following Poland’s joining the European Union (hereinafter referred to as EU).

The term ‘cost’ is used in a narrow as well as broad sense of the word. In the narrow sense the cost includes financial expenses resulting from Poland’s joining the EU. The costs of membership are not easy to determine, because it is simply impossible to make a clear-cut division between the expenses, relating to the adjustment of Polish economy to the EU requirements (i.e. full execution of *acquis communautaire* in the area of economy), and the general costs of economy modernization and transition from the system of central planning to the system of market economy. Any division of costs into costs of integration and costs of modernization is thus arbitrary. What makes it all even more difficult is the implication that a lot of *acquis communautaire*-driven activities within agriculture and agri-food sector are to result in the observance of health, veterinary, plant-health, environment protection and animal welfare standards currently in force in the EU.¹⁵⁰ There are objections to consider all these activities as exclusively or mostly adjustment-related ones simply because Poland would, most probably, introduce these or similar standards even if it remained beyond the EU structures, the EU membership being only as a catalyst of this process.

The assumption that the costs of modernization do not constitute the adjustment costs minimizes the costs of membership in a narrow scope of the meaning.

The broad sense of the term ‘costs’¹⁵¹ includes the costs in the narrow sense plus the loss of the expected or existing benefits. Such a loss results from various economic policy mechanisms

¹⁵⁰ The problem under consideration does not relate exclusively to agriculture and agri-food industry, but also to other sectors of economy, e.g., are the costs of constructing sewage treatment plants in localities exceeding 2 thousand inhabitants to be included within the costs of integration or within the costs of environment protection, which Poland should bear even if it did not intend to join the EU?

¹⁵¹ When defining costs in the broad sense a parentheses has been used; cost is always linked with financial expense. Further on the parentheses were abandoned but one should remember about a special character of costs within the broad sense of the word.

as well as from broadly understood EU social policy, which shall apply in Poland after it has become a new Member State, including most of all the Common Agricultural Policy (CAP). One may speculate that certain costs understood in the broad sense of the word would be better described using the term ‘risks’. Although the mechanisms limiting the expected benefits do not directly generate financial expenses, their monetary ‘value’ may often be estimated. In food economy such estimates are possible in the case of mechanisms resulting, *inter alia*, in (1) partial loss of Polish food market by Polish agriculture and Polish agri-food industry as a result of Poland’s entering the Single European Market and (2) the necessity to abide by production quotas in certain sectors of Polish agriculture and Polish agri-food industry.

The second key word used in this study is the term ‘benefits’ which, as well as costs, may be understood in a narrow or broad sense. In order to achieve the greatest possible compliance of the two meanings the benefits in the narrow sense of the word include financial benefits. Thus, these are funds which Polish food economy may obtain from the EU budget, as well as funds from other sources (most of all from the Polish budget), which are an obligatory supplement of EU funds or are related to CAP mechanisms. Moreover, Polish agriculture, and most of all, Polish rural communities, shall benefit indirectly from structural measures intended for rural areas.

Benefits in the broad sense include the benefits in the narrow sense of the word as well as economic policy mechanisms improving the situation of Polish food economy, which shall be adopted by Poland following the EU membership. Their financial effects are often difficult to estimate, e.g. the effect of entirely free access of Polish agri-food products to the agri-food markets of all the other Member States as well as producer price increases following the EU membership. There are also benefits which cannot be assessed, e.g. those resulting from the fact that the CAP assumptions, including basic price parameters, are known a few years in advance. Nevertheless these are obvious benefits, because thanks to covering Polish farmers with CAP regulations the level of uncertainty and risk while taking production decisions shall be much lower than it is now.

This study is first and foremost to be treated as a forecast, just for the reason that Poland is not yet the EU Member State and shall only become one on May 1st, 2004. Thus, it is obvious that only then the benefits resulting from the membership, in both narrow and broad sense, shall start to emerge. Major benefits might fully emerge only in the long- or even very long term.

The issue of costs presents itself in a different way. Activities of Poland aiming at comprehensive preparation for EU membership have been under way at least since a relevant application to this end was submitted on 8th April, 1994. A vast majority of costs in the narrow sense have already been borne or shall be borne in the pre-accession period.

The costs not included to the ‘narrow’ ones shall emerge after Poland’s joining the EU, because it is only then that the mechanisms of economic policy which limit the expected benefits shall start to operate. The influence of some of them (free access to Polish market of agri-food products manufactured in other Member States) shall be felt from the moment of the membership while the influence of the others (some production quotas) shall be visible only after a certain time has elapsed, or maybe even not at all. Future changes of the situation are difficult to predict now. Following the period of changes a new equilibrium shall appear in the foreign trade with agri-food products, especially that Polish economic entities shall adjust to new competition conditions within a certain time. Some production quotas may well be successfully renegotiated if there is a justifiable concern that they might become a real obstacle to the development of Polish agriculture.

The evolution of the EU membership conditions resulting from transition periods is a separate issue. A ten-year long period of gradual coverage of Polish farms with full direct subsidies (payments) shall have the most significant effect on the calculation of benefits in the narrow sense. This transition period influences, to the great extent, also the benefits in the broad sense, because together with reaching the level of full direct payments the competitive position

of Polish food economy on the Single European Market shall be improving. The competitive position of the two important food sectors – meat and dairy – shall be seriously influenced by a transition period during which a major part of production facilities of these two sectors as well as the related farms shall gradually become fully adjusted to the EU health and veterinary standards. Only after the termination of the adjustment period shall Polish meat and dairy industries achieve full capacity to compete. In the light of the above comments, limiting the analysis to a short or even medium term could make it impossible to make a full presentation of costs and benefits. Due to the fact that Poland shall be fully covered with all the CAP regulations only in 2013, it is necessary to forecast certain elements of costs and benefits in the long term, assuming the year 2013 to be the last year of the period considered.

Another key issue for this analysis is to define the term ‘agriculture’. It is impossible to adopt a traditional definition due to the fact that CAP mechanisms regulate not only the functioning of agriculture in the strict sense of the word, but also other sectors of economy. However, even the definition included in the Treaty of Rome does not correspond to the needs of the study and requires a certain modification. This is why the sector of fisheries (sea and inland) has been excluded from the definition along with the whole trade in agricultural products. At the same time the sector of highly processed products has been included because in a lot of agri-food processing plants, including most of all such important sectors as dairy or meat industry, both re-processed as well as highly processed goods are produced, often even on the same production lines.

To sum up: for the needs of the study under consideration the term ‘agriculture’ includes agriculture, the whole agri-food industry as well as institutions servicing both these sectors, such as veterinary services, Agricultural Market Agency or Integrated Administration and Control System.

2. Farm Benefits and Costs

2.1. Production Quotas and Direct Subsidies

The issue of base areas, reference yields and production quotas¹⁵² was one of the two most important negotiation problems within agriculture. The second major negotiation problem in this area included direct payments. They are a key parameter deciding about the profitability and competitiveness of agricultural production, i.e. about benefits and losses.

Prior to assessing costs and benefits concerning the introduction of EU production quotas and other supply managing instruments and direct subsidies in Poland it is necessary to present the results of negotiations in this scope, most of all because the negotiation decisions cover the key data which enable to identify financial flows to be directed to Polish economy as a result of the EU membership (‘narrow’ benefits). Besides, quotas and other supply managing instruments inevitably constitute costs in a broad sense, because in some conditions they can limit the production level, i.e. income before and after tax.

There are various mechanisms of influencing the level of agricultural production in the EU by means of production quotas and other supply managing instruments. The consequences of dairy quota introduction are the most severe. A farmer may not exceed an individual quota or he will be heavily charged. He may, however, escape paying the charge by buying a part of a quota from another farmer who did not use its quota entirely. With such a mechanism a dairy quota is a serious constraint to the development of dairy cattle production, because exceeding the quota hits the farmer directly in the financial sense.

¹⁵² The term meaning production quotas and other supply managing instruments

However, the real severity of this instrument depends on whether the national dairy production is much lower or approaching the national quota. If this difference is significant the quota does not constitute a limit, because then the body administering a national dairy quota has a national reserve and can act freely. If the production is close to or equals the national quota, it then becomes a real production constraint.

The sugar quota is also a significant production constraint, but not such a severe one as the dairy quota. Each Member State has the national A quota (sugar intended for sale in a given Member State) and B quota (sugar to be exported with the help of export refund). However, a sugar processing plant may also produce sugar outside quotas (so called C quota). Sugar produced in this way has to be exported at usually very low world prices. If a farmer collected more sugar beets than it was contracted by the sugar processing plant, then the price to pay for him for the extra delivery of sugar beet is much lower. One should then remember that also the production costs are lower because these are sugar beets collected in profitable ears, i.e. ‘free of charge’.

Supply managing instrument related to field crops works in a different way. A farmer sells cereals, oilseeds and protein crops at market prices and additionally receives direct payments the amount of which is equal to the product of production area, reference yield and the amount of direct payment¹⁵³. Thus, the farmer may, without any limitation, produce cereals, oilseeds and protein crops, however, bearing in mind the two kinds of charges for exceeding the production limit resulting from the product of production area and reference yield. The first charge is due automatically and involves paying a bare market price to the farmer for his extra production, while normally for crops produced within individual supply managing instrument he receives a market price plus direct payment. The second kind of charge applies only when farmers of a given Member State file applications for payments to cover a greater area than a national base area. This charge is a common responsibility because all farmers receive proportionally lower direct payments, disregarding the fact of exceeding or not exceeding the individual base areas.

Also, the remaining quotas (potato starch, dry fodder, raw tobacco, hops, tomatoes for processing, beef cattle and sheep) do not constitute such a severe limitation as a dairy quota. A farmer (or an agri-food processing plant) may exceed a production quota but extra production is not covered with direct payments. The key issue is then to answer the question whether extra production is profitable. A quota does not constitute a limitation if a market price is higher than the costs, and becomes a limitation if the costs exceed market price.

As time passes, the amount of the negotiated production quotas and other supply managing instruments are likely to stronger and stronger determine the level of agricultural production in Poland, the amount of agricultural income and the use of means of production engaged in agriculture.

In its following draft common negotiation positions for Poland the EC consistently presented the opinion that production quotas and other supply management instruments should have been fixed based on the second half of the 90s¹⁵⁴.

The proposals of the amounts of production quotas and other supply managing instruments included in Polish negotiation position were – beside milk – rather moderate. They only made it possible for some subsectors of Polish agriculture and agri-food industry to return to the level of production from the end of the 80s (except beef cattle breeding; in this case Polish proposals were higher).

¹⁵³ Currently EUR 63/t cereals and oilseeds and EUR 72.50 /t of protein fodder crops

¹⁵⁴ Conf. e.g. Accession Negotiations. Poland. Revised Draft Common Position. Negotiations Chapter 7. Agriculture (Horizontal issues, Common Market Organizations, Rural Development) European Commission. Directorate General for Enlargement. Brussels, 15 April, 2002, p. 25.

Poland did not succeed in reaching its negotiation target. The evidence is given in Table 1, where the most important quotas and other production instruments are listed. Consequently the EU forced its position (with a few exceptions), namely that the data from the second half of the 90s should become the basis for calculating production quotas.

It turns out that in two issues there are significant differences between the EU negotiation position and the amounts negotiated. The most important one is the amount of dairy production quota, in particular the division of quota in general into milk sold to dairies and a direct quota. The second quota to be negotiated at a higher level than a real production in the second half of the 90s is the potato starch limit.

Table 1 Important quotas and other supply management instruments as well as other parameters limiting the amount of agricultural production during and after negotiations.

Product group	Polish negotiation position	EU negotiation statement	Negotiated quantity
Field crops general (ha)	9 263 000	9 217 667	9 291 377
Reference area (t/ha)	3,61	2,96	3,00
Potato starch (tons)	262 000	90 546	144 985
Dry fodder (tons)	160 000	0	13 538
Raw tobacco (tons)	55 000	37 933	37 933
Young bulls (units)	2 200 000	857 700	926 000
Suckler cows (units)	1 500 000	325 581	325 581
Slaughter cattle (units)	2 021 000	2 034 300	1 815 430
Slaughter calves (units)	1 017 000	1 200 600	839 518
Sheep	720 000	335 880	335 880
Milk (2004 – tons)	11 845 000	8 875 000	8 964 000
Sales to dairies (tons)	11 183 000	6 956 333	8 500 000
Direct sales (tons)	662 000	1 918 667	464 000
Milk 2008 (tons)	13 740 000	8 875 000	9 380 000
Sales to dairies (tons)	13 176 000	6 956 333	8 916 000
Direct sales (tons)	564 000	1 918 667	464 000
Sugar (tons)	1 866 000	1 665 017	1 674 495
A quota (tons)	1 650 000	1 590 533	1 590 533
B quota (tons)	216 000	74 484	83 961
Isoglucose (tons)	42 200	2 493	6 232
A quota (tons)	40 000	2 493	6 232
B quota (tons)	2 200	0	0

The problem of direct subsidies was one of the most important negotiation issues during the Copenhagen summit (12–13 December, 2002). It was agreed that between 2004–2006 Polish farmers should receive direct payments in the amount of 36%, 39% and 42% of full payments, i.e. higher than previously suggested.¹⁵⁵ This agreement does not mean, however, that Poland shall receive more funds between 2004–2006. The source of additional funds for direct payments are structural funds provided within the EAGGF (European Agriculture Guidance and Guarantee Fund). They will decrease by an amount by which the amount for direct payments has been increased. The EU did not resign from the rule that the EU funds under the heading: ‘structural funds’, must be topped up with national resources of a beneficiary country. Although they have been shifted to the heading under which they should

¹⁵⁵ Results of negotiations by Record Subject: Conclusion of the Accession Negotiations with the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia – Overall final agreement (Copenhagen, 13 December, 2002). Conferences on Accession to the European union of Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovakia, Slovakia. Document 21000/02. Copenhagen 13 December 2002.

be entirely covered from the EU budget Poland is obliged to pay at least 20% extra to the shifted funds. Consequently, the EU shall be paying from its budget the amounts equal to 33.8% in 2004 37.2% in 2005 and 40.6% in 2006. Poland shall be obliged to top them up to 36%, 39% and 42%, respectively. The top-ups from the Polish budget shall thus equal 2.2% of full payments in 2004, 1.8% in 2005 and 1.4% in 2006.

At the same time the EU agreed to allow Poland to provide extra top-ups on direct payments from the national budget up to 55% in 2004, 60% in 2005 and 65% in 2006. If Poland uses this right, the payments from the Polish budget shall be equal to 21.6%, 22.8% and 24.4% of full amount direct payments between 2004–2006.

The timetable for reaching full amounts of direct payments paid from the EU budget between 2007–2013 shall not change; as previously in 2007 they are to reach 40% of the full payments and shall increase in the following years by 10% to reach 100% in 2013. Poland would have the right to top up the direct payments from its own budget in the amount not exceeding 30%. The conclusion is that with the full execution of the right the direct payments received by farmers would be equal to 70% in 2007, 80% in 2008, 90% in 2009 and 100% of full amount of direct payments as of 2010.

The result of final agreements on direct payments is that Polish farmers shall not, as of the day of membership, be covered by all CAP regulations. This will happen only in 2013. By that time they shall operate in different, i.e. worse, economic conditions than farmers of the current EU Member States, which means also worse competition conditions. This state of affairs shall not change even when the amounts of direct payments in the current Member States have changed. In the agreed timetable of covering Poland with full direct payments the participation in full direct payments in the following years is the basic parameter. As a result changes of their amounts in the current Member States shall automatically influence the amount of payments in Poland. The situation will be different only if Poland decides to supply the direct payments from its own budget. With a maximum financial effort of Poland equal competition conditions would be possible in 2010, i.e. three years earlier than it has been provided in the Accession Treaty.

Thus, it turns out that: (1) full integration of Polish food economy shall take place 6–7 years later provided that Polish budget is maximally engaged. The whole range of benefits shall appear only after 2010, and maybe it will not appear at all. (2) First years of accession shall not be representative for the loss and benefits’ account in food economy. Especially in this period ‘narrow’ as well as ‘broad’ benefits shall not emerge or shall not fully emerge. (3) Partial direct payments, and as a consequence, the lack of uniform competitive conditions shall provide for two separate agricultural policies operating within the area of the enlarged EU – one within the current Member States and one covering new Member States, including Poland. (4) Agreement to top up direct payments from the Polish budget only to a certain amount means that current Member States do not allow for uniform conditions of competition in food economy even if a candidate country decides to take the financial burden of unification. (5) The agreement to top up direct payments from own resources may be considered a partial renationalisation of CAP in new Member States.

Lack of uniform competitive conditions does not mean the lack of possibilities to compete. Each exporter whose product is burdened with a customs duty has a worse competitive position in the market of the importing country than a state producer. Hence partial direct payments do not necessarily eliminate Polish agri-food products from the markets of other Member States.

No matter what the proportions between direct payments received by Polish farmers and the EU farmers, and no matter their source (EU budget or Polish budget) they will constitute a stream of cash flowing to Polish agriculture, i.e. they will become benefits in a narrow sense of the word. Estimates concerning the funds to be pumped into Polish agriculture in the form of direct payments have been listed in Table 2. Direct payments were assumed according to 2002

prices, thus the amounts for years 2007–2013 are not given for sure. Most probably in this period a significant change of the way of payment calculation shall take place (uniform direct payment decoupled from production per one farm) as well as the real value of payment paid to bigger farms shall decrease.

The following are comments to Table 2:

- (1) production quotas and other supply managing instruments have been negotiated in such the amount that full direct payments shall, in the decade 2004–2013, reach the total of EUR 26.9 billion (over PLN 100 billion assuming the exchange rate 1 EUR = PLN 3.80), while as of 2007 they will slightly exceed EUR 2.7 billion annually (i.e. almost PLN 10.3 billion). These amounts are a few times higher than amounts foreseen for agriculture in the Polish budget.
- (2) As Poland is gradually covered with direct payments between 2004–2013, EU budget funds shall amount to EUR 16.3 billion. Potential EU budget savings resulting from a decade of covering Polish agriculture with full direct payments shall approximate EUR 10.6 billion.
- (3) Potential direct payments from the EU budget shall be particularly low in the first four years of the membership. Over a half of EU budget savings (EUR 6.5 billion) shall be the result of low potential payment in these three years.
- (4) The negotiated level should be deemed an allowable minimum. Direct payments in the amount of 40% of full payments shall prevent the economic situation of Polish farms from getting worse in comparison with the pre-accession period, and the situation of certain groups of farms shall improve. The only group of farms, the situation of which shall worsen with 40% direct payments, is wheat production farms.
- (5) Although a group of farms shall feel the benefits resulting from the introduction of direct payment mechanism immediately following the membership, a positive effect on the income situation in the whole sector of agriculture shall be clearly visible only as of 2008, when potential direct payments from the EU budget shall reach 50% of full EU payments.
- (6) Polish commitment made in Copenhagen to top-up the funds shifted from heading: structural funds to the heading: direct payments (financial merger of 80% EU funds + 20% Polish funds) constitutes a burden which, however heavy, does not exceed the possibilities of the Polish budget. Between 2004–2006 the due payments shall amount to approx. EUR 140 ml (approx. PLN 530 ml).
- (7) Recently conducted analyses¹⁵⁶ show that the increase of direct payments within the first four years of membership to the amount of 40% of full payments ensures that Polish agriculture shall be capable of competing in the Polish market as well as in the markets of other Member States. However, uniform conditions of competition are not secured.
- (8) Immediate improvement of the economic situation of Polish agriculture as of the first year of accession shall be visible if Poland decides to top up EU direct payments with state payments (to 55% in 2004 and in the following years, respectively to 60%, 65%, 70%, 80%, 90% and 100% of full payments). In such a situation uniform conditions of competition could be possible in 2010.

¹⁵⁶ W. Poczta Szacunki wpływu różnych scenariuszy negocjacyjnych w zakresie płatności bezpośrednich na sytuację rolnictwa polskiego w warunkach integracji z UE (Estimated effects of various negotiation scenarios concerning direct payments on the situation of Polish agriculture in the conditions of integration with the EU) Chair of Food Economy. Agricultural University in Poznań. Date unknown. Typescript. And W. Ziętara, et. Al. Szacunek Skutków wdrożenia różnych scenariuszy integracji z Unią Europejską w rolnictwie polskim po akcesji (Estimated effects of implementing various integration scenarios on Polish agriculture post accession) Chair of Farm Economy and Organisation, Agricultural University in Warsaw, Warsaw, August 2002, typescript.

Table 2 Maximum amount of funds to be directed within 2004–2013 to Polish agricultural sector in the form of direct payments (EUR)

Year	2	3	4	5	6	7	8	9	10
	Full payments	Payments from the EU budget (basic)	Additional payments from the EU budget (Copenhagen)	Payments from the EU budget – total	Payments from Polish budget (compulsory share)	Payments from Polish budget (voluntary top-ups)	Total payments from Polish budget	Total payments	Share of Polish budget in total payments
2004	2 566 263 566	641 565 892	225 831 194	867 397 085	56 457 798	487 590 078	544 047 876	1 411 444 961	0.39
2005	2 592 035 066	777 610 520	186 626 525	964 237 045	46 656 631	544 327 364	590 983 995	1 555 221 041	0.38
2006	2 674 039 766	935 913 918	149 746 227	1 085 660 145	37 436 557	615 029 146	652 465 703	1 738 125 848	0.38
2007	2 727 974 766	1 091 189 906		1 091 189 906		818 392 430	818 392 430	1 909 582 336	0.42
2008	2 727 974 766	1 363 987 383		1 363 987 383		818 392 430	818 392 430	2 182 379 813	0.38
2009	2 727 974 766	1 636 784 860		1 636 784 860		818 392 430	818 392 430	2 455 177 289	0.33
2010	2 727 974 766	1 909 582 336		1 909 582 336		818 392 430	818 392 430	2 727 974 766	0.30
2011	2 727 974 766	2 182 379 813		2 182 379 813		545 594 953	545 594 953	2 727 974 766	0.20
2012	2 727 974 766	2 455 177 289		2 455 177 289		272 797 477	272 797 477	2 727 974 766	0.10
2013	2 727 974 766	2 727 974 766		2 727 974 766				2 727 974 766	0.0
2004-2013	26 928 161 760	15 722 166 683	562 203 946	16 284 370 628	140 550 986	5 738 908 737	5 879 459 723	22 163 830 351	0.27

Comments: column 2 – Payments resulting from multiplying production quotas and the supply managing instruments in full amount by single direct payments; column 3 – Payments resulting from multiplying quotas and other supply managing instruments in full amount by the amount of direct payments resulting from basic scheme of covering Poland with direct payments (25%, 30%, 35%, 40%, 50%...100%), column 4 – Difference between payments in the amount 33.8%, 37.2 and 40.6% between 2004 – 2006 and payments resulting from the basic scheme; column 6 – Top-up, between 2004 – 2006, of payments from EU up to 40%, column 7 – top-ups of EU payments up to 55% in 2004, 60% in 2005, 65% in 2006, 70% in 2007, 80% in 2008, 90% in 2009 and 100% between 2010 – 2012.

- (9) With full use of the possibilities resulting from Copenhagen agreements, the share of Polish budget between 2004–2012 would amount to EUR 5.7 billion (PLN 21.7 billion), the biggest annual share, i.e. EUR 820ml (PLN 3.1 billion) being between 2007–2010. There are little chances that the state finance would improve to such an extent as to provide such a considerable budgetary contribution to EU direct payments.
- (10) With the introduction of the top-up scheme, referred to under 8 above, the share of Polish budget in direct payments would amount between 2004–2010 to 30%–42%. Such a considerable share would confirm that the CAP implemented in Poland has been largely renationalized.
- (11) The most general comment resulting from the conducted analysis is that following the entry of Poland to the EU, a serious conflict of interests between agriculture and financial capabilities of the state is very probable. Without state support Polish agriculture faces a few difficult years since the level of support ensuring improvements as of the date of accession most probably exceeds budget abilities.

In Polish conditions about 95% of potential direct payments concerns two agricultural subsectors. The first one is field crops, where as much as 70% of all direct payments may be directed (over EUR 1750 ml), the second one being beef cattle production (around EUR 670 ml, i.e. over 25% of all direct payments).

The term ‘Field crops’ includes cereals, oilseeds and protein fodder crops. Over 70% of arable area in Poland is under these crops, cereals being produced by almost every farm. With the approved eligibility criteria for subsidies (minimum 0.3 ha of arable area and 20 m width) almost each farm may benefit from subsidies.

A high amount of direct support in the sector of beef cattle production is a surprise in Polish conditions. This sector of agricultural production is not quite popular in Poland, beef constituting usually a by-product of dairy cattle breeding. Low support to dairy cattle breeding is equally surprising. The system shall be introduced gradually, starting from marketing year 2005/6, but even in the final year (2007), for which the range of support is known, they do not even reach 25% of subsidies available for beef cattle breeders.

Considerably low subsidies to tobacco and potato starch production do not mean that these types of production have no significance. Without subsidies, the production of tobacco, and potato starch would be unprofitable.

2.2. Standard and Simplified Systems of Direct Payments

The new Member States can choose between the two systems, and the selection of one of them is of significant importance for farms, because the benefits to particular farm groups depend on the system selected.

The system currently operable in the EU-15 is referred to as ‘standard’ one. In such a system direct payments are tightly bound to production sectors. In this way, the subsidies fixed in advance are available only to farms producing cereals, oilseeds, protein crops, flax, tobacco, hops, potatoes and beef cattle and sheep. As of 2005/06 the system of subsidies shall also cover dairy cattle production, the subsidies being introduced gradually within a few years.

The standard system of direct payments may be introduced only if a Member State concerned has established a special system of registering and control (Integrated Administration and Control System: IACS). Currently Poland conducts activities to ensure the operability of such a system as of the day of accession. However, the Commission has decided that it could be difficult for the new Member States to operate the system. Thus, it suggested using a so called ‘simplified’ system, based on the rule that ‘all the types of agricultural area included to agriculturally utilised land could be covered with payments’. There would be no obligation to

produce, but lands not used for agricultural production would have to be maintained in the way to ensure environmental protection. A minimum size of areas eligible for subsidies would be 0.3 ha¹⁵⁷ A general amount of direct payments would be fixed in the same way as in the case of standard system (meaning that the adoption of the simplified system does not change the total amounts of potential direct payments, listed in Table 2).

The simplified system would be applied provisionally for 3 years. Then it could be extended twice, each time for one year. After five years the Member State applying the simplified system should be fully prepared to introduce the standard system. However, if it turned out that within all that time IACS has not yet been established or has not been fully operable, the continuation of the simplified system is possible. Then, however, farmers would pay for organization negligence because the amount of direct payments due would be frozen at the level of the fifth year of membership, i.e. 45% of full payments, until conditions were established to introduce the standard system.

The first Polish comments were explicitly against the simplified system. The most concise and the most meaningful criticism of the simplified system has been expressed in an interview for a weekly ‘Polityka’ by Mr. J. Saryusz-Wolski: ‘This is a totally different system than that operating in the EU. The EU system supports certain types of production, gives incentives for modernization. The simplified system provides a social benefit which, as a corrosion preventing grease, shall preserve Polish agriculture into a living agricultural museum. That system gives no incentive to specialize’.¹⁵⁸

A different position was presented in the analysis by Agricultural Policy Analysis Unit (APAU)¹⁵⁹. The Authors are of the opinion that due, mainly, to the risks resulting from only partial absorption of payments in the standard system Poland should consider the introduction of the simplified system.

Each of the two systems has its shortcomings. However, the disadvantages of the simplified system include important subject matter errors¹⁶⁰, while the shortcomings of the standard system result most of all from organizational shortcomings and inadequate qualifications of persons managing the system and those who use it¹⁶¹.

One of the most important disadvantages of the simplified system is excessive support of farms located on infertile soils. Within the simplified system there is one uniform rate of subsidies in the whole area of the country, and in the standard system the rates may differ. All the EU Member States whose area is similar to that of Poland have used this rule, introducing regional crop differentiation. Thanks to such a solution farms located in the regions where yields are higher receive higher subsidies calculated per one unit of area, and identical when calculating per one unit of production. If no payment regionalisation is possible the payments as calculated per a unit of area are identical, which results in lower revenues of farms having

¹⁵⁷ Enlargement and Agriculture: Successfully integrating the new member States into the CAP. Issues Paper. Commission of the European Communities. Brussels. 30.1.2002 SEC(2002) 95 final, p.8

¹⁵⁸ J.Solska Wojny chlopsko-polskie. (Polish-peasant wars) Weekly ‘Polityka’, 2003 No. 1.

¹⁵⁹ APAU team. A suggestion to implement the system of direct payments in Poland. Foundation of Assistance Programmes for Agriculture. Agricultural policy Analysis Unit. Warsaw, August 2002.

¹⁶⁰ The Authors argue that: 1. Due to a different redistribution of payments in the simplified system a competitive position of farms which would normally be covered with payments in the standard system would worsen. Financial conditions of those farms would also worsen (as opposed to current conditions).2. While in the EU-15 flat-rate support would be available to farms getting payments within the standard system... in Poland... to e.g. potato or sugar beet growers (payment of subsidies per ha or agriculturally utilised land). In such a situation the support to producers of e.g. sugar beet would be higher (they receive...high price support). 3.With a low base level of payment (25%) the amount per 1 ha of agriculturally utilised land would be low (EUR 35 after excluding set aside land) idem Anex II p. 8.

¹⁶¹ They include 1. the need to have operable IACS, 2. difficulties of controlling payment applications, 3. mistakes in applications in the first years, 4. complicated character of applications

higher yields as calculated per a unit of production. Because of the fact that farms producing on infertile soils are supported with LFA subsidies it turns out that farms producing on good soils shall receive lower payments not only when calculated per a unit of production but also when calculated per a unit of area. The question is whether the support to market farms which enjoy good natural conditions and high yields should be lower than that offered to farmers operating on infertile soils.

The most important subject matter disadvantage of a standard system is by far a huge cost of current administration¹⁶². It should not be expected, however, that the introduction of the simplified system shall significantly decrease the costs of IACS operation. With the simplified system the amount of payments received depends on the agriculturally utilized area of the farm, meaning that more information than that concerning crops on particular fields are needed. And the system of plot identification is necessary to the same extent as in the standard system. And what is more, although the simplified system does not require information on animals bred, such information is nevertheless necessary due to the system of human and animal health protection. Thus, the system of animal registration must operate no matter if, in the first year of membership, Poland decides to use the simplified or the standard system.

There are two important arguments in favour of the use of the simplified system, though. The first one is the possibility to use subsidies to the full extent. Making a payment in the standard system requires the farmer to show initiative, i.e. to submit a long application describing his farm. Even with the best organized free consultancy services it will be difficult to reach almost 2 ml farm owners or tenants, who want to apply for direct payments, with information and effective support. Moreover, in the initial period even a well prepared IACS may display malfunctions. It is thus for sure that Poland, while introducing a standard system as of the day of accession, would only partially use the available direct payments in the first years. Such a risk does not exist with the simplified system.

The second argument in favour of the system results from the fact, that the group of farms covered with the standard system is by far almost identical with the group of farms covered with the simplified system. Due to this fact the Authors of one of the opinions constitute that ‘in many unspecialised farms, in which the production structure is similar to the structure of agricultural production in Poland, the shift of the system from standard to simplified would lower a total amount of payment only to a negligible extent (self-triggered compensation effect)¹⁶³. This thesis is confirmed by simulations made for fourteen types of farms, located in various regions of Poland. According to the data received the implementation of the simplified system visibly decreases the revenues of farms with a great share of field crops (grains and oilseeds) in the structure of using arable land. The same would concern the revenues of farms producing tobacco and hops. On the other hand, farms specializing in dairy cattle breeding would benefit the most as compared to the standard system.

From the above it turns out that no matter what system is used the majority of subsidies shall reach the same farms, although with slightly differing amounts. It is thus difficult to regard the opinion – that the simplified system demotes Polish agriculture to the role of a museum and turns direct payments into social benefits without any effect to the development – as fully substantiated. Due to the land structure in Poland a significant amount of payments would be of a social character also in the standard system. Neither the opinion that the [standard] system gives incentives to modernization can be fully justified because otherwise this system would benefit farms specialising in grain production and beef cattle breeding. These are not sectors

¹⁶² In the simplified system applications to be submitted by farmers are much simpler. It is also simple to control (area under particular crops, fodder areas, number of animals in herd and their density are not controlled)

¹⁶³ APAU team. Suggestion for implementation idem p. 5.

requiring modernization, especially that it is the extensive production of beef cattle which is supported.

However, the production-related decisions of farmers operating within the simplified system shall be different from the decisions taken in the case of the standard system. The simplified system does not favour any production type, because the size of agriculturally utilized land is the key factor in payment division. The standard system, on the other hand, favours the production of cereals, oilseeds and beef cattle breeding. Due to this fact the above expressed opinion, that the level of 40% direct payments ensures the competitiveness of all – except wheat – important agricultural products, might be wrong when the simplified system, not accounting for regional differences, is introduced. In this way the introduction of the simplified system could bring losses for grain farms producing high yields in such regions as opolskie, zamojskie, Pyrzyce region as well as Wielkoposka and Kujawy. Thus, it may turn out that within the period of applying the simplified system the farms located in the most powerful agricultural regions may – following EU integration – find themselves in more difficult economic situation than the farms located in the regions of lower production.

In the recent proposals for mid-term CAP review¹⁶⁴ there is a proposal of substituting the existing direct payments with a flat-rate system, the core of which is one subsidy supporting agricultural income. The proposed solution includes elements of the simplified system, but at the same time the rule of differentiating support level, resulting from different production level, is maintained. One should consider that the flat-rate system might be commonly used in the EU when Poland is ready to shift from the simplified system to the standard one (Poland shall be obliged to introduce a common system not later than 1 January 2009, or else it will have to bear financial consequences resulting in freezing of the level of direct payments).

To sum up: the possibility of full use of direct payments available to Poland inclines Poland to introduce a simplified system as of the date of accession. However, at the same time Poland should prepare to introduce the standard system as early as possible.

Although the choice of the system was not that urgent, Poland has already notified the Commission of the introduction of the simplified system. At the same time Poland agreed to adopt the size of 1 ha as a minimum area of a holding eligible for direct payments, which means a limitation of social benefit-like payments as compared with the Commission proposal (the Commission proposed 0.3 ha as a minimum area).

2.3. Support of the Development of Polish Agriculture and Rural Areas With Structural Funds

Direct payments are not the only EU budget funds to support the incomes of Polish farmers and the development of Polish agriculture post accession. The other form of support are structural funds¹⁶⁵. Their programming shall follow in accordance with the financial perspective. The current perspective includes seven years 2000–2006, i.e. in the case of Poland the years 2004–2006. This is such a short period that the Commission suggested that within these three years the experience gained from SAPARD¹⁶⁶ programming and implementation

¹⁶⁴ Revision a mi-parcours de la politique agricole commune. Communication de la Commission au Conseil et au Parlement Europeen. Bruxelles, le 10 juillet 2002. COM(2002) 394; Untitled document notified as COM(2003) final. Brussels, 21.1.2003.

¹⁶⁵ A broad review of farm and rural development support from structural funds between 2000–2006 is presented in the work by M. Ciepielewska. Some forms of direct support for farmers to be used by Poland by Poland following the accession to the Eu. /w/: J. Kotyński /ed/: Costs and benefits of Poland’s membership in the European union vol. 2., Warsaw, 2000.

¹⁶⁶ SAPARD. Operational programme for Poland. Ministry of Agriculture and Rural Development.

be used as fully as possible. In practice this recommendation means that SAPARD operational programme should be continued to be implemented in the first three years post accession in a slightly modified form.

Rural development in Poland shall be co-financed by the EU from the Guarantee Section as well as from the Guidance Section of EAGGF. The Guarantee Section shall finance (1) so called accompanying measures¹⁶⁷, including four schemes (1) early pension scheme, (2) agri-environmental schemes, (3) afforestation schemes, (4) LFA support (5) support for semi-subsistence farms¹⁶⁸ (6) support for producer organizations and (7) technical assistance. The Guidance Section finances (1) investment in agricultural holdings, (2) support for young farmers, (3) training, (4) some areas of agricultural processing and trade in agricultural products, (5) other activities concerning forest management (except afforestation of agricultural land, financed as one of accompanying measures from the Guarantee Section), (6) rural development.

Poland is preparing two programmes: Sectoral Operational Programme ‘Restructuring and Modernization of Food Sector and Rural Development’ (SOP) includes programmes financed from Guidance Section, and Rural Development Plan (RDP) funded from the Guarantee Section. They shall constitute the basis for restructuring and modernization of food sector conducted between 2004–2006 and activities aiming at rural development¹⁶⁹. Although they are still in the initial stage, the amount of EU resources earmarked for these purposes is already known.

Rural regions shall also benefit from the funds of other sectoral operational programmes, including most of all: (1) Increase in economy competitiveness (2) Integrated operational programme of regional development – rural infrastructure (3) Development of human resources, elaborated according to the same procedures as SOP and RDP.

As shown in Table 3, while implementing SOP between 2004–2006 Poland will be able to undertake commitments in the amount of nearly EUR 2 billion (a part of them shall be covered between 2007–2008 because settlement of accounts is made in accordance with the rule $n + 2$, i.e. in the programming year and within two following years), including the EU share of over EUR 1 billion.

¹⁶⁷ Broad description of accompanying measures can be found in: J. Rowiński, M. Wigier. *Accompanying Measures. Expertise made for the Ministry of Agriculture and Rural Development. Institute for Agriculture and Food Economy. Warsaw, July 2002. Typescript.* Also J. Wilkin. *Assessment of rural development instruments (Reg. 1257/99) viewed as to be used in Poland nationally and regionally in the first years of accession (expertise for UKIE).* No date. P. 24.

¹⁶⁸ There is no short and meaningful expression for semi-subsistence farms in the Polish language.

¹⁶⁹ Sectoral Operational Programme ‘Restructuring and Modernization of Food Sector and Rural development’ Draft. Ministry of Agriculture and Rural Development. Warsaw, December 2002. Rural Development Plan. Draft. Ministry of Agriculture and Rural Development. Warsaw. December 2002.

Table 3 Funds within Sectoral Operational Programme „Restructuring and Modernisation of Food sector and Rural Development’ within 2004–2006 (in EUR th. commitments).

Programme	Total	EU share		Polish share		Private funds
		Total	State budget	Local sel-governments' budgets	State budget	
Support for changes and adjustments in agriculture – total	1 043 750	625 000	208 750	418 750	210 000	
2004	148 420	88 880	29 680	59 540	29 860	
2005	405 600	242 870	81 120	162 730	81 610	
2006	489 730	293 250	97 950	196 480	98 530	
Improvement of rural life standards – total	184 720	105 000	18 610	89 720	10 000	61 110
2004	26 270	14 930	2 650	12 760	1 420	8 690
2005	71 780	40 800	7 230	34 870	3 890	23 750
2006	86 670	49 270	8 730	42 090	4 690	28 670
Adjustment of processing to EU standards – total	715 560	322 000	35 780	393 560	357 780	
2004	101 760	45 790	5 090	55 970	50 880	
2005	278 060	125 130	13 900	152 930	139 030	
2006	335 740	151 080	16 790	184 660	167 870	
Technical assistance – total	3 750	3 000	750	750		
2004	890	710	180	180		
2005	1 240	990	250	250		
2006	1 620	1 300	320	320		
SOP – total	1 947 780	1 055 000	263 890	902 780	10 000	628 890
2004	277 340	150 310	37 600	128 450	1 420	89 430
2005	756 680	409 790	102 500	350 780	3 890	244 390
2006	913 760	494 900	123 790	423 550	4 690	295 070

With regard to SOP one sees a clear concentration of funds on the support of changes in agriculture and agri-food industry (Priority I and III) as between 2004–2006 the total of 90% public funds are committed to this end (EU funds as well as state and self-government funds). Such a division of funds would be fully justified but involves a risk that public funds, including that of the EU, shall not be used to the full extent. The support for changes in agriculture and agri-food industry is a continuation of those SAPARD activities, which – at least to-date – have not been well accepted. A question comes to mind whether a visible reluctance of farmers is going to be overcome within the period prior to Poland’s joining the EU? If SAPARD is not launched, then the funds intended for some agriculture development programmes – launched within structural funds – may be used only to a small extent in the first years of membership.

Rural Development Plan (RDP)¹⁷⁰ will be implemented within 2004–2006. This programme comprises two priorities (A) improvement of farm competitiveness and (B) durable and multifunctional development with particular consideration of environmental aspects. The first priority involves two programmes: (A1) structural pensions and (A2) support to semi-subsistence farms, and the second scheme involves (B1) supporting LFAs, (B2) agri-environmental scheme and (B3) afforestation scheme.

Table 4 shows that the capacity of RDP is much bigger than that of SOP, as the funds engaged within 2004–2006 are estimated to amount to EUR 3.1 billion, including over EUR 2.5 billion from the EU budget.

The aim of the RDP, i.e. improvement of farm competitiveness, is underlined by its assumptions. However, its character is visibly social. Nearly 51% of RDP funds (over EUR 1.6 billion between 2004–2006) has been intended for the support of agriculture in less favoured areas (LFAs). Support covering nearly 55% of agriculturally utilized areas of Poland has nothing to do with the establishment of powerful farms but it is a pension automatically provided to farmers working in LFAs. Its amount depends on the size of agriculturally utilized area possessed as well as on the quality of land and location above the sea level. The worse the land and the more difficult management, the higher is the amount calculated per 1 ha; it oscillates between EUR 56/ha in lowlands I zone (in this zone the value of valorisation coefficient of agricultural production area amounts to 52–82.5 points) to EUR 113/ha in the mountain zone II (land situated over 500 meters above the sea level).

According to the assumption of the Commission the semi-subsistence farm support scheme (around EUR 650 ml, i.e. 21% of general RDP amount) was to constitute aid for farms the production of which is too low in order for them to be regarded as fully fledged market farms, but who – following transformation involving investment – may turn into such (those farms are to receive support amounting to EUR 1250 for five years). On the other hand, in the RDP semi-subsistence farm category includes 950 th. farms the income of which oscillates between PLN 4th – PLN 40 th. (calculated as the amount of standard gross margin less the costs of tenancy, capital management and external services). With such a low eligibility criteria of participation, the programme turns to be in the first place a social programme, the role of which in the restructuring of agriculture is negligible.

The remaining three programmes (1) structural pensions, (2) afforestation and (3) agri-environmental schemes are of course useful but should not rather be deemed capable to change Polish agriculture in a relatively short period of time.

With reference to structural funds’ accessibility attention should be paid to the issue of ‘easy’ and ‘difficult’ EU funds. Direct payments belong to ‘easy’ or ‘fairly easy’ category of funds. The most difficult task in this case is to establish adequate organizational structure. When it is in place and operable – direct payments, especially within the simplified system – are distributed almost automatically.

¹⁷⁰ This section has been elaborated based on the document: Rural Development Plan for Poland for 2004–2006. Extract from the working version. Ministry of Agriculture and Rural Development. Warsaw, October 2002.

Table 4 Funds provided for financing Rural Development Plan within 2004–2006 (in EUR th.)

Programme	Total	Budget resources	
		EU	Poland
Structural pensions total	490 172	392 137	98 034
2004	140 049	112 039	28 010
2005	163 391	130 712	32 678
2006	186 732	149 386	37 346
Semi-subsistence farms total	652 500	522 000	130 500
2004	195 000	156 000	39 000
2005	225 000	180 000	45 000
2006	232 500	186 000	46 500
LFA	1 607 654	321 531	
2004	535 885	428 708	107 177
2005	535 885	428 708	107 177
2006	535 885	428 708	107 177
Agri-environmental schemes total	288 900	231 120	57 780
2004	62 100	49 680	12 420
2005	97 200	77 760	19 440
2006	129 600	97 200	62 100
Afforestation – total	87 682	70 145	17 536
2004	18 942	15 154	3 788
2005	27 980	22 384	5 596
2006	40 760	32 608	8 152
Technical assistance – total	23 174	23 174	
2004	14 019	14 019	
2005	7 936	7 936	
2006	1 219	1 219	
RDP – total	3 150 082	2 524 700	625 382
2004	965 995	775 600	190 395
2005	1 057 391	847 500	209 891
2006	1 126 695	901 600	225 095

However, the access to some structural programmes shall be significantly difficult. The farmer will have to elaborate a good business plan including, inter alia, investment activities eligible for funding from the EU funds. At the same time he must present a financing plan from which it can be visible that he possesses not only resources for covering his own share, but he also has funds in order to finance that part of the project which shall be finally be reimbursed from public funds. Settlement of the project accounts may also be difficult. With all these requirements a lot of farmers, especially in the first years of EU membership, may come to a conclusion that the resources from structural funds are too difficult to get to participate in the programme. This psychological constraint must be removed as structural funds shall gradually become a more and more important source of financial support of agriculture modernization and restructuring, until they become a dominant source.

The above remarks do not refer to RDP. Funds within this programme (except agri-environmental programs, which in terms of access belong to ‘very difficult ones’) shall be relatively easy accessible, and in the case of farms located in LFAs, they will be distributed automatically.

2.4. Producer prices

The membership of Poland in the EU means the admission of the whole Polish market to the system of Single European Market (SEM). Polish agricultural market shall become a part of EU agricultural market, although Poland, by the year 2013, shall be covered with the entire network of CAP mechanisms. Such a situation contradicts with the principle of uniform competition,

which is fundamental for the whole construction of the common market. However, Poland has accepted such a state of affairs, which has been reflected in the provisions of the Accession Treaty.

With reference to Polish food economy joining the SEM structures, one has to examine possible amounts of producer prices for basic agricultural raw materials on the Polish market. As compared to the situation to-date, the merger of Polish agricultural market with the SEM means a higher adjustment level of prices paid to Polish farmers with the producer prices in other Member States. One should, however, consider, that uniform market mechanisms have not resulted in the harmonization of prices within the EU. There are still significant price differences across the Member States, and in the big ones the prices differ even across the regions. Some information about prices have been given in Tables 5 and 6. They show that:

- prices paid to Polish producers for basic agricultural raw materials are at the level of prices paid to EU farmers¹⁷¹. The most important exceptions include milk and beef, for which Polish farmers receive much lower prices;
- adjustment of prices paid to Polish farmers with those received by EU farmers results from the trend to harmonise EU market prices with international prices. This trend is visible mostly in grain markets;
- reinforcement of PLN towards EURO exerted a strong influence on the adjustment of prices received by Polish farmers to prices paid to EU farmers (average prices within 1998–2000 were calculated to euro against the rate EUR 1 = PLN 4.054, and 2001 prices against the rate EUR 1 = PLN 3.669). Although the situation on agricultural markets cannot decide about the level of exchange rate, the exchange rate has a strong influence on the competitiveness of Polish exports. The reinforcement of zloty against euro in the period 2000–2001 must have negatively influenced Polish agri-food exports to the EU¹⁷². In such a situation the decrease of negative trade balance with agri-food products with the EU between 2000–2001 is a significant achievement.
- The data in tables 5 and 6 show that after Poland joins the EU significant increase in producer prices of beef and milk should take place, along with the prices of sugar beet not mentioned in the table. While the prices of other basic groups of agricultural raw materials shall most probably not be subject to change, unless zloty gets weaker, which is rather not probable from macroeconomic point of view.

The effect of changes of producer prices on agricultural incomes has been recently estimated by W. Poczta¹⁷³. According to his estimates the annual increase of income from agricultural production, triggered by price increases shall amount to nearly PLN 3.7 billion, i.e. approx. EUR 970 ml (on the assumption of market production at 2000 level). According to this analysis while income from farm production shall increase in general, there will also be sectors in which, in the first years of Polish membership in the EU, there will be a decrease of incomes – resulting from lower ‘EU prices’. These sectors include wheat, oilseeds and poultry production. Thus, if the production of wheat and oilseeds is not supported with direct payments following integration, the economic situation of farmers growing these plants could get much worse. At the same time the post accession prices of rye and spring barley shall result in a situation where even without subsidies the gross standard margin reached as a result of their production shall be higher than

¹⁷¹ The data in the tables do not include such important products as rape and sugar beet. In the EU rape prices are at the level of international market prices, i.e. lower than in Poland (rapeseed market is protected by duties in Poland). And for sugar beet sold within A quota farmers of current Member States receive prices which are much higher than the prices offered to Polish farmers.

¹⁷² Average annual NBP rates were as follows: 1998: EUR 1 = PLN 3.925; 1999: EUR 1 = PLN 4.227; 2000: EUR 1 = PLN 4.011, 2001: EUR 1 = PLN 3.669

¹⁷³ W. Poczta idem.

Table 5 Comparison of prices paid to farmers in Poland, EU and certain EU Member States for selected plant products (in EUR /t)

	wheat		barley		rye		Maize	
	1998–2000	2001	1998–2000	2001	1998–2000	2001	1998–2000	2001
1. Poland	115,9	129,4	103,9	132,3	83,6	109,3	102,3	105,6
2. EU average	116,9	120,4	108,8	b.d.	103,6	100,5	127,6	b.d.
3. Germany	111,9	115,4	101,2	104,9	105,9	99,4	116,7	107,5
4. The lowest EU price	104,1	106,9	97,9	b.d.	95,0	b.d.	106,8	b.d.
5. The highest EU price	147,5	156,8	135,8	b.d.	139,5	b.d.	151,4	b.d.
1:2	99,1	107,5	95,5	b.d.	80,7	108,8	80,2	b.d.
1:3	103,6	112,1	102,7	126,1	78,9	110,0	87,7	98,2
1:4	111,3	121,0	106,1	b.d.	88,0	b.d.	95,8	b.d.
1:5	78,6	82,5	76,5	b.d.	59,9	b.d.	67,6	b.d.

Source: Prices: P. Bajek et al. Comparison of prices of agricultural products in Poland and European Union. Foundation of Assistance Programmes for Agriculture (FAPA) Foreign Agricultural Markets Monitoring Unit (FAMMU), Warsaw, May 2002. r. typescript. Own calculations.

Notes: wheat: the lowest prices 1998–2000 – Ireland, 2001 – Holland, the highest prices 1998–2000 – Italy, 2001 – Italy;

rye: the lowest prices 1998–2000 Belgium, 2001 – Finland;

barley: the lowest prices 1998–2000 Austria, the highest prices 1998–2000 Greece

maize: 1998–2000 the lowest prices Austria, the highest prices Greece

Table 6 Comparison of prices paid to farmers in Poland, EU and certain EU Member States for selected animal products (in EUR /t)

	pigmeat		chickens		sheepmeat		milk		Beef	
	1998–2000	2001	1998–2000	2001	1998–2000	2001	1998–2000	2001	1998–2000	2001
1. Poland	1081	1552	1062	1213	3041	3496	160,2	206,9	661	809
2. EU average	1268	1532	1279	1175	3404	4101	294,6	b.d.	1151	918
3. Germany	1264	1557	1237	1105	3357	4342	294,0	330,0	1131	784
4. The lowest EU price	1069	1323	1053	873	1830	2062	270,2	b.d.	1906	697
5. The highest EU price	1521	2003	1875	1253	3905	5419	344,7	b.d.	993	1965
1:2	85,3	101,3	83,0	89,3	85,2	85,2	54,4	b.d.	57,4	88,1
1:3	85,5	100,3	85,9	109,8	90,5	80,5	54,5	62,7	58,4	103,2
1:4	101,1	117,3	100,9	138,9	166,2	169,5	59,3	b.d.	34,7	116,1
1:5	71,1	77,5	56,6	96,8	77,9	64,5	46,5	b.d.	66,6	41,2

Source: Prices: P. Bajek et al. Comparison of prices of agricultural products in Poland and European Union. Foundation of Assistance Programmes for Agriculture (FAPA) Foreign Agricultural Markets Monitoring Unit (FAMMU), Warsaw, May 2002. r. typescript. Own calculations.

Notes: pigmeat: the lowest prices 1998 – 2000 Holland, the highest – Greece, 2001 the lowest prices Ireland, the highest – Greece;

chickens: the lowest prices 1998 – 2000 – Denmark, the highest – Italy 2001 the lowest prices – Denmark, the highest prices Italy.

sheepmeat: the lowest prices 1998 – 2000 – Finland, the highest prices – France, 2001 the lowest prices – Finland, the highest prices: France

milk: the lowest prices 1998 – 2000 Great Britain, the highest prices – Italy

beef: the lowest prices 1998 – 2000 – Italy, the highest prices – Greece, 2001 the lowest prices – Italy, the highest prices Greece.

Pigmeat, chickens – carcasses, beef – live weight.

now. A significant attention is paid to the increase in the production of rye, a plant growing on poor soil. However, one must consider that since 2004 there will be no intervention in the rye market, which shall contribute to a decrease of market prices. Based on the estimates of W. Poczta one can come to a conclusion that the income situation of farmers producing beef (over 2.5 times higher SGM) and dairy cattle (over 2 times increase) shall significantly improve even without direct payments. Moreover, as a result of price increase the standard gross margin in the cultivation of sugar beets shall increase almost twice. On the other hand, the SGM in pig production shall decrease twice.

However, at least in some production sectors, a real increase in SGM, caused by price increases, shall be lower than the estimates. W. Poczta correctly indicates that following the accession of Poland to the EU the prices on the Polish markets might not reach the level of German prices assumed by the Author. Moreover, the estimates cited do not account for the increase of production costs which shall be inevitable in certain production sectors following the membership of Poland in the EU, and which shall influence the decrease in SGM.

3. Post Accession Trade in Agri-food Products¹⁷⁴

As of the day of accession Poland shall join the Single European Market which integrates Member States by means of mechanisms typical for customs union and common market. This situation means a significant change in the trade in agri food products between Poland and the other Member States. To-date the trade takes place in accordance with general rules, i.e. the rules applicable in trade between WTO members. As a result the applicable rates of current customs duties are those listed in the most-favoured nation clause. At the same time numerous derogations apply, which are listed in Annexes to the Europe Agreement. As a consequence the mechanisms applicable to the trade in agrifood products may be defined as partial liberalization in a limited scope, often controlled by means of preferential quotas.

The liberalisation of trade in agri-food products that was rubberstamped between Poland and the EU in the 90s did not change the character of these mechanisms and as such does not meet the criterion of a free trade zone.

Due to the removal of duties post accession agri-food products manufactured in other Member States shall be sold in Poland on the same conditions as Polish produce. At the same time Polish agri-food products shall be freely exported to the markets of the other Member States. Poland shall have the possibility to export not only to the SEM block including the 15 current Member States, but also to the 9 candidates who, most probably, shall become EU Member States together with Poland. By opening its market of nearly 40 ml consumers who have quite small purchasing power, Poland gains a free access to the market of 420 ml consumers, including 380 ml in the current Member States, in which the average purchasing power is much bigger than in Poland. The use of the appearing export possibilities mostly depends on the approval of Polish products by the consumers of other Member States. The precondition of gaining the access to the other markets is the fulfilment – by Polish producers – of the EU health, veterinary, plant health, animal welfare and environmental standards. These standards shall also apply to the products sold on the Polish market as well as to those exported to the third countries. One exception is the EU agreement to a transition period for the meat and dairy plants listed in Annex to the Accession Treaty. These undertakings are allowed, for a fixed period of time, not to fulfil

¹⁷⁴ This part was based, inter alia, on the expertise of J. Rowiński. Agri-food trade following the accession of Poland to the European Union (general issues) Expertise prepared for the Ministry of Agriculture and Rural Development. Version II. January 2003. typescript. p. 16.

certain EU standards, which is the evidence that some sectors are not fully prepared to operate within the Single European Market.

Mutual accord to provide full market access means not only a possible increase of Polish exports of agri-food products to the EU markets, but also potentially increased exports of articles produced in the other Members States to the Polish market. Obviously, as a result of this opening a new division of Single European Market shall be visible. An important issue for Polish food economy is whether the loss of a portion of own market shall be compensated in excess by bigger sales on the markets of other Member States.

The answer to this question is very difficult. Pursuant to the Europe Agreement Poland was granted greater preferences in agri-food trade than the EU. It was thus expected that following the entrance into force of the Association Agreement Poland should improve its positive balance of trade with the EU. Unfortunately the positive balance that existed at that time turned to a negative balance as early as in 1993. Further changes in the 90s and at the beginning of this decade have been shown in Table 7. Based on the data provided in this Table a conclusion can be made that Polish trade deficit with the EU is of a durable character.

However, a negative balance itself cannot justify a conclusion that agri-food imports from the EU were excessive and destructive. The structure of Polish agri-food imports, listed in Table 8, which shows that a major part of the imports from the EU includes articles of other climate zones, is a good piece of evidence against such a conclusion. These imports are necessary because their limitation would significantly impoverish Polish food market, making it resemble the market of the 70s. And in the second half of the 90s and at the beginning of the current decade there was a highly positive balance in trade in agri-food goods produced in the climate zone in which Poland is located. This proves that Polish agri-food products effectively competed in that period on the EU markets.

Table 7 Trade in argi-food products between Poland and European Union between 1990–2001 (in USD ml)

Year	Trade	Exports from Poland	Imports to Poland	Trade balance
1990	1 891,3	1 397,0	494,3	902,7
1992	2 434,7	1 135,4	1 099,3	36,1
1993	2 072,9	976,3	1 096,6	-120,3
1994	2 175,0	1 064,5	1 110,5	-46,0
1995	2 739,3	1 335,7	1 403,6	-67,9
1996	3 171,7	1 303,2	1 868,4	- 565,2
1997	3 002,1	1 274,5	1 727,6	- 453,2
1998	3 187,9	1 334,7	1 853,2	- 518,6
1999	2 883,2	1 269,3	1 613,9	- 344,6
2000	2 888,0	1 266,7	1 621,3	- 354,6
2001	3 235,6	1 448,2	1 787,5	- 339,3

Based on the conditions in which Poland shall be functioning as the EU Member State one cannot foresee what will happen with the balance of trade in agri-food products with the EU Member States following the accession of Poland to the EU. In some political circles opinions are formulated concerning the risk of Poland being ‘flooded’ with agri-food products imported from other EU Member States and the resulting destruction of Polish agriculture. The view that the negative trade balance in agri-food products shall increase post accession may also be formulated following a cursory study of some model analyses¹⁷⁵. However, the comments

¹⁷⁵ E.Kawecka-Wyrzykowska. Possible effects of liberalization of agricultural trade between Poland and the European Union /in/: J. Kotynski (ed.). Benefits and costs of Poland’s membership in the European Union vol. II. IKiCHZ, Warsaw, 2000

formulated on the basis of these analyses are valid only when assuming that the structure of agri-food trade with the EU Member States post accession shall not change in relation to that prevailing at the end of the 90s. Moreover, it is difficult to make any post accession trade forecasts concerning this group of products due to the fact that the fifth enlargement involves 10 new countries and most probably most of them shall try, as much as Poland, to increase their agri-food exports.

Table 8 Import of different groups of agri-food products from EU between 1996–2001 (in USD th.)

Year	Total imports	Of which goods produced in:		Balance of trade in goods produced in Poland
		Other climate zones	Poland	
1996	1 868 441	629 191	1 239 250	63 983
1997	1 727 636	689 303	1 038 333	236 133
1998	1 853 221	818 936	1 034 285	300 372
1999	1 613 870	698 766	915 104	354 197
2000	1 621 318	685 351	935 967	330 709
2001	1 787 455	726 139	1 061 316	386 861

Of course one cannot exclude the possibility that following accession the negative trade balance shall increase. However, the following assumptions are in favour of trade balance improvement as opposed to the current state:

- With aggressive marketing the increase of exports of Polish agri-food products to the market of the other Member States is expected to exceed the increase in imports of these products from the EU, mostly because of the fact that the market to be opened for Polish exports is over ten times bigger than the Polish market. Thus, aggressive export policy together with active fight for the maintenance of own market can really contribute to trade balance improvement. These activities must be conducted based on relatively low prices, good quality of products and perfect services to customers.
- The opportunity to improve the situation in the area of agri-food trade with the EU post accession results not only from the unlimited access to one of the world’s biggest markets of agri-food products. It is also the fact that the average level of EU agricultural market protection is now higher than the level of Polish market protection. The level of EU customs protection is reflected in the OECD published nominal protection coefficients concerning agricultural producers. The recent level of protection of all the agricultural products slightly exceeds 1.30. The EU customs duties laid on some product groups imported from Poland make impossible exports other than preferential ones. Following their removal Poland will be able to export products to the SEM, the export of which to the EU is currently unprofitable.
- Costs shall decrease in those animal production sectors in which animals are fed on cereal feeds (pig production, poultry production for meat and eggs). Their competitiveness shall increase not only on the markets of other Member States but also on the Polish market.

At the same time Poland shall lose the instruments of agricultural protection against the competition of other Member States as market opening is unconditional and irrevocable, and the negotiated safeguard clause is weak and shall be possibly introduced only in critical situations.

What makes it difficult to assess the situation and what shall influence changes of this situation in the first decade of the membership is limited direct subsidies. The negotiated level of approx. 40% of direct subsidies constitutes only a minimum from the point of view of farming profitability. It is, however, high enough from the point of view of the possibility of competing on SEM of agri-food products as it does not worsen the profitability in comparison to the current situation. Lack of customs duties and other limits improve market access, which results in export increase. Thus, the trade balance with the EU should improve and the trade should increase. Another possible trend is the maintenance of a negative trade balance on the current level with a significant increase of imports as well as exports. This variant was adopted in financial specifications of costs and benefits presented in final section.

4. Benefits Gained and Costs Borne by Certain Agri-food Subsectors

The basic benefit for agri-food industry is a free access to the markets of other Member States. Using this opportunity (increase of sales on the markets of other Member States) and preventing potential losses (loss of a part of domestic market) depends mostly on the preparation for membership. This is why the observance of EU health, veterinary and environmental standards is a priority in certain sectors of agri-food industry, including first of all meat, dairy and poultry production. Current EU standards are fulfilled by only a part of production plants operating in these subsectors.

The adjustment of dairy industry to the EU standards is particularly difficult and costly because it involves not only dairy modernization and the construction and /or modernisation of environment protection facilities. Modernisation is also required in the system of milk purchase and transport. However, the most difficult and costly part of the undertaking is the modernization of dairy cattle breeding. This is a particularly complicated task mainly due to a huge number of small suppliers of milk who breed only a few cows. Observance of the EU standards requires investments which are unprofitable for small scale producers. This is why the number of farmers who sell milk to dairies is quickly decreasing. This trend shall prevail for a few years especially that the dairies will be forced to give up purchases from the suppliers who shall not provide class extra milk.

Despite quick changes in the Polish dairy sector there are serious concerns that not all of 186 plants shall succeed in the introduction of the EU standards in the pre-accession period.¹⁷⁶ This can be inferred, *inter alia*, from relatively low investment indicators concerning the recent two years, and from insignificant interest in SAPARD funds in the second half of 2002.

General costs of dairy farms’ and dairies’ adjustment to operating within the Single European Market were assessed in 1999 by the Ministry of Agriculture and Rural Development to PLN 15.5 billion.¹⁷⁷ From this amount PLN 13 billion relates to dairy farms and 2.5 billion to dairies. The National Association of Dairy Cooperatives assessed the adjustment costs of dairy industry at PLN 2.3 billion, i.e. almost identically. Also, investments made in dairy industry between 2001–2002 are evidence in favour of these estimates. Within these two years investment amounted to approx. PLN 1 billion. However, only a part of these inputs was related to adjustment investment. Nevertheless, if adjustment activities are conducted at this pace their

¹⁷⁶ R.Urban et al. Identification of losses and benefits resulting from the shift in time of adjustment processes in dairy, meat and poultry sectors. Expertise No. 3 for the Ministry of Agriculture and Rural Development. Institute of Agricultural and Food Economy. Warsaw, June 2002. Typescript.

¹⁷⁷ The strategy of Polish dairy sector. Ministry of Agriculture and Rural Development. Warsaw, November 1999, typescript

deadline (31 December 2006) shall certainly be met. It seems that everything shall be ready even before the deadline.

The assessment by the Ministry of adjustment costs of farms provides for more difficulties. The assumption behind this assessment is that it is absolutely necessary to modernize dairy cattle production in 100 th. farms which produce 9.2 billion litres of milk at the cost of PLN 13 billion. The costs seem to be too high just for the reason that between 1999–2002 share of class extra milk bought by dairies increased from 30% to almost 60% despite small investments in agricultural holdings. Moreover, the estimates included herd exchange, which is not adjustment cost. Finally the MARD estimates are based on Polish negotiation position assuming that in 2004 the production of milk shall reach 11.8 ml tons. The negotiated quota amounts to less than 9 ml tons and as of 2006, together with restructuring reserve, it shall not even reach 9.4 ml tons¹⁷⁸ Due to this fact the increase of production possibilities to the level assumed in the ‘Strategy’ is not necessary.

Only scarce number of meat processing plants currently conforms with the EU standards. The scope of necessary adjustment activities in many plants is quite significant as it includes the modernization of technological and transportation lines as well as technical infrastructure. Generally a lot of work is needed to improve health standards. In many plants new slaughter houses are constructed or modernized. No one knows whether all the plants which committed to finish adjustment activities by the accession date shall succeed to keep the deadline. One should not exclude a possibility that a major number of plants in their group shall try to get a permit to continue adjustments in the post accession period or shall have to limit production for some time.

For approx. 1400 plants, including over 400 plants of industrial capacities, it will be impossible to reach the EU standards. They will be subject to liquidation as of the day of accession. Their number is quite huge but their processing potential is rather small. Slaughterhouses’ potential is relatively better, but these are usually small units working for its own processing plant or satisfying the needs of the local market.

The costs of modernizing meat industry were assessed in 2000 by the Ministry of Agriculture and Rural Development to exceed PLN 4 billion¹⁷⁹. The estimates show that with the accession in 2004 annual adjustment investments in meat industry should reach nearly PN 1.4 billion annually. And in accordance with the data provided by the Central Office of Statistics (GUS), general investment in the years 2001–2002 reached over PLN 500 ml annually, and it is obvious that a portion of these amounts was not linked to the adjustment period. However, despite this, the progress of adjustment activities is rather high. This apparent paradox results from the decisions taken by undertakings to limit the scope of conducted activities to absolutely necessary ones, which minimizes costs. If the rate of works is not slowed all the necessary works shall be completed before the deadline.

In relative terms poultry industry is much better adjusted to the EU standards than dairy or meat sectors. In the second half of 2002 the EU requirements were fulfilled by 36 undertakings dealing with poultry slaughter and poultry meat processing, including 21 slaughter houses, 25 cutting plants, 13 processing plants and 8 cooling houses. These are generally the biggest undertakings, the share of which in the production of poultry meat in 2001 reached approx. 55%. Further 30% of production came from undertakings which shall finish adjustment processes

¹⁷⁸ Conclusion of the Accession Negotiations with the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia – Overall final agreement (Copenhagen, 13 December 2002). Conferences on Accession to the European Union Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia. Record Subject. Document 21000/02. Copenhagen 13 December 2002.

¹⁷⁹ Strategy and Operational Programme of Restructuring Development of Meat Industry in Poland within the Period of Poland’s Integration with the European Union, Ministry of Agriculture and Rural Development. Warsaw. December 2000

before the accession deadline or post accession. It is assessed that the production potential of poultry slaughter houses, cutting plants and poultry processing plants, which shall adjust to the EU conditions, shall fully satisfy the domestic demand.

Another branch of poultry industry is egg processing. In this area the most important adjustment problem is the organization of collection centres dealing with egg sorting and marking.

In poultry industry as well as in dairy industry it is necessary to adjust farms specializing in poultry production. Adjustment provisions commit farmers to create satisfactory welfare conditions to birds by regulating the conditions of laying hens bred in cages (cage construction, minimum area for one bird). Cage breeding of laying hens shall be forbidden presently in favour of free grazing. Poland shall be granted a transition period ending 31 December 2009 during which 44 farms dealing with laying hens breeding shall have the possibility to adjust to the EU standards.

In poultry industry the links between the industry and reproduction and bird breeding are tighter than in other branches of agriculture. Joint costs of poultry branch restructuring and its adjustment to the EU standards were assessed for approx. PLN 1250 ml (2000 prices).

Fisheries is the last agri-food subsector producing food, which must adjust to the EU standards. This issue shall not be discussed in detail because it is not relevant to agriculture (except fish bred in ponds).

As many as 111 dairies, 332 meat and poultry plants were granted a permit to complete adjustment activities post accession, the deadline being 31 December, 2006 and 31 December, 2007, respectively. The undertakings and farms conducting dairy cattle breeding which do not reach the EU health standards, have prepared detailed programmes of adjustment activities. Their progress shall be monitored not only by Polish administration but also by European Commission services.

The establishment of transition periods in which certain undertakings will be able to continue adjustment activities is underlined as a success of Polish negotiators. However, one is not sure if the benefits resulting from the shifting of expenses in time, shall compensate the difficulties. In accordance with the provisions of the Accession Treaty the undertakings listed as allowed to conduct adjustment processes post accession shall be able to sell their produce only on the Polish market. Their export to other Member States as well as to the third countries shall be excluded. Moreover, the labels of the products shall contain information that they do not conform with the EU health standards¹⁸⁰. In the conditions of consumer market such information may mean bankruptcy.

There is still the issue of ‘costs’ in a social meaning. The wind up of a lot of local meat plants, mostly small slaughterhouses, which do not meet the EU standards, means the loss of jobs. These are not serious numbers from the point of view of a municipality or a county, although in small localities each job is important, but at the level of the whole country the losses amount to several dozen thousand.

Moreover, attention should be paid to the fact that the supplies of local slaughterhouses usually came from farmers breeding a few or a dozen pigs or selling one cow. Bigger plants are not interested in the purchase of such insignificant number of slaughter animals. The owners of big pig farms and cattle farms who deliver several hundred fattening pigs of a uniform quality or several cows at the deadline set up in advance make much better business partners. Winding up local slaughter houses shall accelerate the shift from slaughter animal breeding in small herds, which is still popular among farmers whose farms do not exceed a few hectares.

¹⁸⁰ D. Rycombel. Identification of losses and benefits resulting from the shift in time of adjustment processes at the level of farms producing pigs /in/: Identification of losses and benefits resulting from the shift in time of adjustment processes in farms producing pigs, milk and poultry. Institute of Agricultural and food Economy. Expertise No. 2. Typescript with no date.

The liquidation of small slaughterhouses shall also have positive effects. Poland has at least a few times more slaughterhouses than any European country of a similar size. The majority of meat operators, also small ones, supplying the local market, process animals which are slaughtered ‘at their premises’. A huge number of slaughterhouses makes veterinary¹⁸¹ supervision difficult. Performing slaughter in slaughterhouses fulfilling the EU standards shall allow for better use of production capacities of well equipped plants. Then, maybe, a wholesale meat market shall emerge in Poland.

Ongoing evolution may result in the increase of a group of farms specializing in pig production, i.e. producing at least several hundred fattening pigs a year. Such a scale of production may provide income at a decent level while at the same time, if a farm has an adequate size of agricultural area and working equipment (manure tanks, manure plates), it is not a threat to the environment.

Similar social ‘costs’ have already arisen as a result of ongoing restructuring of dairy industry, and in particular as a result of the introduction of raw milk standards adjusted to the EU standards. At the beginning of the 90s dairies purchased milk from over a million farmers; in 2001 – only from 400 th. farmers. Restructuring is under way and by the year 2005 the number of suppliers is estimated to decrease to 200 th., the average purchase of milk from one farmers amounting to over 100 litres milk per day¹⁸², which shall make it profitable to install equipment ensuring milk production in accordance with the EU standards. The moment Poland enters the EU approx. 100 th. suppliers are estimated to fulfil the EU health standards and further 100 th. shall make the necessary adjustments in the transition period. Due to health reasons milk processing plants shall give up milk purchases from approx. 100 th. farmers maintaining usually not more than 10 cows.¹⁸³ As a result these farmers will have to sell on the local market. Unfortunately such a market has not yet been established in every location.

The liquidation of dairies which do not comply with the EU standards should not create difficulties to farms specializing in dairy farming. Experience shows that the market of a liquidated dairy is usually taken over by its successor. Nevertheless, it may happen that the liquidation of a dairy may deprive the farmers of sales possibilities. And the liquidation of a dairy, as well as that of a slaughterhouse, equals the loss of jobs and local increase of unemployment. In general the situation is, however, more serious than in the case of closing small slaughterhouses and meat processing plants. The closing of a dairy often means a liquidation of up to several hundred jobs. If its assets are taken over by a successor this danger is far smaller.

Another problem is waste industry dealing with the processing of animal waste produced during slaughter, cutting and processing of meat as well as carrion. The products of waste industry include meat and bone meal, used as an ingredient of fodder, technical fats and preparations produced from animal waste classified as high risk and specified risk material (HRM, SRM, respectively), which may not be used in animal feeds. Animal waste disposal plants producing meat and bone meal used for the purpose of nutritive feed production (the raw materials for their production include so called low risk material) may not process the waste classified as HRM

¹⁸¹ Slaughterhouses require stricter supervision than cutting plants and processing plants, as each slaughter animal must be subject to a post mortem examination by an authorised veterinary officer, while the supervision over cutting plants and processing plants is limited to periodical check whether health provisions are executed. However, Polish veterinary services can handle the problem better and better, which is reflected in a scarce number of zoonoses. Within the 90s the number of zoonoses decreased, despite the fact that slaughters used to be concentrated in huge industrial slaughterhouses.

¹⁸² Z. Smoleński. Identification of losses and benefits resulting from the shift in time of adjustment processes at the level of farms producing milk /in/: Identification of losses and benefits resulting from the shift in time of adjustment processes in farms producing pigs, milk and poultry. Institute of Agricultural and food Economy. Expertise No. 2. Typescript with no date

¹⁸³ Z. Smoleński: *ibidem*

and SRM¹⁸⁴. Plants which treat both kinds of this material operate as service undertakings whose role is to dispose of waste being a potential source of contagious animal diseases, including BSE, and who conclude contracts with meat processing plants and municipalities. They provide an indispensable element of certain schemes aiming at the eradication of certain animal diseases and zoonoses and a key element of effective protection of human and animal health in the case of an outburst of such a disease. Moreover, they are necessary to keep the country in a proper health condition.

Currently existing waste disposal plants do not fulfil the EU standards. It is estimated that out of 67 existing ones only 25 are capable of reaching the standards. Following expansion their production capacities shall provide for the treatment of all animal waste. However, the scope for necessary activities is so huge that doubts arise whether they will manage to complete the preparation in the pre-accession period. Investment inputs for restructuring and modernization of waste disposal plants have been assessed at PLN 370 ml.¹⁸⁵

The costs of all the activities aiming at the adjustment of the sectors under consideration to the EU standards are quite significant. They exceed the costs of organization and equipment of veterinary and plant health services, those of IACS establishment, of Paying Agency organisation and the reorganization of Polish agricultural administration. However, the majority of these costs cannot be included in the adjustment costs. These are typical costs related to the improvement of health standard of plants and environment protection, which have to be borne no matter if Poland becomes the EU Member State or not. Nevertheless, it is obvious that their accumulation within a short period of a few pre-accession years and during the first years post accession is forced by the need to adopt *acquis communautaire*.

5. Common Agricultural Policy in the Next Financial Perspective (2007–2013)

Proposals of CAP review announced on 21st January 2003 are another step changing CAP from sectoral policy into rural development policy. Some of them are to enter into force in the current financial perspective, as early as in 2004.

Commission proposals also include a draft agricultural budget for the years 2007–2013, accounting for the decisions taken at the Brussels summit (October 2002). According to these decisions direct payments and expenses related with agricultural markets’ organisation shall be growing slower than the inflation rate, which means gradual decrease of their real value.

From among the changes in the sectoral markets the most important one include cereal and dairy markets. The Commission suggests lowering cereal intervention price as of 2004–5 marketing year by 5% to the level of EUR 95.35/t while increasing direct payments from EUR 63/t to EUR 66/t as well as giving up rye intervention. Cereal intervention prices shall not increase every month (to-date storage costs were compensated in this way). The proposal is also to introduce changes on the milk market a year earlier with the view to apply as of 2014/15 marketing year. The Commission calls for the increase of dairy quotas by 1% per annum in 2007 and 2008, lowering the intervention price of skimmed milk powder within 5 years (3.5 % per annum -17.5% within 5 years) and butter (7% per annum – 35% within 5 years), lowering the target price of milk by 28% and limiting butter intervention purchases to 30 th. tons per annum.

¹⁸⁴ High Risk Material, following a proper processing, may be used, *inter alia*, as fertilizer and fuel. Specified Risk Material must be incinerated following initial treatment.

¹⁸⁵ R. Urban and team. The program of restructuring and modernization of waste industry in Poland (draft governmental programme). Ministry of Agriculture and Rural Development, Warsaw, June 2001, p. 35

The most important proposal is the one to introduce a uniform direct payment to substitute the majority of the existing ones (subsidies to field crops, starch, protein crops, rice, seeds, beef, veal, milk, sheepmeat and goatmeat, dry fodder). It is to be fixed based on the payments in a reference period, i.e. the period of 2000–2002. In order to facilitate settlements the Commission is to introduce eligibility certificates with respect to direct payments and their amounts. Farmers within one Member State shall be able to sell certificates together with the land or without it. The Member State may appoint regions in which the trade with certificates shall be limited. Each certificate which has not been used within five years (except cases resulting from Force Majeure or special circumstances) shall be included in state reserves.

The area eligible for payments is to include the whole area of agriculturally utilised land (as at 31 December, 2002) except the area used for non-agricultural purposes, under permanent crops or afforested. Farmers receiving payment are to be committed to observe the EU standards on environmental protection, food safety, health and animal welfare and safety at work, as well as to proper maintenance of the whole area of agricultural land. Farmers who do not observe mandatory standards are to receive lower direct payments or be subject to payment suspension/withdrawal.

The introduction of a uniform direct subsidy decoupled from production shall simplify IACS operation because establishing areas under particular crops and numbers of animals will not be a condition of payment any more. The system of plot identification shall remain the basis of IACS because it will be used for comparisons of data contained certificates with the reality.

‘Degression’, i.e. the proposal to provide some groups of farmers with subsidies the amount of which decreases with time (table 10), within the period 2006–2013, is of equal importance. At the same time it is called for the introduction of ‘modulation’, which means redirecting a part of funds saved as a result of lowering direct subsidies towards the financing of rural development. The remaining funds shall be intended for the funding of various undertakings, resulting from the provisions regulating agricultural markets. According to the proposals no degression and modulation shall be introduced in the new Member States until direct payments in these states are paid in full amount.

The Commission suggests the increase of Community aid aiming at the development of rural areas by means of new measures. They belong to the group of accompanying measures and shall be financed from the Guarantee Section of EAGGF along the whole area of the EU and their main aim is the support to farmers. The measures include:

- Subsidies to farmers who shall voluntarily participate in Community programmes or national programmes aiming at the improvement of quality of agricultural products and production processes, and as such shall provide the consumers with relevant guarantees. The subsidies shall be paid for not longer than 5 years and their amount may not exceed EUR 1500 per farm.
- Subsidies to producer groups conducting activities aiming at informing consumers and advertising products manufactured within the Community or national quality programmes. The amount of subsidy may not exceed 70% of eligible costs.
- Temporary and degressive financial aid to farmers adjusting their farms to mandatory Community standards (environment protection, animal and plant health, animal welfare, safety at work). The amount of this aid shall depend on the scope of work performed. It will be paid on the flat-rate basis for not longer than 5 years in annual degressive instalments and may not exceed EUR 10 th. per annum. The aid may not be granted to farmers who did not adjust to the standards resulting from the applicable national legislation.
- Aid to farmers using agricultural advisory services. Subsidies may cover not more than 80% of extension costs provided for the first time, but no more than EUR 1500

Table 9 EU-25 – expenses for agriculture in the case of accepting the Commission proposal (EUR ml)

Wyszególnienie	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. EU2 – 25 ceiling	42 979	44 474	45 306	45 759	46 217	46 679	47 146	47 617	48 093	48 574
2. expenses EU 25	41 681	43 642	44 395	45 156	46 123	47 568	48 159	48 805	49 451	50 099
of which EU-15	41 320	41 339	41 746	42 183	42 802	43 569	43 513	43 513	43 513	43 513
new Member States	361	2 303	2 649	2 973	3 321	3 999	4 646	5 292	5 938	6 586
3. Difference 1 – 2	1 298	832	911	603	94	-889	-1 013	-1 188	-1 358	-1 525
4. „degression”				228	751	2 030	2 420	2 810	3 200	3 343
including for rural development				228	475	741	988	1 234	1 481	1 481

Source: Document COM(2003) 23 final. Brussels 21.1.2003.

Table 10 Degression and modulation, percentage decreases of direct payments

	2006	2007	2008	2009	2010	2011	2012
A Total decrease of direct payments (cumulatively; w %)	1,0	4,0	12,0	14,0	16,0	18,0	19,0
B Direct payment decreases in particular groups of payments (cumulatively; w %)	0	0	0	0	0	0	0
C=(A+E)/2	1,0	3,0	7,5	9,0	10,5	12,0	12,5
D=A	1,0	4,0	12,0	14,0	16,0	18,0	19,0
E Including % of direct payments intended for the development of rural areas (cumulatively)							
5001 to 50000 EUR	1,0	2,0	3,0	4,0	5,0	6,0	6,0
Above 50000 EUR	1,0	2,0	3,0	4,0	5,0	6,0	6,0
Including % of direct payments intended for financing market mechanisms							
5001 to 50000 EUR	0	1,0	4,5	5,0	5,5	6,0	6,5
above 50000 EUR	0	2,0	9,0	10,0	11,0	12,0	13,0

- Subsidies granted to farmers who shall commit to improve animal breeding conditions so that they exceed normal good agricultural practice. The subsidies shall be paid every year and they shall be based on a statement of additional costs and revenues resulting from the improvement of conditions. The amount of subsidy may not exceed EUR 500 per 1 Livestock unit per annum.

The final shape of the proposals to be adopted by all Member States is not yet known. However, attention should be paid to these which are likely to influence the situation of Polish farmers. First of all, they include degression. Since the timetable for reaching full direct payments has been fixed on the basis of percentage share of subsidies currently received by farmers in new Member States (25% in the first year, 30% in the second year, etc) the decrease of full payments also means the decrease of the amount of payments in the new Member States.

The second proposal important for the Polish farmers is that of direct payment decoupling. This flat-rate system is something intermediate between the simplified and standard systems. It does not depend on the current crop structure or herd number and animal density per a unit of fodder area, but the subsidies are fixed at the level of the years 2000–2002. A question arises whether all the elements of IACS being currently established in Poland shall be necessary if the new system is adopted.

The third issue is the proposal to give up rye intervention. This proposal was inevitably formulated not only because the EU has a rye intervention surpluses, but also because of Brussels’ concerns about further increase of this surplus following the entry of Poland to the EU. Adopting this proposal would seriously worsen the economic situation of Polish farmers farming on weak soils on which rye may not be substituted with another crop which can be sold to intervention.

Finally the following two general matters related with the proposals should be considered:

1. Strong pressure for environmental issues, food health, animal welfare and safety at work. Farms not observing these standards are to be excluded from direct payment system. This is a very important message for Polish farmers who – within a few years – must pay particular attention to the standards and who will have to make use of the EU funds available for them following the accession to the EU.
2. Differentiation of the amount of direct payments depending on the size of farm, measured by the amount of subsidy received. Small farms (receiving subsidies not exceeding EUR 5000 per annum) shall receive them in the current amount; as of 2012 the subsidies to medium farms (receiving between EUR 5001 – 50000 per annum) shall be by 12.5% lower and those paid to huge farms (receiving over EUR 50000 annually) – by 19% lower than currently. Such a strong variation means that direct payments are clearly of social character and that the Commission wants to maintain a model of family farm and limit the rate of these farms’ liquidation.

6. General estimate of benefits

In the first part of Table 11 potential transfers to food economy in 2004–2013, from EU as well as national funds have been shown (state budget and local budgets). On the basis of these data one can formulate the following conclusions:

1. In the first decade of membership, despite only partial direct subsidies, farmers and agri-food operators as well as local self-governments shall have over EUR 42 billion¹⁸⁶ at their disposal in various forms (direct payments, structural funds, market intervention). This is the amount which enables to transform Polish agriculture and rural areas, or at least provides for a serious progress of this process;

¹⁸⁶ If Poland decides to top-up the payments from the state budget this amount shall increase to nearly EUR 48 bl.

2. Significant part of transfers (the total of direct payments, a part of market intervention system and structural funds; accompanying measures) are easy accessible funds, which shall flow automatically or almost automatically and may be used by the beneficiary in any way. The amount for the disposal may be assessed at approx. EUR 30 billion. They will obviously not be entirely used for development, but their portion shall be spent to a broadly understood consumption. One could wonder what proportion of this amount shall be intended for the development and what proportion shall be used for consumption. The answer has a crucial meaning for the assessment of the effectiveness of pumping such a great amount of funds into rural areas;
3. The access to approx. EUR 12 billion. is fairly difficult; they can be received if a beneficiary presents a good business plan, which shall be accepted by fund management bodies, if he engages own resources and then settles the accounts with the Paying Agency. They are intended first of all for investment and modernisation of farms, certain agri-food subsectors and for investment infrastructure in rural areas. They are of key importance for the development of rural areas in the first decade of the EU membership. Experience concerning SAPARD implementation, the rules of which are similar as those of structural funds, shows that at least in the first years of membership Poland may have difficulties with the use of funds intended for modernization and development of farms and agri-food industry undertakings. This situation may result in turning Polish agriculture into a live museum. And the conclusion resulting from the SAPARD implementation is that local self-governments are quite capable of the preparation of relevant draft projects and their consequent implementation.

And the conclusion from the ‘other benefits’ section of the Table hereunder is that the increase in producer prices and the opportunities for export increase can have a serious effect on the improvement of Polish agriculture.

Table 11 Polish food economy. Potential transfers between 2004–2013 and other possible benefits (commitments in EUR th.)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
I. Transfers											
1. EU funds	1 810 397	2 538 237	2 907 660	3 104 190	3 583 987	4 077 785	4 441 582	4 809 380	5 181 177	5 558 975	38 013 371
Of which: direct subsidies	867 397	964 237	1 085 660	1 091 190	1 363 987	1 636 785	1 909 582	2 182 380	2 455 177	2 727 975	16 284 371
Market intervention	130 000	343 000	367 000	381 000	389 000	397 000	405 000	413 000	421 000	430 000	3 676 000
Structural funds	813 000	1 231 000	1 455 000	1 632 000	1 831 000	2 044 000	2 127 000	2 214 000	2 305 000	2 401 000	18 053 000
2. Mandatory national funds	227 458	316 657	356 437	359 000	403 000	450 000	468 000	487 000	507 000	528 000	4 102 551
Of which direct subsidies	56 458	46 657	37 437								140 551
Structural funds (1)	171 000	270 000	319 000	359 000	403 000	450 000	468 000	487 000	507 000	528 000	3 962 000
Total 1 + 2	2 037 855	2 854 894	3 264 097	3 463 190	3 986 987	4 527 785	4 909 582	5 296 380	5 688 177	6 086 975	42 115 922
3. Optional national funds	487 590	544 327	615 029	818 392	818 392	818 392	818 392	545 595	272 797		5 738 909
Total	2 525 445	3 399 221	3 879 126	4 281 582	4 805 379	5 346 177	5 727 974	5 841 975	5 960 974	6 086 975	47 854 831
Of which direct payments	1 411 445	1 555 221	1 738 126	1 909 582	2 182 379	2 455 177	2 727 974	2 727 975	2 727 974	2 727 975	22 163 831
II. Other benefits											
Export increase	200 000	400 000	500 000	600 000	700 000	800 000	900 000	1 000 000	1 000 000	1 000 000	7 100 000
Producer price increase	970 000	985 000	1 000 000	1 015 000	1 030 000	1 045 000	1 061 000	1 077 000	1 093 000	1 109 000	10 385 000

Sources: Direct payments – table 2; other transfers: Initial information on the results of accession negotiations in the area 'Agriculture'. SAEPR. 6 Feb., 2003; estimates by P. Samecki, own estimates

7. Costs and Benefits of Poland's Accession to the EU in the Field of Social Policy, and Its Consequences on the Migration of the Labour Force

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1. Legal Regulations Concerning Social Policy in Poland and the European Union

The social policy of the European Union has become the basis for significant social advancement whose purpose is to make basic provisions of The European Economic Community (TEEC) real. The Community norms are focused on different aspects of the legal position of employees in the employment process, and in particular the promotion of equal treatment (equal rights) of men and women on the labour market, employment policy, issues concerning safety and health at a work place as well as social dialogue.

1.1. Equal Treatment of Men and Women on the Labour Market

The key role in this aspect is played by the Council Directive 75/117/EEC of 10 February 1975, on the approximation of laws of the Member States concerning the application of the principle of equal remuneration for men and women. This Directive recommends in particular the implementation of the „principle of equal pay,“ which means that when determining each element and condition of remuneration for the same job or for work to which the same value is given, sexual discrimination should not take place.

The other Council Directive 76/207/EEC of 9 February 1976, on the implementation of the principle of equal treatment for men and women with regard to access to employment, vocational training and promotion, as well as working conditions extends the Community actions to cover the elimination of discrimination of women regarding their access to the aforementioned facilities, and is supposed to favour the integration of women with work, development of their professional careers and preservation of the belief of equal employment rights among men and women. This Directive does not infringe on the regulations concerning protection of women for reasons of pregnancy and maternity, as well as the regulations aimed at protecting equal opportunities for men and women involving the elimination of discrepancies in the areas stipulated in the directive.

The intensification of measures which would guarantee the fulfilment of the equal treatment principle for men and women with regard to employment, was brought about by the Council Directive 97/80/EC of 15 December 1997, based upon proven cases of sexual discrimination. In those cases, the directive introduced proofing formulas advantageous for the claimant (employee) in cases when the charge of discrimination by an employer is proven. The burden of proof that no violation of the principle of the equal treatment took place has been transferred onto the employer. This directive applies to the situations stipulated in art. 119 of the Treaty and to directives 75/117/EEC and 76/207/EC. It also applies to the directive regulating parental leaves (96/34/EEC), as well as the directive on the introduction of measures to encourage improvements in the industrial safety for pregnant workers and workers who have recently given birth or are breastfeeding (92/85/EEC), with regard to sexual discrimination.

The Community laws on the equality of men and women referring to employment have been to a significant extent implemented in the Polish legislation. In particular, an amendment to the labour code invested in the Act of 24 August 2001, and enacted from 1 January 2002, (Official Journal no. 128, item 1405), implemented the regulations required by the EU laws in the additional Chapter II^a titled: *Equal treatment of women and men*. In the light of these regulations, formal establishment of the principle of equal treatment for women and men on the labour market took place.

1.2. Conditions of Employment Regulated by the EU Norms and Standards

Overall legal situation of people employed in the Community is defined by the norms that directly refer to the elements which stipulate the individual employment status, such as working time, leaves, parental leaves, as well as those concerning collective rights related to the guarantees in cases of insolvency of the employer, the employee's right to information and consultation in the company in case of changes in the economic or financial situation, technological changes, restructuring or merging of companies, as well as collective redundancies.

Both working time and leaves are regulated by the Council Directive 93/104/EC dated 23 November 1993, concerning certain aspects of the organisation of working time. The directive aims to improve the working conditions of employees, and to establish minimum requirements concerning the organisation of working time and work-leaves to serve that purpose. The amendment in the regulations of the labour code (section VI) concerning working time implemented by the

Act from 26 July 2002, in force as of 1 January 2003, to a great extent meets the requirements of the directive. Parental leaves have been regulated by the Council Directive 96/34/EC dated 3 June 1996, on the frame agreement concerning parental leaves. Polish regulations partially deviate from this directive because they introduce a younger age ceiling for a child (4 years instead of 8 years) of employees who wish to qualify for parental leave in parental care, and this leave does not include a guarantee of re-employment in the parent's current post after the completion of parental leave, but only includes a guarantee of remuneration of being equal to or greater to the returning parent. As for the remaining aspects, the right to a parental leave meets or even significantly exceeds the standards stipulated in the directive.

Protection of employee's claim in the case of employer's bankruptcy is regulated by the Council Directive 80/987/EEC dated 20 October 1980, on the approximation of laws of the Member States concerning employee protection in the case of an employer's insolvency. Poland, to implement the recommendations which ensue from this directive as a candidate country to the EU, is obliged to adopt the EU laws created from the Act of 29 December 1993 concerning employee protection in the case of an employer's insolvency and render a guarantee institution, called the Guaranteed Employee Benefits Fund, whose funds come mainly from the obligatory premiums paid by employers.

The Council Directive 98/59/EC of 20 July 1998, on the approximation of the laws of the Member States concerning collective redundancies takes measures to alleviate the effects of such redundancies to employees. The implementation of the Community laws which refer to collective redundancies took place in Polish legislation through the Act of 28 December 1989 providing special principles governing employment termination for employees with reasons referring to the employer, and through amendments to some other Acts. Polish law regulations comply with the Community laws.

The latest EU norms introduce a principle of equal treatment of employees in employment on the basis of criteria other than gender, marital status or family relationships. The Council Directive 2000/78/EC of 27 November 2000 establishes a general framework for equal treatment in employment and occupation. The aim of the directive is to establish the framework for counteracting discrimination related to religion or belief, disability, age or sexual orientation as regards employment and work for the purpose of implementing the principle of equal treatment in all Member States. At the same time another Council Directive 2000/43/EC of 29 June 2000 was issued to implement the principle of equal treatment between persons irrespective of race or ethnic origin.

Both directives cover all aspects of taking up and performing employment as well as employees associations, and relate to social protection, health care and education. Should claims be filed, the burden of proof lies with the defendant in accordance with the principle adopted by the Council Directive 97/80/EC, 15 December 1997.

In Polish legislation, the ban on employment discrimination with regard to gender, age, disability, race, nationality, political or religious beliefs as well as membership in trade unions has been formulated in art. 11 3 of the labour code. However, Polish legislation lacks the ban on discrimination with regard to sexual orientation or ethnic origin. The amendments to the labour code currently under preparation will eliminate this flaw.

1.3. Industrial Safety

Industrial safety constitutes the subject of numerous regulations within the Community laws. The key role in this respect is played by the Council Directive 89/391/EEC dated 12 June 1989 on the introduction of measures to encourage health and safety improvements for workers at their work. This directive formulates employer's obligations to guarantee their employees safe and healthy working conditions concerning every aspect of work. Section X of the labour code titled Industrial safety contains regulations on all aspects which constitute the subject of the regulations of the directive 89/391.

The Directive 383/91 of 25 June 1991, on working safety and health conditions with regard to employment for a definite period of time or temporary employment, is addressed to the employer wherefore the date of termination has been set indicating a specific date, the performance of the agreed work or the completion of a specific task, and to the employee who is employed by a temporary staffing agency. Under the Polish legal system, employment hired for a definite period of time is protected under the same conditions as that applying to the full-time system. Under the current legal status, no organisation of work by temporary recruitment agencies is recognised. At present, these issues are partially regulated by the new art. 298 3 of the labour code, and its tenor constitutes a reflection of the Community laws.

Amendments have been introduced into the labour code which take into account special needs of female workers with regard to maternity which do not infringe on the principle of equal treatment of women and men. Under art. 179 of the labour code, protection to which pregnant working women are entitled has been extended to cover working women who have recently given birth or are breastfeeding. This regulation complies with the requirements stipulated in the Council Directive 92/85/EEC dated 19 October 1992, which introduces measures to encourage improvements in the industrial safety of pregnant workers and workers who have recently given birth or are breastfeeding. The new regulations have eliminated the discrepancies with the Community laws in this respect.

Measures taken by the Polish legislator relating to equal rights of women and men lead to a change in the regulations stipulating the list of jobs that cannot be performed by women.

1.4. Social Dialogue Regulated by the EU Norms

To assure harmonious development of international enterprises operating in the EU, a need has arisen to establish Works Councils within such enterprises whose purpose will be to inform and to have the employer-held consultations on the decisions that pertain to all employees. These issues are stipulated in the Council Directive 94/45/EC from the 22nd September 1994. The implementation of the provisions of this directive into the Polish legal system took place on the 5th April, 2002, by virtue of the Act on the European Work Councils (Official Journal no. 62, item 556). This act will take effect on the day Poland is admitted to the European Union.

The right of employees to information and consultation in an enterprise has been expanded in the latest Directive 2000/14 of the European Parliament and the Council from the 11th March 2002, stipulating a general framework of information and consultation for employees within the European Union. The implementation of the provisions of this directive into the legislation of the Member States should take place by March 2005. The implementation of the aforementioned directive into the Polish law will require identification of enterprises and companies which run businesses and employ a certain number of employees. Moreover, in enterprises and companies in which no trade unions are present, it will be necessary to establish a body representing employees which would be authorised to accept information and undertake consultations on issues concerning social dialogue.

2. Costs and Benefits of Poland's Accession to the European Union in the Field of Employment Policy

2.1. Equal Opportunities Policy

Phenomena observed on the Polish labour market show that despite theoretical equal opportunities for women and men on the labour market, women belong to the group of particularly vulnerable people. The indicator showing the number of women employed in the

Polish economy in the last several years was lower by approx. 15 percentage point from that of men and showed a downward tendency, along with a drop in overall employment figures caused by decelerated economic growth that has taken place since 1998. The index of employed women in the European Union is also relatively lower than that of men, although its growth means that opportunities for women on the labour market are actually improving. This is a result of the real implementation of the principle of equal treatment of women and men on the labour market (Głabicka, 1999, pg. 87–88).

The discrimination of women on the Polish labour market can also be illustrated by a higher contribution of women in the unemployment figures, even despite the fact that unemployed women are better educated than unemployed men. In the years 1996–2001 the contribution of unemployed women with higher qualifications in the overall number of unemployed women ranged between 2.3–3.8%, and for men it was 1.2–2.5%.

The impact of sex on the risk of unemployment is also visible in the contribution of women in long-term unemployment. Although the contribution of women unemployed for a long period of time in the number of all unemployed women in Poland was lower than their respective average contribution in the Member States. In 2000, contribution figures came close to one another (approx. 46%), and in 2001 this contribution increased to 48.3%. The contribution of long-term unemployed women has been systematically decreasing since 1997 in the Member States.

In Poland, unemployed women also dominate among young people aged between 15–24. The unemployment rate with regard to women increased in the years in question from 29.5% in 1996 to 37% in 1999, whereas for men they increased respectively from 23.4% to 28.5% (Economic activity of the population in Poland, 4th quarter 2000, pg. LX–LXII). An average unemployment rate among young men in Poland in 1999 was 32.5% and was almost twice as high as the average unemployment rate of 17.9% in the EU (Eurostat, 2000, pg. 148).

To summarise, we can say that although the idea of equality of the two sexes is strongly emphasised in normative actions, it is still necessary to implement and strengthen the measures guaranteeing its actual realisation. Such hope can be brought about by Poland's membership in the EU. We should also mention the costs of executing the principle of equal employment opportunities for men and women which are so hard to estimate, although in the light of manifested discrimination of women on the labour market we should take these costs into account.

2.2. Conditions of Employment

Major changes that will be implemented into the Polish labour law in this regard will concern working time and the duration of leaves. This relates to the implementation of the total working time (including overtime hours) of 48 hours per week. Moreover, the number of overtime hours cannot exceed 150 in one calendar year. Beneficial changes include the implementation of breaks not shorter than 15 minutes for people working for at least 6 consecutive hours. These breaks are included in the working time. The employee will also be entitled to a 24-hour leave of at least 11 consecutive hours and a 1-week leave of at least 35 consecutive hours (see Draft Act on amending the Act on...).

Beneficial changes will also pertain to the length of vacation leaves. Member States have committed themselves to guarantee all employees who have worked for at least one year a paid vacation leave of at least 20 days. The norms existing in Poland guarantee employees who have worked for at least one year an 18-day vacation leave (Fijałkowski, 1998). A beneficial change will be in the length of parental leaves. In Poland we have a 3-year leave (including 2 years of social benefits) for mothers of children up to the age of 4. In the EU the minimum duration of leave is 3 months but it can be prolonged until the child reaches the age of 8. The directive also includes a provision concerning the right to return to the same or equivalent post. Another significant and beneficial change will be a possible leave for pregnant workers and workers

who have recently given birth or are breastfeeding. Female workers will be entitled to a leave for the entire period that is necessary to guarantee her safety and health protection if it proves impossible to adapt the working conditions to the woman's needs in order for her to safely return to work and perform her job, and if it proves impossible to transfer the worker to another, safer post.

The implementation of the above changes will mean additional, rather significant costs for employers, especially for owners of SMEs. These costs (at least partially) will have to be covered by the state, since the entrepreneurs might otherwise avoid hiring women (see Golinowska et al., 1999, pg. 20).

In accordance with the European Employment Strategy, a significant role in increasing employment is played by flexible forms of working time. Beneficial changes made in this respect concern part-time employment and a ban on discriminatory practices when agreeing on terms and conditions of this type of employment (see Draft Act on the amendment to Act...). The greatest percentage of part-time employees can be observed in Holland (42% of the entire working population; with regard to women this percentage goes as high as 70%). In Poland, in 2000, the percentage of people working part-time amounted to 10.8% (Economic activity of the population in Poland, 2000). Poland's accession to the EU and adoption of the Community norms may help make the labour market more flexible. One of the benefits is the possibility to harmonise family life with working career, to increase the population's income and therefore the living standard, and to increase employment in the Polish economy.

Another benefit ensuing from Poland's accession to the EU can be an increase in employment resulting from further and quicker inflow of investments into Poland from the Member States. In 2000, these investments constituted 63.3% of investments with the use of foreign capital. It is estimated that 55% of the value of foreign investments has been invested in fixed assets (Prawo Przedsiębiorcy, 2001, pg. 7). Thanks to these investments it will be possible to modernise fixed assets and to observe inflow of new technologies into Poland. At the same time, this will mean increased work efficiency resulting in an increase of the real pay. In the long run this will constitute a factor diminishing the need for migration to other countries to seek employment.

2.3. Industrial Safety

The implementation of the Community norms in this area will be associated with significantly high costs. Poland has applied for a 3-year period of grace until the 31st December 2005, with regard to Directive 89/655/EEC concerning minimum industrial safety requirements concerning the use of equipment and machinery (see www.negocjacje.gov.pl).

The implementation of the EU norms will result in increased investment costs related to the modernisation of outdated technological park in Poland (Golinowska et al., 1999, pg. 17). Small enterprises may encounter the most serious problems where the replacement of machinery will be rather costly. In the Polish economy in the year 2000, a degree of overall usage of fixed assets amounted to 47.2%, including 58.5% for the machine park. Moreover, in the years 1990–1999, an average yearly capital replacement rate was 0.7% (in contrast with 4.1% for Germany and 2.6% for France). Additional costs include operating costs related to the implementation of industrial safety and health norms, e.g. holding the necessary medical examinations and institutional costs related to the need to support the state institutions supervising the implementation of the industrial safety norms (Golinowska et al., 1999, pg. 17).

The benefits of modernising the production park that will be derived by the employees and employers include, above all, reduced number of industrial accidents and reduced absenteeism. As of 1997 the number of industrial accidents in Poland has been dropping, including accidents resulting in death. In the years 1997–2000 the rate of accidents per 1000 employees, causing absenteeism exceeding 3 days, dropped from 9.8% in 1997 to 7.91% in 2000, and the rate of accidents resulting in death from 0.06% to 0.05%. In 1998 these rates for the EU were at 4.1%

and 0.03% respectively (EU Employment, 2001, pg. 35). It can be said that in the long run the benefits of improved industrial safety will certainly exceed the costs.

2.4. Social Dialogue

Poland has initiated and is holding a social dialogue, the parties in which are employee and employer organisations as well as the government. However, it is not as extensive as it is in the Member States. The causes cannot be attributed to the regulations, but rather to the fact of themselves not being practically applied. The implementation of the still remaining regulations concerning the social dialogue will rather not result in a significant increase in costs. As an example we can use the introduction of the directive 77/187 concerning the obligation to inform employee representatives about transfers of business (Golinowska et al., 1999, pg. 21).

The number of trade unions in Poland is significantly lower (18% of employees) than it is in the Member States (on avg. 31% of employees). When comparing data from earlier periods, we can say that trade unions in Poland are going through a crisis (in the mid eighties union membership amounted to 50%; Getka, 2002, pg. 38).

The number of collective labour disputes in Poland resolved with the assistance of a mediator from the list of the Ministry of Labour and Social Affairs shows a growing tendency (in 2001 it was 64, resolved without the mediator 38).

2.5. Implications of Poland's Accession to the EU on the Volume of Migration of Labour Force

Results of the majority of forecasts (Polish, German, Austrian and the forecast presented in the Report of the European Commission), concerning the movement of labour force in the context of yet another enlargement of the EU, show that there are no reasons to fear about a great migration wave. According to some opinions, not even a million of people will emigrate from Poland by 2030, which means that an average annual migration will oscillate around several dozen thousand people. Study results show that the majority of Poles will move to the European countries, primarily to Germany. At the same time, the authors of the study point out that the expected volume of migration will not have a negative impact on the labour market in the EU for the following reasons:

- the European population is aging. The Maintenance of work supply on the same level in the Member States will require an inflow of approx. half a million people in the years 2005-2010, and even 1.6 million people annually between 2010 and 2015 (Monitor Integracji Europejskiej [*European Integration Monitor*], 2001);
- as a result of the full opening of the markets there will be a significant inflow of capital into Poland, and there will also be a phenomenon of the migration of certain working groups from the EU to Poland;
- it is being estimated that the EU membership will result in the acceleration of a GDP growth in Poland, which will weaken migration pressure in the long run;
- the integration of countries having a relatively high ratio of labour cost to the capital with countries with a relatively high ratio of capital prices to labour cost results in a flow of production factors and changes in the ratio of pay to the capital prices in both countries. It can be thus assumed that as a result of inflow of the EU capital, the number of jobs created in Poland by EU enterprises will absorb a large portion of labour force considered to be a potential migration group.

Benefits related to migration are such that immigrants from Poland and their families will be guaranteed social security at the level of the country where the immigrant works. These

benefits are significantly higher than those in Poland. Another benefit will be the pay transfers from abroad.

The costs for the Polish economy will be associated with the need to guarantee to employees from current Member States appropriate social security benefits. It is being estimated that because the number of foreigners working in Poland will not be great, the costs will not be significant. Between 1998 and 1999 the number of work permits in Poland granted to employees from the four countries: USA, France, Germany and Great Britain amounted to approx. 17 thousand annually (Iglicka, 2001). Another type of cost will be the migration of highly qualified people from Poland.

3. Costs and Benefits of Poland's Non-accession to the European Union in the Field of Social Policy

As far as the realisation of equal employment opportunities for men and women is concerned, Poland's cost of non-accession will be employers' missed opportunity to observe how the rules on non-discrimination of women in employment operate in practice. The benefit of non-accession will be the possibility to lower costs related to social benefits ensuing from women's maternity role. Regarding the employment policy, the consequence of non-accession would be reduced inflow of foreign investments into Poland, which could have a negative impact on the labour market which would result in decreased inflow of new technologies and play part in decelerated growth of work efficiency. The consequence of this would deepen due to differences in the level of economic development between Poland and the Member States. In 1999, R&D expenditures in Poland constituted 0.75% of GDP. In contrast, in Sweden they constituted 3.8%, in Germany 2.44%, and in France 2.17% of GDP.

With regard to positive consequences of non-accession of the Polish economy to the EU structures (at least in the short run), we should include the lack of costs referring to the adaptation of the Polish regulations to the EU norms in terms of working time, leaves, part-time employment and costs related to industrial safety in terms of the need to replace old machinery and equipment. Those costs would particularly affect small enterprises. In the long run, however, these measures will bring benefits related to improved industrial safety and therefore reduced number of accidents.

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8. Costs and Benefits of Poland's Membership in the EU: Environmental Protection

Tomasz Żylicz

1. Introduction

The analysis of the costs and benefits of EU membership requires the determination of detailed development scenarios of the country in the hypothetical situation of being a member of the EU and of staying outside this structure. The imprecise nature of the “no access” scenario is an essential constraint to drafting such a comprehensive evaluation. For the last few years Polish legislation has evolved towards EU legislation and it is difficult to determine at the moment what the ecological policy would be if determined by strictly national constraints. Therefore the analysis essentially concerns the costs and benefits associated with the implementation of the environmental protection policy as elaborated by the Polish government; this is undoubtedly driven by EU requirements, but most likely it will be continued, irrespective of the outcome of accession negotiations.

The other difficulty concerns the economic evaluation of the costs and especially the benefits. Investment programs can be evaluated in many ways depending, for example, on the adopted discount rate; the higher the rate the more important is the early investment outlay and therefore the higher are the savings from derogations; while the benefits from environmental improvements are usually difficult to measure and therefore are quoted with a substantial margin of uncertainty. Under this analysis they are frequently estimated by comparing them with foreign studies and might not fully reflect Polish circumstances.

2. Ecological Requirements of *Acquis Communautaire*

EU law leaves member States the freedom to develop environmental protection institutions. Thus essential changes to national administration structures should not be expected. However it

will be necessary in some cases – as for example in relation to Directive 96/61/EEC on integrated pollution prevention and control. A frequent approximation requirement concerns the increase of the level of the existing regulations. The plans and programs (envisaged under some framework directives – such as 75/442 or 96/62) should also be of a legal nature, which currently they lack under Polish legislation.

Voluntarily adopted practices (codes or standards) are an important element of the self-regulation of business activity. Adopting such practices by Polish businesses is not a condition of joining European structures but it could be anticipated as an effect accompanying the tightening of economic relations. More and more companies keen on their image will prefer co-operation with partners who for example can offer the ISO 14000 standard (“ecological correctness” of operations) or who have adopted the appropriate practices. Therefore, closer economic relations will in this case result in an improved ecological awareness among the management of business entities.

A significant number of Polish emission standards are consistent with EU standards. This applies especially to the concentration of pollution emitted by energy installations. (Directive 88/609/EEC and in Poland, the Ordinance of the Minister of Protection of Environment, Natural Resources and Forestry of 1990) and the concentrations of pollution in municipal waste (Directive 91/676/EEC and in Poland, the Ordinance of the Minister of Protection of Environment, Natural Resources and Forestry of 1991). In the first case the measurement methodology is different, but the result is close: for example with regard to sulphur dioxide the Polish requirements are slightly milder, while with regard to nitrogen oxides they are more severe. In the latter case there are some methodological differences as well, but the requirements are similar, so there is no essential conflict between the standards, though the approximation requires both logistic changes and some (moderate) economic effort.

However above all, standards regarding the discharge of the sewage containing hazardous substances should be adjusted (Directive 76/464/EEC). This applies to a small degree to municipal waste sewage plants and to a higher extent to industrial facilities.

The current practice accommodates a double approach to the issue of regulating access to the environment. On one hand the guarantee of a certain minimum level of environmental quality or protection of the population's health is adopted as the superior legal principle; then the acceptable emission level results from how much can be discharged into the environment without causing excessive degradation. On the other hand the term of “the best available technology” (BAT) functions as a reference point as to what could and should be expected from business entities; then the acceptable level of the emission results from the technology constraints. Though this term is not precisely defined under currently binding Polish regulations, it still forms a certain guideline to determine emission standards.

These are very different approaches and their conflict can be observed best in environmental protection in regions of high concentration of industrial activity, especially the Upper Silesia region. If the number of entities emitting pollution is large then even if every one of them were using the best technology available the total combined ecological effect might not be sufficient. This also applies to road transport and other cases of using the environment. Under the current practice the administration attempted to achieve a certain compromise between both approaches. Though it was still far from ideal there was at least an awareness of the need to apply both approaches.

However the evolution of EU law at the turn of the eighties and nineties strengthened the technological approach. This was primarily reflected in Directive 96/61/EEC regarding the integrated pollution prevention and control system. This Directive while assigning the key role to the term of the best available technology will undoubtedly have an impact on Polish regulations. There will be a strong trend to have the scope of the environmental protection subordinated primarily to the technological constraints and to put other aspects of landscape and resource management on the side. Though article 10 of this directive envisages that the application of BAT might not be sufficient in situations where emission standards are exceeded, there is a concern that this loophole will not be

easy to apply in practice. It can be expected that the Polish environmental protection administration will be under extreme pressure to tolerate the best available technology even where ambient environmental quality standards are exceeded, especially if a similar technique has been accepted in other European regions (probably less polluted).

There are some obligatory standards which will have to be adopted by Poland. Some of them (such as Directive 85/210/EEC regarding the content of lead in petrol) are already reflected in national legislation. Others (such as Directive 93/12/EEC regarding the sulphur content in some fuels or Directive 86/662/EEC regarding noise emitted by household appliances) are yet to be included.

As mentioned above, environmental protection in Poland is based on a set of standards determining the acceptable concentration of pollution in the air and water. They include several dozen substances and they are frequently stricter than corresponding standards in the EU or the values recommended by the World Health Organisation. However despite including them in the regulations, these standards are chronically regularly exceeded by many times in some locations – also presently even after the significant reduction of emission levels achieved after 1989.

It will not be easy to decide on the future of Polish environmental protection standards. In the opinion of many experts some of these standards reflect the political environment of the seventies. They are the expression of the verbal acceptance of the environmental protection postulates, even more radical than those stated in Western Europe. However their authors were not able to assess whether they are realistic postulates even in a perspective of a dozen years or a few decades. It is clear that some of these norms are stricter than EU standards. Should approximation mean their liberalisation?

Obviously in the short-term perspective there will be economic pressure to adopt the more moderate standards admitted under EU law. However, hasty manipulation of Polish regulations in this area should not be recommended for three reasons. Firstly, these “unrealistic” standards were not determined completely arbitrarily; theoretically they protect certain values (health, nature, material culture heritage), which are valued more by Poles year by year. Secondly, an attempt to liberalise the regulations would meet with opposition from a part of society and decrease the prestige of the State authorities. Thirdly, in the EU we are witnessing a trend to gradually make environmental protection standards stricter. Therefore the benefit of too eager a duplication of the current regulations could be short-sighted and not worth the material and social losses triggered by this move.

3. Open Issues of EU Ecological Requirements

EU law is not always unambiguous. In cases of doubt, issues are settled by the European Commission. The Commission prefers the technological approach and the supremacy of the single market rules over ecological requirements. If an EU member state does not agree with the interpretation of the law made by the Commission it can appeal to the Tribunal in Strasbourg. However the verdicts of this tribunal usually support the decisions of the Commission, which makes the interpretation of the Commission binding in practice.

The position of candidate countries towards the Commission is even weaker as they are not entitled to appeal to the Tribunal. In other words the interpretation of the law made by the Commission is final. Theoretically candidate countries will be entitled to the appeal procedure from the time of accession, but regulations have investment consequences. The governments of candidate countries would not therefore want to threaten their business entities with likely losses in case there is a need to accept the Commission's interpretation in the future.

The Directive containing numerous interpretation ambiguities is Directive 96/61/EC (so-called IPPC). This requires the application of the best available techniques, but the techniques themselves

have not yet been determined. Currently expert teams are being identified, in which Polish experts are usually not represented. However it can be determined that the uncertainty associated with this Directive applies not just to Polish entities, because some EU producers as well could be surprised by the need to adjust to requirements agreed upon behind their backs.

The issue especially important to Polish business entities is Directive 94/66/EEC (so-called Large Combustion Plant (LCP Directive) and the later Directive 2001/80/EC replacing it. This imposes significant technical requirements on installations where coal is combusted. However not all technical details are known and the interpretation differences are transposed into costly investments in facilities whose future is uncertain. The definition of the facility itself is an example of interpretation differences. For the Polish side it would be more convenient to identify the facility as a stack, from which the emission takes place. However the European Commission tends to interpret the facility as a boiler, where fuel is combusted, even if several boilers are connected to the same stack. Should the interpretation of the Commission be final, then the Polish economy would have to incur the substantially higher costs of the modernisation of its facilities which are not justified by any additional ecological benefits. There are also some uncertainties associated with the determination of "old" as against "new" facilities, towards which the requirements are stricter.

Another example of the problem, regarding which the Polish side might have the impression of significant interpretation uncertainties, is the admissibility of public assistance. Though the respective rules are not stipulated under any directive, but just under the "Guidelines" it is still the responsibility of the Commission to approve or to cancel any forms of such assistance. Therefore compliance with "the Guidelines" is mandatory in practice.

The restrictions associated with public aid for business entities are justified by single market requirements: no government should interfere with competition. However there are some rational premises to provide such aid for environmental protection in some cases. And its rationale results from objective factors – so-called external benefits generated thanks to the protection – while the "Guidelines" stipulate the formal conditions (who can receive the aid and with what intensity). After 1989 Poland had developed parabudgetary environmental protection fund system and thanks to this system it made enormous progress in overcoming the ecological crisis. After accession to the EU some of the domestic assistance programs will have to be reduced. It will not form a major threat if they are replaced by EU programs. However the problem is that EU funds require counterpart financing. And while not being able to rely on the good financial condition of business entities, the Polish ecological policy seeks a solution by support from the environmental protection funds, whose legality might be questioned by the Commission.

4. The "Non-accession" Scenario for Poland

As already mentioned in the introduction, the pro-EU adjustment of Polish law has taken place since the nineties. In 2002 the Polish government drafted the National Development Plan (NDP), where the country's development scenario within EU structures was outlined. There is no official vision of Poland's future outside the EU. Therefore it is difficult to outline a scenario, under which the country is supposed to develop in isolation from EU structures. The comments below serve only as a general identification of these changes, which might be expected in the case of following an independent path of social and economic development. There are hypothetical results both in favour of and harmful to environmental protection; those linked to a better availability of funds for ecological policy, and those which simply restrict it; those for increasing and for reducing the costs of environmental protection.

Primarily under the "non-accession" scenario we can expect a lower rate of economic growth. Its most obvious ecological consequence is the lower energy consumption and therefore the

lower emission of greenhouse gases. On the other hand economic stagnation does not favour the enforcement of the reduction of emission of "traditional" pollutants such as dust, sulphur dioxide or nitrogen oxides from business entities. However from the household point of view, slower economic growth would mean a slower rate of motorisation followed by a lower emission of pollution from this source.

Under the "non-accession" scenario in agriculture a slower rate of the consolidation of farms and switching from low-investment to high-investment farming can be expected. In this regard the lack of EU access would mean a decisively lower pressure on the environment and especially a lower loss of biological diversity. It is worth mentioning that it is the loss of biological diversity as the only one among a dozen or so prominent European environmental problems, which can not be solved in the next decade irrespective of the technical solutions, which would be dedicated to it.

In terms of the ecological requirements regarding stationary emission sources (especially in the energy sector and industry) and sewage plants a substantial approximation of the Polish and EU laws took place. Actually the only significant differences regard the transition periods. The derogations negotiated by the Polish government delay the implementation of a few requirements by several to a dozen or so year. In respect of air protection these derogations regard the most expensive industrial investments requiring the application of BAT. They are not critical for the reduction of emission and therefore the government – not subjected to political pressure – certainly would not aim at its earlier implementation. On the other hand, the European Commission acknowledging the enormous level of investment expenditures accepted the delay in their completion. In other words under the "non-accession" scenario we can expect just a slightly delayed process of the reduction of the emission of air pollutants, especially by the largest installations. Regarding water protection, the situation is slightly different. The obligation to have a sewage network in place in even the smallest human settlements has a small impact on the quality of the surface water, though it undoubtedly contributes to the liquidation of septic tanks and therefore to the improvement of ground water. However the price is rather high especially considering the dispersed development and lack of effective spatial planning. In addition the Polish government assumed that the entire Polish territory is exposed to eutrophication and as result requires tertiary treatment, i.e.- with an enhanced abatement of biogenes. The government decision was not enforced by the European Commission, though some countries – especially Sweden – were very pleased with this decision. It is difficult to determine whether under the "non-accession" scenario it should be assumed that the majority of sewage plants would be working on the cheaper secondary treatment technology. According to some studies [Hughes, Bucknall 1999] from the point of view of achieving the first or second degree of water quality in Polish rivers it is sufficient for most locations. However it cannot be stated that such an option would be adopted by the Polish government under the "non-accession" scenario. It would be the case if water protection would be subordinated to the cost-effectiveness criteria, which is unlikely.

In terms of the prevention of the emission of pollutants from stationary sources, the lack of EU access would probably result in a slight increase of the emission of air pollutants and a slight increase of the discharge of sewage into the surface water. It would also result in the substantial increase of the pollution of the ground water caused by leaking septic tanks, which however is difficult to document. In both these areas the deterioration of ecological results would mean at the same time a clear reduction of the investment outlay necessary.

The current studies of the ecological and economic outcomes of accession did not include the policy regarding global climate change. The recent withdrawal of the USA from the Kyoto Protocol and the assumption of the leading role by the EU in the organisation of the worldwide coalition in favour of reducing CO₂ emissions anticipate a rather aggressive policy of the Commission in this area. This is confirmed by the acceleration of the work on the Directive on the emissions trading of this substance. Poland ratified the Kyoto Protocol and has good perspectives for reducing emissions below the level stipulated under this document. Should Poland not be a part of the EU it would have a complete freedom in selling the unused part of

the limit set under this Protocol, while the Directive imposes on the member States numerous barriers that do not allow these surpluses to be freely commanded. As a result of being a member of the EU Poland might have a smaller incentive to reduce the emission of CO₂ than by staying outside the EU structures.

As we see from the above review, a strict determination of the difference between the “accession” and “non-accession” scenarios is impossible. The policy of the Polish government in the nineties led to a substantial approximation of domestic regulations with those of the EU. Forecasts regarding future social and economic development cannot disregard it. Irrespective of EU membership, environmental protection in Poland in the coming decades will have to follow a similar path. As a consequence, further discussion of the costs and benefits concerns only the total values, rather than the differences in relation to the “non-accession” scenario. Only in some cases – where these differences seem to be obvious – shall it be indicated how the access scenario is able to change the relations between costs and benefits.

5. Essential Benefits From EU Membership

The expected benefits of adopting the EU environmental protection rules first of all include the better protection of humans against the action of these types of pollutants which have not been controlled sufficiently to date. In this respect it is important to adopt not just quantity standards – as these are sometimes more liberal in the EU than in Poland – but rather the administrative and legal procedures ensuring their implementation in practice. Protection against dust and car exhaust gases seems to have the highest significance in this regard (including especially Directives 80/779/EEC, 82/884/EEC, 88/77/EEC, 92/72/EEC, 94/63/EU, 96/62/EU). In these areas the distance between Poland and the EU is exceptionally large. The implementation of European regulations should also improve the situation in regard to the provision of potable water (including especially Directives 75/440/EEC, 79/869/EEC and 80/778/EEC). This applies to both the classification of water intake for household purposes and ensuring proper monitoring. In all these cases the pressure exercised by international institutions to enforce EU standards will have a positive effect.

The current Polish standard for the average annual sulphur dioxide concentration is stricter than the EU norm. In the majority of the country's territory this concentration level is kept within the range envisaged under the regulations. Currently these levels are even below the level assumed as safe for forest protection. A potential liberalisation of this standard to the level accepted in the EU will probably not improve the situation.

However sulphur dioxide is not a pollution issue, which in the Polish environmental protection policy would draw exceptional attention. Although, “acid rain” – one of the major factors of the deterioration of forests in Europe – is to a higher and higher degree brought about by the emission of other acid substances, including especially nitrogen oxides. The reduction of their emission is difficult as motorisation has an increasing share in this area. Many societies are particularly sensitive to attempts to hamper or make the operation of vehicles more expensive. This also applies to transitional economies where a further intensive growth in the demand for vehicles and road transport is expected. In this situation EU regulations would probably have a more restrictive impact on the emission of nitrogen oxides than should be expected considering Poland's political constraints. In the long-term perspective it should reduce the pressure on the domestic forest ecosystems.

The improved competitiveness of the economy thanks to standardisation of processes and products and the improved efficiency of business operations will be another benefit of adopting EU environmental protection law. In cases where achieving environmental protection at a level envisaged under the directives requires increasing costs; the additional burden to be incurred by

the Polish economy is no higher than in other EU countries. Therefore it does not prevent the opportunity of competing with suppliers from these countries. And in the long-term perspective it prepares the economy to meet ecological requirements, which will undoubtedly increase. In addition the standardisation of processes and products facilitates co-operation in production because of the reduction of technology-associated risk and the liability for ecological damages.

Exports should be facilitated as a result of avoiding the restrictions imposed on the producers suspected of "eco-dumping", concerning the apparent reduction of production costs at the expense of ecological damage. Some Polish export sectors – such as the metallurgical sector – is accused of such dumping and is threatened by trade sanctions. Irrespective of the fact as to whether such accusations are justified or simply just a form of protection of the EU market, meeting EU requirements by Polish producers will enable them to dismiss such accusations.

An additional benefit associated with EU membership concerns the opportunity of obtaining support from assistance funds. The European Commission has developed many such instruments with the most commonly known funds that are associated with the agricultural sector. Currently the EU is undergoing significant evolution aimed at reducing and making access to such funds more difficult, which is brought about inter alia by the perspective of accepting new members. The EU budget could not sustain the enlargement of the EU, while keeping on with the current assistance programs.

So while the new Member States should not count on the support from assistance funds functioning on former conditions, environmental protection is an important exception. The recently observed trend in agricultural policy supports the claim that some of the funds made available previously in the form of agricultural subsidies will become available in the form of ecological subsidies. This applies to compensation paid to farmers for keeping so-called ecological land, keeping or restoring hedges, reduced use of chemicals etc. Therefore assistance associated with environmental protection will play a far more important role in the EU offer.

Upon the request of the European Commission [ECOTEC et al. 2001] a detailed analysis of the benefits of Poland's (and all other candidate countries') membership in the EU was undertaken. The analysis is strictly formal because of the assumption that without membership, these countries would not make any effort to improve the environment. As already mentioned, this is an incorrect assumption; therefore the forecasts obtained are exaggerated and also include benefits, which would be achieved anyway because of the evolution of the national legislation. The Annex (table 1) contains a summary of monetary valuations.

The analyses of the European Commission indicate that the largest benefits – from Euro 2.65 to 15.4 billion annually – are allocated to the improvement of air quality. The essential components of this valuation are the health benefits: primarily the lower mortality rate and the morbidity rate. The large (nearly six times) difference between the lower and upper levels results mainly from the margin of uncertainty of monetary valuation of statistical life and health that this analysis is based on. The analysis of the (health) benefits from the reduction in concentration of a few major air pollutants conducted in 2000 [Dziegielewska 2003] suggests their valuation at a level of 33 Euro annually per average adult Pole. At the national level, this corresponds to an amount of Euro 1 billion per annum, i.e. less than adopted in the report.

The annual benefits for the improvement of water quality are estimated at the level of Euro 1.4 to 3.28 billion, which comprises mainly the benefits from potable water and the benefits of inland recreation water and the Baltic Sea. The Polish data used in this report is rather underestimated. For example, benefits arising from the improvement of the quality of the Baltic Sea water adopted in the report, on the basis of an earlier study, are Euro 20 per adult Pole. They were assessed in later and more reliable studies at a 2–3 times higher level [Żylicz 2000b]. Finally the annual benefits arising from better sewage management were assessed in a very broad range of Euro 0.165 to 2.75 billion.

The accumulation of these benefits up to the year 2020, i.e. the period, during which the *acquis communautaire* implementation investment programs should be completed – with the application of the moderate discount rate of 4% – provides us with total benefits of Euro 40.99 to 208.19 billion. These are estimated benefits for the expected improvement of the environment and their substantial part would also be realised under the “non-accession” scenario.

The report quoted does not tackle the issue of monetary valuation of benefits in many other areas. The very superficial and unconvincing treatment of nature protection is worth mentioning. The report only states that more effective nature protection will allow endangered species to be better protected. The report however does not envisage for Poland – contrary to some other candidate countries – an increased size of the protected areas, as there will not be such growth. The percentage of the protected areas in Poland is fairly high already.

6. The Essential Costs of Membership

As already mentioned it can happen occasionally that membership would lead to some increase of emission regulated under the different standards. It is difficult to assess at the moment how significant this risk is, however it should not be disregarded completely. The potential deterioration of the situation might be expected regarding some air pollutants, but it would probably be temporary in relation to the observed trend of gradually making these standards stricter in the EU.

The risk associated with the liberalisation of international trade seems to be a lot more real. It is already noticeable now especially as a result of the inflow of waste raw materials (envisaged under Directive 93/259) and consumer goods deteriorating the quality of the environment – such as scrap vehicles. The Polish government will be under strong pressure by EU neighbours demanding that the borders be opened for the flow of materials. In the mid-nineties Poland gave in to the demand for the abolition of restrictions regarding the import of second-hand vehicles and post-accident cars. The increased number of such vehicles posing a threat to health and the environment is the cost for opening the economy at a rate faster than progress in ecological monitoring and law enforcement allow.

The import of scrap cars is an example of the deeper problem affecting environmental protection in the EU. This concerns the lack of integration of sector policies. Though the policy integration is a foundation of environmental protection declared by the European Commission, the practice flagrantly differs from this model. The common agricultural policy is probably one of the best-known cases of the powerlessness of the environmental protection administration against the pressures exercised by economic interest groups. The agricultural subsidies – accounting for most of the funds of the EU budget – provide the incentive to increase the intensiveness of production with all its negative ecological consequences. However this problem also refers to other sectors. Supporting the development of private road transport is also causing increased pressure on the natural environment. It is a fact that some rules of economic policy – such as the single market conflict with the rules on ecological policy; ultimately the Commission gives priority to the former.

This lack of policy integration was also expressed in accession negotiations. Sectoral requirements were negotiated independently of each other, forcing the Polish side to adopt economic solutions, which – like in the EU – are detrimental for environmental protection. As a result agriculture, energy, transport and other sectors of industry will have the opportunity of quickly becoming like the same sectors in the EU, thus supporting expectations with respect to the priority of the technological approach over the ecological approach. In this situation the Polish environmental protection administration will not practically be able to counteract business activities that are consistent with EU technical standards, even if the local ecological consequences of such initiatives are detrimental.

The above mentioned negative consequences of Poland's membership in the EU are difficult to estimate and probably in the long-term will be reduced due to the evolution of EU ecological

policy. The declared need for policy integration will, in the future, lead to real changes and more effective co-ordination of business initiatives with ecological requirements.

The expenditures to be incurred by business entities are easier to estimate. However the identification of investment costs necessary to implement *acquis communautaire* is still of a preliminary nature, though studies on this subject have been conducted for the Ministry of the Environment since the mid-nineties [Akademia 1996]. The results of the studies were later defined in more detail in the scientific studies [Peszko 1997, Kiuila 2000].

Many studies were performed regarding approximation costs. Their summary is presented in the Annex (Table No 2). The total expenditure necessary for the adoption of *acquis communautaire* by Poland in the environmental protection area is estimated at the level of approximately Euro 30 billion. This is undoubtedly a high cost, though covered by the expected national and EU funds available for these types of projects subject to extending the approximation process to the transition period requested by Poland. The analyses conducted stress primarily that not all investment outlays are inevitable or economically viable. Some European regulations are not flexible enough and require the same technical resources irrespective of the location of the source of the emission. Though accession negotiations are complete, EU regulations are in many places unclear and the final distribution of the cost over time and their level will depend on the detailed decisions of the Commission.

The burden on households, national and other business entities resulting from running costs are not that well identified. The government does not even have full estimates regarding present running costs; therefore it would be difficult to envisage their future level. It can just be stated generally that the requirement of the tertiary treatment of municipal sewage will undoubtedly increase the financial burden on households; water fees will increase from the current average level of 1-1.5% of family budgets [Markowska 2001]. More detailed estimates were made by Berbeka and Berbeka [2001] suggesting that over a dozen or so years of the implementation of water directives, the prices of water-sewage services will increase by 231%. The impact on households could be lower (*'only'* 168%) provided that the difference is covered from assistance funds to the maximum degree acceptable under EU regulations.

The evolution of Polish policy under the influence of the EU is difficult to assess. The extent of the utilisation of economic instruments in current environmental protection policy in Poland is substantially higher than in the EU. Therefore the Polish cost estimates of the implementation of *acquis communautaire* are, as a rule, lower than the estimates of the EU experts. However their correctness depends on whether Poland would actually be able to meet integration requirements while maintaining the freedom of selecting the measures. If not, i.e. if Poland is forced to adopt in all details the rules of the policy traditionally accepted by the EU, the accession costs will be very high, a lot higher than is absolutely necessary to meet environmental quality standards.

The other consequence of the reorientation of the Polish policy under the influence of EU models would be lowering the importance of ecological criteria in favour of technological criteria. Under these circumstances environmental protection will depend on the effectiveness of spatial planning, i.e. on decisions taken by the administration (national and local government) on development. To date this has been the weak link in Polish policy and, without radically strengthening it, the EU rules of regulating business activity create a risk of increased pressure on the environment, especially on natural habitats.

7. An Attempt of a "Balance Sheet"

It is not possible to draw an unambiguous balance of costs and benefits of Poland's membership in the EU in the area of environmental protection for many reasons. The major constraint concerns the difficulty in the definition of the "non-accession" scenario. The evolution of Polish policy in the nineties was so strongly determined by EU models, that it is not possible to imagine a future for environmental protection in a Poland that does not belong to the EU. Irrespective of membership this future would have to look very similar.

It can be assumed that irrespective of EU membership the general situation of the environment in Poland will improve over the next dozen or so years, which will require an investment outlay of about Euro 30 billion. The benefits of this can be estimated at the level at least the same and probably even higher. Staying outside the EU would enable some expenditures to be reduced – inter alia by postponing it – but the benefits would be somewhat smaller as well. There are some premises allowing us to conclude that a reduction in cost would be bigger than the loss of benefits, but their extent is small. In addition the similarity of the “non-accession” scenario to the “accession” scenario results from the changes already made in the Polish policy, therefore even without Poland's membership in the EU some trends seems to be irreversible.

Polish estimates of the costs of the implementation of *acquis communautaire* are lower than those quoted in the documents of the European Commission, European Bank for Reconstruction and Development and other Western institutions. The essential source of the differences concerns the approach to environmental protection policy. EU policy in this area has to date been dominated by the technological approach. It concerns the attempt to achieve ecological objectives by applying costly technical solutions.

Negotiations with the EU set the quality standards as a starting point (which are acceptable to Poland) and sought a compromise regarding the methods of achieving these standards. Despite the pressure exercised by the EU on Poland to adopt exactly the same technological solutions as those binding other EU countries (though they are not always cost-effective) Poland has managed to negotiate rather long adjustment periods. Thanks to this the Polish economy will not be exposed to unnecessary burdens. The radical increase in imports associated with environmental protection will not take place either; otherwise it would have contributed to a larger trade deficit which would concentrate government's attention for the next few years. However, EU exporters are interested in using the production potential in the environmental protection sector. Therefore they will apply pressure on the European Commission to try to enforce the solutions applied in the EU up to the smallest detail within the scope of supervising Polish policy. It has already been mentioned in this study that the Commission's legal capacity is very strong, therefore the Polish side has to be very well prepared to defend solutions which protect the natural environment effectively and cheaply. The ultimate balance of the costs and benefits of EU membership will depend on the administrative professionalism of Polish environmental protection.

Annex

Table 1 Monetary valuation of the benefits from the implementation of ‘*acquis communautaire*’ in the area of environmental protection by Poland [million EUR 1999]

		Air	Water	Waste	Total
Annual benefits	Low	2650	1400	165	4215
	High	15400	3280	2750	21430
Present value of benefits to 2020	Low	25800	13590	1600	40990
	High	149930	31960	26300	208190

Estimates of the ECOTEC report [2001] were used in Table 1. The valuation was mostly based on foreign studies, thus the significant (1:5) difference between the low and the high estimates. The assumption on the value of illness avoided and premature deaths has critical significance. Annual benefits were estimated following the assumption that the full implementation of *acquis* will take place in 2010; their present value was calculated for a twenty year period 2001–2020 using a 4% discount rate.

Table 2 applies a PLN/EUR rate equal to 4. This summary is based on the negotiation position of the Polish government [Position 2000] and many economic studies, including especially [Agriconsulting, 1998], [REC 1999], [Hughes, Bucknall 1999]. More detailed calculations are quoted by Żylicz [2000a].

Table 2 Summary of the investment costs of adopting *acquis communautaire* in the area of environmental protection by Poland

	Total costs [million EUR]
Horizontal law	–
Environmental protection	–
Water quality	13000
Industrial pollution and risk assessment	12150
Air quality	1345
Noise from machinery and equipment	75
Chemicals and genetically modified organisms	
Waste management	3800
Nuclear safety and protection against radiation	
TOTAL ACQUIS COMMUNAUTAIRE	30370

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9. The Adoption of a Common Commercial Policy Towards Third Countries and Joining the Community's External Economic Relations System – Costs and Benefits

Elżbieta Kawecka-Wyrzykowska

1. Objectives, Assumptions and Subject-matter of the Analysis

This paper presents the potential costs and benefits of Poland's membership in the EU resulting from adopting the Community's rules and instruments in trade with the third countries.

The analysis is based on two scenarios: the first scenario considers the costs and benefits of adopting the Community's trade policy and the Community treaty relations with third countries by Poland, while the second scenario reviews the outcome of not joining the European Union for trade policy and Poland's economical relations with major countries and organisations outside the EU.

Considering the very developed EU regulations regarding common trade policy (they are contained both under primary and secondary Community law and in the agreements negotiated by the Community with trade partners) this paper only considers the major instruments influencing trade exchange, which are to be adopted by Poland as a result of joining the EU and the major agreements of the Community with trade partners, which will substantially change the agreements currently binding in Poland. The subject-matter of the analysis is determined by the definition of common commercial policy (CCP) stipulated under article 133 (numbering binding since the time of the Amsterdam Treaty coming into force) of the Treaty establishing the European Community (TEC). Pursuant to this article, the common trade policy is based on the uniform rules including particularly:

- changes of tariff rates,
- The conclusion of tariff and trade agreements,
- The achievement of uniformity in measures of liberalization,
- Export policy
- and measures to protect trade such as those to be taken in case of dumping or subsidies.

The outcome of implementing Community commercial policy in Poland is analysed according to the following layout:

- (a) The outcome of adopting the Community instruments of trade policy: customs and non-tariff measures;
- (b) The impact on Poland's role of participating in EU institutions in major international economical organisations (for example of WTO and OECD),
- (c) The outcome of joining the EU for Poland's economical relations with major countries and organisations outside the EU (mainly on example of relations with Russia and the USA and those CEFTA countries, which most likely will not join the EU along with Poland).

The outcome of the scenario of Poland not joining the European Union and not adopting Community trade policy is reviewed separately.

2. The Costs and Benefits Resulting From Adopting the Community Instruments of Trade Policy by Poland

Trade exchange with third countries is regulated in the European Union under the uniform policy of all Member States.¹⁸⁷ Individual Member States do not have the autonomy to sign trade agreements with partners, change the level of domestic market protection etc. The Member States transfer their national powers in this domain to the Community institutions. The common commercial policy has been in force since the beginning of 1970. This refers only to the economic relations with third countries (from outside the EU), because no instruments of State policy differentiating the conditions of sale of goods and services are used in relations between member States. The objectives, rules and instruments of the common commercial policy refer primarily to the commodity trade (trade in material goods), but since the World Trade Organisation and multilateral agreements of the Uruguay Round came into force in 1995 they also refer to that part of trade in services and that part of the trade in intellectual property rights. The Nice Treaty enhanced the scope of the common commercial policy by other domains of trade in services.

¹⁸⁷ E. Kaliszuk, E Synowicz, *Wspólna polityka handlowa, w: Unia Europejska. Przygotowania Polski do członkostwa*, editor: E. Kawecka-Wyrzykowska and E. Synowicz, IKCHZ, Warszawa 2001, p 266–274.

The trade exchange between Poland and the European Union is already substantially liberalised under the Europea Agreement establishing the association between both partners.¹⁸⁸ The trade in agricultural products was partially and selectively liberalised and extended by the agreement on further liberalisation of trade in unprocessed agricultural products (in force as of 1st January 2001). Customs and other trade restrictions were completely eliminated for other products (called either industrial or non-agricultural). As a result, the majority of **the adjustments resulting from the implementation of free trade are already in place** in the non-agricultural production sector and which is now a lot better prepared to meet the competition of the single European market than other sectors of the economy such as agriculture or services.

The legal-institutional outcomes, also in the real domain resulting from adopting the common commercial policy shall be a consequence primarily of:

- 1/ the adoption by Poland of all the instruments and rules of the EU common trade policy towards third countries, including especially the Common Customs Tariff, other Community instruments of regulating the trade exchange with abroad (third countries) and the developed system of agreements with trade partners.
- 2/ complete liberalisation of trade in agricultural products between Poland and the European Union.
- 3/ strengthening and improving the control of goods on the eastern border, which will become the external border of the EU (i.e. with countries that will not be joining the EU along with Poland).

By joining the EU, Poland will adopt the **Common Customs Tariff (CCT)**, which is the most common instrument for protecting Community producers. The Customs tariffs will be reduced for the majority of non-agricultural products as customs duties in Poland for this group of products are higher than in the EU. The customs duties will increase for a small group of products, but it will be only a small increase.

The majority of imports would not be affected at all by changes in the Customs Tariff.¹⁸⁹ These products are imported from the EU and other areas covered under the agreements on free trade areas and therefore already now they are (or will be in the near future) enjoying Customs duty free access to the Polish market. This group includes all non-agricultural products imported from the EU, CEFTA countries (Bulgaria, The Czech Republic, Romania, Slovenia, Slovakia, Hungary) and Estonia, Lithuania, Israel, Latvia, Turkey, The Faroe Islands and Croatia, i.e. from those countries, with which bilateral agreements on free trade in industrial products are already in force. The share of the above mentioned countries in Polish global imports (including the import from the EU) amounted in 2001 to 74.5% of total imports and to 73.3% of global non-agricultural Polish imports. Therefore adopting the CCT would not change anything as regards the customs duties. Analogically, Polish exporters already have or will have in the near future free access to the market of industrial products in these countries.

The extent of the decrease of the customs duties on imports from individual countries will differ depending on the customs status the country concerned enjoys in Poland and the European Union. The EU is using a very developed system of customs preferences in imports from various groups of countries.

The relatively highest reduction of customs duties (and therefore the strongest increase of competition) will occur in the imports from these countries, which already have in place free trade agreements with the EU and which in Poland currently enjoy the most-favoured nation treatment clause. These countries primarily include: Cyprus, Malta, Tunisia, Mexico, the Republic of South Africa and Macedonia. Their share in Polish imports is small (under 0.5%),

¹⁸⁸ For more details see: E. Kawecka-Wyrzykowska, E. Synowiec, Układ europejski i ocena jego funkcjonowania, w: Unia Europejska.... op.cit., p. 617–645.

¹⁸⁹ For more information see: E. Kawecka-Wyrzykowska, Skutki przyjęcia przez Polskę wspólnej taryfy celnej Unii Europejskiej, „Problemy Handlu Zagranicznego“, IKCHZ, No 21, January 1999,.

thus the results of such liberalisation will be hardly noticeable. A smaller reduction of customs duties will take place in the case of imports from the countries, in relation to which the customs tariffs are applied under the most-favoured nation treatment clause both in Poland and the European Union (like from the USA). The preferential margin (and therefore the scale of the increase of the competition) is in this case determined by the difference between the most-favoured nation treatment rate in Poland and the EU. The average level of most-favoured nation treatment rates (weighed by the structure of imports from countries which already enjoy this preferential treatment and will keep it after joining the European Union) in Poland will fall from the current level of 6.2% to 2.6% after joining the European Union. This will be the average effect of adopting the Community customs duties which are generally lower than the Polish customs tariffs. Such a scale of reduction of the customs duties will refer to about 8.5% of non-agricultural imports in Poland (8.1% of global Polish imports in 2001), which are currently made under the most-favoured nation treatment conditions and would continue to enjoy such a status after joining the EU (such as imports from Australia, Japan, USA). The average customs tariffs for products imported from all other countries will be reduced more, because these countries enjoy various preferences in trade with the EU and Poland will have to apply the same preferences in trade with these countries.

The reduction of the Customs tariffs for industrial products as a result of adopting the EU Common Customs Tariff will have various effects on the Polish economy.¹⁹⁰ One of the effects will consist in the broader opening of the economy to foreign **competition** and thus increased competitive pressure on domestic producers. They will have to compete not just with competitors from the EU, CEFTA and EFTA countries, who are already delivering their products to the Polish market without any customs duties, but also with suppliers from any other country, which would benefit from reduced customs duties resulting from adjusting the Polish Customs Tariff to the Community Tariff. Thus additional liberalisation will force the **restructuring** of production leading to the improvement in its effectiveness and also bringing about internal **adjustments** (the need to re-train, sometimes to change the place of work or even lose the job).

The reduction in customs duties should also have a certain impact on the reduction of **prices** on the domestic market. This applies to both imported products and their domestic substitutes. The pressure imposed by cheaper foreign products would incline Polish producers to improve their price and quality offer. Consumers would benefit from such changes.

The strength of the impact of replacing the Polish Customs Tariff by the Community Customs Tariff and its outcomes for national producers is determined apart from the mutual dependence on trade, by the scale of the change of the level of the rates and by the commodity pattern of imports from third countries.

Generally, it should be stated that the degree of opening up to foreign competition already achieved causes **the effects of changing the level of protection will not have a significant impact** on the national non-agricultural production and the price level of these products. As previously mentioned, the majority of Polish imports take place under duty-free conditions. The reductions in customs duties will affect other countries and the highest reductions will take place in imports from countries, whose share in Polish imports is small anyway. The factor reducing the effects of such changes is foreign direct investment in many sectors, which enabled producers to better adapt to foreign competition in terms of prices, quality and technical requirements. The above mentioned factors bring about the fact that the trade creation effect resulting from the reduction of the customs tariff will be very moderate and the trade diversion effect even more moderate.

The extent of all these effects will be smaller compared to the outcome of implementing the Europea Agreement and other free trade agreements because of the smaller geographical

¹⁹⁰ Of course the outcomes will be reverse in areas, where customs duties would increase. However there will not be many such cases in the industrial products group.

impact of the changes, the small scale of the reduction of prices and the substantially lower absolute level of customs tariffs, which would be the subject of reductions.

The above findings indicate that adopting the CCT would have a certain impact on the volume and directions of Poland's trade exchange with third countries, but it would not affect trade exchange with the EU itself much.

However it should be added that **the benefits from the increased trade exchange** in goods and services with EU Member States will result not just from the adoption of the CCT and uniform legal solutions in economic relations with third countries reviewed under this paper. They will also accrue through the opening up of the physical borders between Poland and the EU. It is the elimination of the border that will mean the actual improvement of access to a considerably larger sales market of the EU and the associated, much improved sales conditions (similar to those enjoyed by local producers) and the opportunity of significantly reducing prices. The elimination of physical barriers will lead to less time at border checkpoints, directly translating into the concrete savings of drivers' working time, lower fuel consumption, shorter periods of time in using transport and the elimination of documents currently required at borders.

The second factor, which is much more important for mutual trade relations between Poland and the EU countries, is the elimination of technical barriers by the harmonisation of the requirements for the technical safety of goods in Poland with EU requirements. This area of adjustment is omitted in this analysis, because it goes beyond the domain of the common commercial policy.

In the case of **agricultural products**, the adoption of the CCP will mean the reduction or increase of the customs duties depending on the product concerned. The changes in duties will be high for some products because of the substantial differences in the level of the duties in Poland and the EU. The large reduction of customs duties will occur for example in the case of alcohol and tobacco and tobacco products. On the other hand the customs duties will increase for some fish, grain, dairy products.

It should be noted that the reduction of duties in agricultural imports from third countries (i.e. imports based on the common customs tariff) will not be accompanied by improved access to the markets of these countries (with the exception of countries, which will join the EU together with Poland).

However, the liberalisation of trade between Poland and the EU for agricultural products would create the perspective of substantially easier access to the large sales market of the enlarged EU. At the same time we should expect a tougher competition on the Polish market. This assessment applies both to the European Union and to Central and Eastern European countries which would join the EU along with Poland.

Considering the abolition of customs and other barriers in mutual agricultural trade between Poland and the EU we should expect a certain effect in the shifting of import demand from non-EU areas to the Member States of the EU.

The adoption of the Community **Generalised System of Preferences (GSP)** will bring about the following results.

It will:- (a) increase the number of countries entitled to preferential access to the Polish market, (b) increase the volume of goods enjoying lower customs duties, (c) enable many goods to enjoy a higher than usual preference margin (i.e. improve their access to the Polish market).¹⁹¹ The scale of the negative results of these changes (increased competition) for Polish producers will probably be small considering the decreasing significance of the level of duties, of preference margins and the commodity structure of imports from countries – beneficiaries of the GSP system. As regards the agricultural products foreign competition will be weakened by the fact that the EU excluded from the preferences the majority of the moderate zone articles, thus the articles dominating the Polish

¹⁹¹ E. Kawecka-Wyrzykowska, M. Paszyński, Skutki przyjęcia przez Polskę preferencji celnych Unii Europejskiej dla krajów rozwijających się, „Problemy Handlu Zagranicznego“, IKCHZ, No 19, Warsaw 1998.

production structure. The preferences will include imports from the CIS countries, which at the moment are excluded in Poland from the preferential import treatment. However, we should not expect a significant increase of competition on the Polish market because the majority of imports (in case of the largest importer from this group of countries – i.e. Russia – it is over 80%) concerns oil and gas, for which the duty is 0% both in Poland and the European Union.

Regarding **non-tariff protection measures**,¹⁹² after the Uruguay Round Agreements came into force, the instruments and procedures of the trade policy of Poland and the European Union, including those referring to anti-dumping and anti-subsidy measures and to safeguards are in many aspects similar or identical.¹⁹³ It indicates that the countries joining WTO were obliged to adjust their national regulations to the respective agreements of the Uruguay Round. It was a condition of the membership in this organisation.

After joining the EU, the trade policy instruments including the non-tariff instruments will cease to be in force in trade between Poland and the European Union. The practical benefit will be that Polish suppliers will not be able to be accused by the EU of applying such instruments. However, these measures will continue to be in force for imports from third countries. As a result of joining the EU non-tariff protection system, Polish producers will gain better protection against unfair imports coming from third countries. The effectiveness of using the existing legal regulations will also improve compared to the current situation. Firstly, domestic producers will be covered under the anti-dumping and anti-subsidy measures (and protection measures as well), which will be binding upon the EU on the date of the accession. Secondly, the **preventive significance** of the measures mentioned will also improve. The concern of foreign suppliers of the possibility of the application of such measures by the Commission well known for the effectiveness of its actions will discourage them from excessive expansion on the single European market also including the Polish market. Thirdly, in the case of a threat caused by imports (from outside the EU) sold in Poland on dumping, subsidies or quickly growing conditions, there is the probability of the **more frequent application** of the measures counteracting the effects of such imports by the EU authorities, which will take over the powers in this area. To date, Poland has used such measures to a limited extent. The decisively better experience and effectiveness of EU officials responsible for the trade procedures creates the probability that they would more quickly and more efficiently review Polish applications provided such were submitted. This would be decided by practical interest: if the Commission did not react in due time there would be the threat of increased imports at reduced prices (or excessive imports) and their dissemination in the whole area of the single market. This could be dangerous to the entire European Union.

The degree of the adjustment of Polish trade regulations to those of the EU is already very high (compared to other areas of Community law). This assessment refers both, to types of available instruments influencing export and import and the detailed rules and procedures of their application. These adjustments were substantially facilitated by Poland's membership in the multilateral trade system **GATT/WTO** and by the adoption of the agreements negotiated during the Uruguay Round. These agreements envisaged the need to adjust the national trade systems of WTO members to the agreements negotiated during the Uruguay Round. In other words by creating new provisions regulating the trade exchange or amending previously binding regulations (Customs code, protective measures acts) Poland, even before joining the EU, followed the legal solutions existing in WTO and applied generally in this form by the EU.

¹⁹² The current level of this protection is reviewed in: Trade Policy Review. European Union. Report by the Secretariat, WT/TPR/S/102, 26 June 2002.

¹⁹³ See E. Kaliszuk, Dumping i ochrona przed dumpingiem w GATT, w: Polska w WTO, editor. J. Kaczurba and E. Kawecka-Wyrzykowska, IKCHZ, Warsaw 2002, p. 135–162 and Report from the Commission. Twentieth Annual Report from the Commission to the European Parliament on the Community's Anti-Dumping and Anti-Subsidy Activities, COM(2002) 484 final, Brussels, 04.09.2002.

3. The Impact of Participation in the EU Institutions on Poland's Role in the Major International Economic Organisations

Membership in the European Union would result in transferring to the EU institutions **powers** regarding the negotiation of exchange conditions with trade partners, including changes in customs tariffs levels, co-operation regarding the simplification of customs procedures etc. Poland will continue to have the opportunity of influencing the decisions made by these institutions under the decision making process. The ability to form coalitions with other EU Members with similar trade interests will in this respect be of key significance. The possibility of influencing concrete decisions regarding the domain of trade relations with third countries by interested groups will also improve because of the developed system of consulting the new legislative proposals in the EU with those social groups which would be affected by such changes. The effects of these activities would however depend on the degree of organisation of individual interest groups, their ability to participate in the lobbying system etc.

The improved bargaining position of Poland in relations with individual partners would be another important positive effect of Poland's membership of the EU in regard to the domain reviewed here.¹⁹⁴ By joining the largest economic organisation in the world Poland will be able through the strength of this group to execute its trade interests dependent on the institutional environment, regarding for example better and more stable access to the markets of trade partners, more advantageous conditions of protecting domestic production etc.

From the time of joining the EU, Poland will cease to be an independent member of WTO and will become a member of this organisation as part of the European Community. The European Community as a whole and its individual Member States are both members of WTO. In cases where exclusive powers are allocated to the Community (this refers to the majority of issues handled by the WTO) Poland would be represented by the respective Commissioner acting pursuant to the mandate granted to him/her by the Council.

Membership in the European Union will have some positive and negative consequences for the opportunity of influencing the trade partners by Polish representatives on the WTO forum.¹⁹⁵ From the Polish point of view it is advantageous that in all dispute settlement procedures (consultations, arbitration tribunals, appeals) with the exception of disputes regarding the protection of intellectual property rights, the Community acts as a single entity.

At the same time membership in the EU could provide Poland with more effective protection in case of accusations of dumping or of excessive exports to the markets of third countries. The European Commission would support Polish exporters in preparing the necessary explanations.

Poland's negotiating position with third countries would improve. The experience of the WTO operation (and previously GATT) indicates that developed countries play a major role in this organisation and use it to protect their own trade interests. Currently Poland is usually too small a supplier of individual goods to other markets to have any negotiating rights. After joining the EU Poland will be able to find an ally or allies among the current Members of the EU with similar interests in sales markets and as a result to improve its negotiating position.

The negative aspect of Poland's accession to the EU would be the fact that Poland will not be able to use the WTO forum to present potential accusations against the EU. However it should be added that recently Poland has not been using the WTO anyway to solve disputes with the EU because of on-going accession negotiations and a tendency not to sour relations with the EU.

¹⁹⁴ For more details see: M. Paszyński, Wprowadzenie, w: *Percepcja w krajach UE korzyści, kosztów i zagrożeń wynikających z przyjęcia Polski do tego ugrupowania*, IKCHZ, Warsaw 2002, p. 1–25.

¹⁹⁵ see J. Piotrowski, WTO, w: *Proces i skutki dostosowań Polski do zagranicznej polityki ekonomicznej Unii Europejskiej*, editor: M. Paszyński, IKCHZ Warsaw 1999, p. 9–12.

After joining the EU Poland should also consider the possibility of being dragged into **conflicts** on the WTO forum that exist between the EU and its Members with third countries, especially in relations with the USA. In the case of disputes that have not been solved successfully there is a risk of applying trade sanctions against EU countries including Poland.

Pressures could also emerge in trade relations with some partners on the WTO forum. Being an EU Member, Poland will have to **re-formulate its priorities** regarding for example the so-called minimum labour standards or environmental protection and agree on them with other EU countries, where some of these countries have interests different to Poland's.

Identification with the EU position could have a negative impact on bilateral relations with the United States and the countries of the Cairns groups regarding the conflict on agricultural trade. Similar controversies could arise in relations with developing countries regarding the EU position concerning the incorporation into the multilateral trade rules of labour and environmental standards, competition and investment rules etc.¹⁹⁶

However generally it seems that the positive outcomes outweigh the negative ones and that Poland's membership in the EU would strengthen the country's bargaining position towards other partners. It would have a practical significance for example in multilateral negotiations under the New Round of the WTO. As has already been mentioned, Poland is currently too weak a partner to effectively enforce its own postulates regarding for example improved access to partners' markets.

The outcome of Poland's membership of the EU will be different for Poland's membership in the WTO than in the OECD. The European Commission can participate in the work of the OECD, however without voting rights. Each Member State has one vote in the OECD Council. EU Member States are free to take their position and this need not be consistent with the Commission's position. Poland would maintain a high degree of independence in expressing its interests on the OECD forum. However we should take into account the need to co-ordinate the position on many issues.

4. The Outcome of the Adoption of the Common Commercial Policy by Poland for Major Trade Partners

The outcome of Poland's membership in the EU for trade with major trade partners should be looked at mostly from the perspective of **changes in access to the Polish market**, thus changes of the rules of import into Poland rather than those of export. After accession Polish export, similar to the present situation, would depend mainly on two groups of factors: access conditions to partners' markets and the competitiveness of Polish products. EU membership would not change these factors much. The only exceptions are countries, with which the EU has signed agreements ensuring mutual preferences that Poland does not yet have. However there are not many such countries and they are not major partners. It should be stressed that from the time of signing the *Europea Agreement*, Poland has been preparing to adopt the common commercial policy and the rules determining the external relations of the Community. For this purpose, as mentioned already, in the nineties Poland negotiated free trade agreements with major partners, which were in force in the EU. The EU membership would cause some further changes to the conditions of conducting trade with these countries.

Membership of some CEFTA members in the EU creates a question about the future of CEFTA. Given the current degree of the progress of accession negotiations, it is likely that after enlarging the EU, only two countries would be left in CEFTA, i.e. Romania and Bulgaria. Even if these two countries were joined by Croatia from the beginning of 2003 (as discussed at the

¹⁹⁶ M. Paszynski, *...*op.cit., p. 21.

meeting of CEFTA prime ministers in the second semester of 2002) the doubt about keeping CEFTA remains open.

From the point of view of the trade outcomes analysed in this paper what is important is not so much the future of CEFTA, but the perspective of the development of trade with Bulgaria and Romania.

It is an issue of trade in agricultural products, since in non-agricultural products free trade already exists between Poland and Romania (and Bulgaria) and between EU and the two countries, as well as the pan-European cumulation of the rules of origin of products.

Bilateral preferences with these two countries are in place also in case of the EU under the Europea Agreements. The scale of preferences for Bulgaria and Romania is, however, different for some products in Poland and the EU.

When joining the EU, Poland will have to make adequate changes in the level of these preferences by reducing or increasing the level of duties. For products originating from Bulgaria (and Romania) which are not covered under the EU preferences, Poland will adopt the UE level of the common customs tariff.

EU membership would also result in some adjustments to the level of customs duties applied in these two countries for Polish products. The list of products enjoying import preferences in those countries is different in the imports from Poland and the imports from EU. A similar situation will take place regarding exports.

These adjustments will slightly modify the conditions of agricultural exports and imports with Bulgaria and Romania. Considering the share of agricultural products imported into Poland from both countries (about 20% in case of the imports from Romania and about 35% for Bulgarian imports) we can expect some shifts in the structure of trade in agricultural products. However these changes will be small compared to the total of Polish agricultural trade.

The direct outcome of Poland's membership in the EU for the trade relations with the USA would be the cancellation of the GSP system which currently is still applied on the American market towards Polish suppliers. It seems that this decision should not cause any substantial deterioration of the export conditions to the USA. The GSP preference margin (the difference between the most favoured nation treatment and the rate at GSP level) is not high and on average is at a level of 1 to 3 percentage points. The withdrawal of GSP would deteriorate the price competitiveness of the beneficiaries of the preferences, i.e. of about half of the exports to USA. The extent of negative effects would not be high on average given the low level of import duties in the USA compared to other countries and just a few percentage points preference margin. However, in the environment of tough competition on the global market even small preferences could be a substantial factor determining competitive advantage.

Indirectly, Polish export to the USA similar to the export to other countries would depend on the effects of adjusting to the requirements of a single European market. The larger number of Polish producers would continue to operate and strengthen their position on the market after joining the EU in the confrontation with their Western Europe competitors; the stronger their position will in export to areas outside the EU, including the most demanding global markets.

Regarding imports from the USA, the customs duties for the majority of industrial products will be reduced thus facilitating their imports. The scale of the concrete effects will depend on such conditions as the commodity structure of imports, the scale of the reduction of the customs duties on major imported items, the price elasticity of import demand etc.

In the case of the **CIS countries**, which account for 11% of Polish imports, the price competitiveness of their products would improve in two ways. The first reason of this improvement would draw from the reduction of customs duties for industrial products resulting from the adoption of the Community Customs Tariff. An additional factor increasing price attractiveness of CIS products on the Polish market will be GSP preferences. As already mentioned, such preference will have a practical significance for just some products because of the commodity structure of

Polish imports. Raw materials dominate this import, for which the most-favoured nation treatment customs duty is 0% both in Poland and the European Union.

Regarding **agricultural** products, the effects of adopting the Community Customs Tariff can be multi-directional similarly to the entire agricultural imports from outside the EU.

Regarding non-tariff barriers in imports from CIS countries and other third countries we can expect a certain strengthening of their application after Poland's accession to the EU. The European Commission, which will take over supervision on the application of these measures in Poland, can more effectively and more often – as argued before – decide on the practical implementation of the market protection measures against foreign competition.

Some **negative** consequences of the trade exchange with the CIS countries neighbouring Poland can (but do not have to) be associated with the need to strengthen and seal the eastern border, which will become the external border of the entire EU. This creates the risk of **worsening** trade connections (and also the non-economic connections) with the eastern partners; however the scale of such outcomes would depend on the adoption of concrete solutions (including the price of visas and their practical availability as well as the technical conditions of issuing them).

5. Poland's Trade Policy in the Event of Not Joining the EU

It is obvious that in the event of not joining the EU, trade policy would be designed in a manner different to that presented above. However, it would not be a simple continuation of the current foreign trade policy. Some currently existing elements which would continue would be supplemented by **additional factors** changing the current situation. Before reviewing the latter ones, a few words are given on the elements of trade policy, which would be continued and their potential consequences.

Not joining the EU would probably mean the continuation of the current level of protection of domestic producers. Under this situation there would be no rationale for further reductions of customs duties until the end of the New Round of WTO, which started in November 2001. The continuation of the current level and structure of customs protection probably would not have a major significance for the producers of non-agricultural products, as the products strongly protected by most-favoured nation treatment rates are currently imported mainly from customs free countries.

Consumers would be the group which would suffer the largest disadvantages. Continuation of the high level of protection against the competition of foreign products and services would enable the producers to keep the prices higher.

The outcomes of not joining the EU would be different for the agricultural products market. The substantial market opening of the unprocessed agricultural products imported from the EU, started in the early nineties, was supposed to cause 'inter alia' the gradual adjustment of Polish producers to the more severe competition on the internal market after joining the EU. Though this opening was mutual, EU producers still have more opportunities of gaining benefits from the liberalisation. They are determined both by their easier access to Polish sales networks (mainly by supermarkets) and by meeting EU requirements, which are also easily accepted in Poland (as a substitute of Polish standards). However, Polish exports to the EU, especially the exports of more processed products, meet the barrier of cost of access to the sales networks in the EU and frequently the barrier of not meeting the quality and veterinary EU standards. The process of gradually achieving EU standards is in progress, but in some areas Poland has applied for transition periods being aware that the costs of such activities are high and that Polish companies would not be able to afford them immediately from the time of joining the EU. Not joining the EU would result in the fact that the substantial adjustment costs incurred to date would not be fully compensated in the form of an increase of export opportunities to the EU

market, as the EU market would continue to be protected by customs barriers and the sophisticated instruments of the common agricultural policy.

Therefore there would not be small chances to accelerate the growth of Polish agricultural export, which is counted on currently by agricultural producers due to Poland's membership in the EU. Moreover, the pace of structural changes in Polish agriculture would slow down both as a result of the above mentioned difficulties in developing export to the EU and of the lack of access to financial resources for the restructuring of agriculture.

Speaking on the perspective of export development it should be stressed that not joining the EU would also make it more difficult for Poland to develop agricultural export to **eastern markets**. Currently Polish products are not able to compete with EU products because of the substantial export subsidies enjoyed by EU exporters. The Polish budget will not, for a long time, be able to afford a comparable size of export subsidies and the development of export to these markets; without such support, will be difficult and even impossible in some cases. EU membership provides Polish exporters of agricultural products with the opportunity of benefiting from a comparable level of export subsidies for individual products and effectively compete with goods from current EU countries.

In the event of not joining the EU, the **threat** exists of initiating more and more anti-dumping proceedings by EU competitors with the substantially worse possibility of applying similar measures by Polish authorities. Anti-dumping proceedings are a difficulty for exporters not only because they result in the implementation of concrete measures counteracting the effects of dumping, but also because of the restrictions to trade resulting from just starting an explanatory procedure and the associated uncertainty of the conditions of selling the goods.

The outcomes of not joining the EU for trade policy should be also perceived not just in the perspective of the trade policy itself, but also in the context of other outcomes of staying outside the EU. Of course there are many such outcomes, but two of them seem to be of major importance from the point of view of the common trade policy analysed under this paper. One such outcome concerns the lack of additional financial support from the EU budget for the modernisation of the economy and its development, especially including poorer regions and the agri-food sector and as a result, for the improvement of the international competitiveness of Polish products. After joining the EU, Poland could count on – with each year – the growing resources from the Structural Funds and Cohesion Fund, which would be substantially higher compared to the EU pre-accession funds currently received. Staying outside the EU would deprive Poland of these resources dedicated to development. In addition, the EU would most likely drastically reduce the extent of pre-accession transfers. These transfers increased (comparing the year 2000 to the early nineties) and were devoted to preparing Poland to meet accession requirements (especially under the Phare programs). Non-accession would probably be a sufficient argument for present EU countries to cut pre-accession funds or even cancel them completely.

The second broader outcome of staying outside the EU would be the increase of the investment risk in Poland and the decrease of interest among foreign investors in investing capital in Poland. There would be the concern of arbitrary changes in Polish law and the risk of instability of legal solutions in Poland. The collapse of the inflow of direct investment would also reduce the development potential of the Polish economy and reduce the opportunity of its modernisation.

The perspective of joining the EU from the beginning of the transformation processes has provided the incentive to change Polish law and adopt the legal solutions similar to the those existing in the EU. Such adjustments have also stabilised the rules and conditions of broadly perceived business activity (through regular reduction of import protection, adoption of Community protection standards for intellectual property rights, implementation of EU competition rules, etc). Not joining the EU would not just threaten the discontinuing of such

activities but would even prompt withdrawal from some already binding regulations. Strong pressure would emerge, currently constrained by the requirements of accession negotiations, to loosen up the existing obligations regarding *inter alia* the adjustment of the Polish tax system to the Community system. The Polish government would also be more susceptible to the pressure of organised groups interested in the increase of protection levels against imports (such risks exist for example in shipping and the steel industry).

Ultimately the lack of an anchor represented currently by accession negotiations and the need for the „one way“ adjustment to EU requirements would have an adverse effect on price and non-price competitiveness of Polish products, which could create the risk of increasing the Polish deficit in trade relations with both the EU and other partners.

The Europea Agreement on Poland's association with the EU from the very beginning has been perceived as a temporary solution leading in the future to Poland's full membership of the European Union. Thus all one-way legal adjustments were treated as activities facilitating the adoption of the obligations of the EU Member State and fully participating in the benefits gained from being a Member of this organisation. Not joining the EU would mean that some of the costs resulting from the legal adjustments would be incurred in vain, such as the costs of institutional adjustment, translation of law and some of the adjustment costs incurred by enterprises (e.g. environmental protection costs).

Not joining the EU would deprive Poland of the benefit of strengthening its position in Europe and in the world, in contacts with third countries, including the WTO forum regarding issues within the competences of this organisation.

Not joining the EU would also have negative effects for Polish foreign trade in its entirety, including trade with major partners. Regarding trade with the EU itself, as mentioned before, the adjustment costs incurred would not be accompanied by the benefits of unrestricted access to the EU market. The border would be maintained and the associated costs of physical barriers and to some extent technical barriers as well. Export to the EU, to those CEE countries which would join the EU and to other countries of the European Economic Area would be more difficult.

10. Competition Policy and Poland's Membership in the EU¹⁹⁷

Cezary Banasiński, Anna Fornalczyk

Competition Policy in the Polish Economy

The competition policy constitutes one of the central elements of change in Poland's post-1989 economy. The policy to bolster competition not only affects the application of laws designed to enshrine a Polish free market economy but, also, the application of these laws is largely contingent on cohesive, domestic economic policies. Monopolies inherited from a central-planned economy provide favourable market conditions, which advance the expansion and growth opportunities of enterprises entering a market-based economy. Both the shedding and restricting of access barriers to products and geographical markets (especially the liberalisation of economic co-operation with foreign countries) and the privatising of state-owned enterprises are centrally significant.

The main areas of competition development policy, in addition to the goals stipulated in the act to ensure fair competition in the marketplace, should be to: restructure enterprises and economic sectors, regulate infrastructural sectors, monitor state aid, and educate marketplace participants of the benefits available in a free market. The competition policy viewed this way indicates that government institutions participating in the said spheres of economic policy are responsible for it and not just the Office for Competition and Consumer Protection (OCCP).

The legal system of competition protection in Poland is comprised of three elements: the act regulating market competition (Official Journal no. 122 from 2000, item 1319 as amended), the unfair competition act (Official Journal no. 47 from 1993, item 211 as amended), and the conditions for admissibility and supervising of state aid for entrepreneurs act (Official Journal no. 141 from 2002, item 1177). The first two of the above acts are aimed at counteracting market behaviours of entrepreneurs, which infringe or may infringe on market competition. The goal of the third act is to discipline agencies dispersing state aid as well as the entrepreneurs making use of such aid. In other words, this act is supposed to discipline the management of public funds.

¹⁹⁷ The following persons participated in drawing up this Report: Dr Jarosław Neneman, mgr Marcin Sowa, mgr Beata Szczepaniak.

Community's and Polish Regulations Protecting Competition

The competition rules in force in the European Union (hereinafter referred to as the EU) are attended to by regulations of primary and secondary law. The primary law constitutes the Treaty on Establishing the European Community (OJC 97.340.173), which contains the regulations governing competition by entrepreneurs and governments of Member States. The first group of regulations includes:

- a) prohibition of agreements restricting competition (art. 81 of TEEC);
- b) abuse of a dominant position (art. 82 TEEC); and
- c) prohibition of granting public aid to entrepreneurs by the governments of Member States (art. 87–90 TEEC).

The above-quoted regulations of the EU's primary law related to protection of competition constitute the basis for establishing the secondary law, which is comprised of decrees, directives, guidelines and working documents of the European Commission.

Concerning the competition policy, Poland already had a high degree of compliance with the EU regulations when negotiations began in the area of Competition policy. The act of 24 February 1990 *on combating monopolistic practices* (Official Journal no. 49, item 318 as amended) had solutions within it that complied with the Community standards, such as: the prohibition of anti-competition agreements between entrepreneurs, the prohibition of abuse of dominant position, and the obligation to notify the OCCP president of enterprise mergers to obtain ratification. These solutions, though generally compliant with the EU standards, needed amendments. Parliament's passing of the act on conditions of admissibility and supervising public aid for entrepreneurs fully harmonised the Polish laws on the protection of competition with standards in effect in the EU.

While reviewing the Polish legislature regulating competition protection, the Community put special emphasis on the need to increase the administrative powers of the agencies responsible for implementation of and compliance with the law on competition. They recommended strengthening the powers and position of these agencies. Attention was given to the need for improving the administration process within anti-competitive cases as a guarantee of practical implementation rather than as a token agreement to the rules of competition in the economy. On this account, the current act *on protection of the competition and consumers* includes solutions that comply with the EU standards.

Status of Competition Development in the Polish Economy

The free market changes in the Polish economy since 1990 have resulted in competition emerging in many markets (e.g. agricultural and food products market, automotive market, apparel market, household appliance market, furniture market, camping supplies market, leather goods market, household cleaning and beauty products market, electronic equipment market and computer market). The competitive emergence in these markets is attributable to the increased number of new firms established, and liberalisation of the movement of goods. Competitive pressure encouraged some manufacturers and merchants to improve the quality of their products, to slow the rate of price inflation, and develop a modern system of distribution and post-sale services.

In some sectors of the economy dominated by large and politically influential enterprises, competition is still restricted by state interference whereby state aid is directed and whereby protectionist tariff and non-tariff barriers are being established against competitive imports. The economy suffers because resources, diverted from areas that support market demand, are allotted to areas that do not stand the test of the market. Consumers suffer as well by paying inflated prices

for goods and services originating from protected vendors. This contributes to slowing down Poland's improvements for economic competitiveness in foreign markets.

Poland, as an EU member, will not have to make significant changes in its competition policy due to: the increasing competition already established in the majority its domestic markets; the loosening of the conditions for operating of enterprises; the opening of the Polish economy to international cooperation; and the application of the law which enshrines a free market system and complies with the EU standards.

This conclusion cannot be applied to utility companies, however. The deregulation of these are enmeshed in a very slow process in Poland. The protectionist scenario could inhibit the process of competitive development and any consequent, positive micro- and macro-economic affects.

The Competition Policy: Trade and Network Monopolies

The EU's law in art. 37 of TEEC imposes the abolishment of state-owned trade monopolies. The Polish legislation does not require adaptation to the Community's legislation in this regard because there are no state-owned trade monopolies having legal status, because a legal permit for business operations prevents ownership of exclusive rights to specific business activities.

Efforts to liberalise trade monopolies already in existence are currently under way. These efforts are necessary because the monopolists' on-going advantages, both economic and technical, inhibit newer entries to the marketplace – thereby restricting competition despite the abolition of legal barriers in some sectors, especially in the so-called structural monopolies. It should be emphasised that there is an urgent need to adapt EU requirements concerning law and free market practice so clear rules loosening restrictions within the economy can be in place and can assure unrestricted freedom to the operation of a competitive business.

With the above in mind, we can assume that the requirement to adapt the Polish law to the Community's law concerning state-owned trade monopolies (art. 37 of TEEC) and the exclusive and special rights (art. 90 of TEEC) pertains mainly to enterprises operating in infrastructure sectors, mainly having a country-wide reach (e.g. energy sector, telecommunications, postal services and railway transport).

Electricity Market

The European Union places great emphasis on actions taken by Member States regarding the domestic electricity market, mainly in the area of maintaining free competition and clarity of prices, due to the special significance of this sector in the functioning of the entire economy. The rules concerning electricity in the EU have been stipulated in a number of documents, among them the White Book „Energy Policy of the European Union,“ as well as in the directives concerning this sector.

Scenario A: Poland's Membership in the EU

The electricity market in Member States is subject to liberalisation pursuant to Directive 96/92/EC based on the right of the parties to have access to transmission grids (the so-called TPA rule imposing an obligation for owners and operators of transmission grids to guarantee access to these to distributors and end recipients of electricity). The liberalisation process is running at a different pace in each of the member countries: Austria, Finland, Germany, Sweden and Great

Britain have fully opened up their market, whereas France, Greece and Italy have not yet determined the date for full liberalisation.

In this scenario there is a danger that the Polish electricity sector, characterised by lower effectiveness and poor finance, will have to cope with competition on the part of strong and large electricity enterprises from the EU. Maintenance of high prices for raw materials (coal) for Polish electricity enterprises while, at the same time, having extensive possibilities to import electricity to Poland, may lead to a breakdown in the sales of Polish electricity. The probability of such a situation would be higher if the market was opened and there was no support from the state in solving the dispute over long-term contracts.

From the consumer point of view, an open market after accession to the EU would be beneficial. Lack of technological barriers in transmission of electricity would allow Polish customers to purchase electricity from EU Member States, Germany in particular. This will depend on the relation of prices for domestic electricity and the prices for electricity produced in other Member States. Price competition would force Polish producers and electricity companies to lower their costs by increasing effectiveness in the production process, by purchasing cheaper raw materials, and by reducing employment. Prices for electricity dropped for individual end-users as well as for industrial users in a majority of EU member states where the electricity market was privatised. The resulting drop in prices in Sweden and Germany, in the years 1997–2000, was 15% and 22%, for instance.

Assuming a quick restructuring of the energy sector and a reduction of production costs, Polish electricity companies will start competing with the companies from the EU on the domestic as well as the European market. The competitive strength of Polish enterprises will depend, to a large degree, on the level of coal prices. Under the accession scenario it is very probable that Polish electricity companies will be forced to change strategy, which was initially based on reduction of costs, followed by development of the current operations and investments outside of this sector, e.g. in the telecommunications market. Accession to the EU will allow Polish electricity companies to gain easier access to Community funds for protection of the environment.

Scenario B: Poland's Exclusion From The EU

On one the hand, Poland's exclusion from the EU would close EU supplier access to the Polish market and, on the other hand, limit market expansion opportunities for Polish enterprises. Without even the potential of free market competition a situation would arise where there would be no political will to solve the issue of long-term contracts. Significant cost reductions would be impossible: staying out of the EU reduces the probability of restructuring, and implementation of market-based mechanisms on the coal market.

It can be assumed that lack of competitive pressure will not play a part in the will to carry through ownership, asset, and organisational restructuring of Polish electricity companies. This, in turn, would mean a very slow process privatising the electricity market in Poland. This situation would certainly have a negative impact on consumer costs, end-users would suffer high costs purchasing electricity.

Telecommunication Services Market

The telecommunication services market in the EU Member States is subject to privatisation pursuant to the rules stipulated in five directives of 1998. We can conclude that privatising the telecommunications market in the EU took place relatively recently. On the one hand, since these are services, they should be subject to all market regulations, including free competition. On the other hand, because of their nature (i.e. they were deemed as being indispensable to the

citizens), they are subject to regulations stipulated in art. 86.2 of TEEC. This clause subjects the rendering of services of a general economic interest to the regulations as stipulated in the TEEC within the scope of the application so as not to pose a legal or actual obstruction to performance of the above-indicated special tasks.

The Community's privatisation of telecommunications, implemented under the provision of the Single European Act to create an expanded domestic European (EC) market, was supposed to deprive the telecommunication monopolies of their special and exclusive rights and to allow other independent entities to render services and to create the infrastructure.

Changes to Poland's telecommunications law are aimed at gradually privatising the telecommunications markets, although significant exceptions have been maintained with respect to access to telecommunications and publicly available services markets. Telekomunikacja Polska S.A. maintained its monopoly on international voice calls until 31 December 2002. The introduction of prices based on cost formula, in respect to operators having a significant market position, was shelved until 1 January 2004.

There are currently 57 independent stationary telephony players in the domestic market servicing approximately 900 thousand subscribers. Telekomunikacja Polska currently has over 10 million subscribers connected to its network. On 17 May, 2000, the Minister of Communications awarded three permits through tender to allow telecommunication services to be rendered throughout Poland by three service resellers, guaranteeing call forwarding between area codes. These service providers have already begun operations. Cellular network operators are a real competition to stationary telephony operators. There are currently three cellular network operators in Poland with over 10 million subscribers.

In addition to the telecommunications network of TP S.A., there are also two other independent telecommunications networks in Poland: KOLPAK (owner: PKP) and Tel-Energo (owner: Zakłady Energetyczne, Polskie Sieci Elektroenergetyczne, Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej). The last two networks are a part of consortia, which obtained operating licences to render local long-distance services to the public. Cellular network operators (Polska Telefonía Cyfrowa and Polkomtel), subscribers, and local operators operating within one area code are among others using or will be using these networks in the near future. Currently there are several dozens cable and wireless data transmission networks with different territorial zones operating in Poland.

Scenario A: Poland's Membership in the EU

In the membership scenario there will be continued privatisation of Poland's telecommunication services market. Despite the fact that privatisation of this sector in EU Member States occurs at different speeds, an unquestionable fact is that the European telecommunications market is becoming more and more competitive. In 12 Member States, customers have the option of choosing between at least 5 different service providers handling international calls and local long-distance calls. In 6 states, each citizen has access to at least 5 service providers handling local calls, in two states the choice is offered by 3 to 5 providers, whereas in the other states 22% to 85% of the population has a choice, the exception is France (1%). Increased competition in the EU market is directly reflected in the prices. A drop in prices for local long-distance calls at the currently state-owned monopolist operators in 2001 was 11% in relation to the previous year and 45% in relation to 1998. The overall monthly average expense for domestic telecommunication services (local calls, local long-distance and fixed charges) decreased between 1998 and 2001 by 12% for households and by 19% for business customers. The prices offered to customers by companies that enter the market are less expensive than the current one by a dozen percent.

Accession to the EU will result in further privatisation of telecommunication services in Poland, and will influence its pace and scope. In this scenario, we can expect a gradual drop in prices for long-distance and international calls as new service providers enter the market. Based

on experiences of Member States, a slight increase in subscription prices can take place, as has already partially happened at TP S.A.. This is a result of the tariffs being balanced out, i.e. adapting prices to the costs of services. It is hard to say at this moment how the prices for local calls will look like. It will depend on the method of tariffication used by service providers (e.g. introduction of charges for real call time).

Acceleration of privatisation will be greater if the European Commission introduces new guidelines on privatisation of this sector in July 2003. Also, efforts to amend the Polish Telecommunications law are going in that direction. The role of the European Commission is an important issue in the accession scenario. It will certainly exert pressure on the Polish government and the national regulator (Office of Telecommunications and Post Regulation) should the pace of telecommunications privatisation is too slow or its scope too narrow.

Scenario B: Poland's Exclusion From the EU

Exclusion from the EU structures would affect a lack of urgency in telecommunications market liberalisation. The European Commission's proposed new solutions are supposed to take effect next year. It is doubtful that under the non-accession scenario the lobby associated with TP S.A. would allow for further liberalisation. It is difficult to believe that an enterprise, which is expected to lose out to liberalisation of its monopoly, would support liberalisation. Thus, it is reasonable to believe it would hinder competition by any possible means. We can already talk about this situation, the proof of which is the behaviour of the dominant operator (the method of invoicing services or application of inconvenient agreements).

TP S.A.'s opposition in the non-accession scenario may lead to a delay or complete abandonment of the process of solving such matters like access to subscriber loops or the transfer of the number – in the case where a change to a provider occurs. In turn, these matters have direct impact on prices, the decrease of which would not be so great as in the accession scenario.

Rules on State Aid Granting

The structure of state aid in Poland deviates from observable trends in EU Member States. Aid is directed to large, repeatedly unprofitable enterprises and serves to stop gap production and employment rather than radical and effective reforms. In 2001, the 40 largest beneficiaries of this aid received nearly half of the funds set aside for public aid – the record breaker is PKP, which received 1/5th of the funds set aside for public aid. Whereas in the EU 70% of horizontal aid was allotted to research and development, environmental protection and support of SMEs, this share was less than 7% in 2001 Poland.

The passive approach towards state aid is also reflected in the forms of aid used in Poland. Tax transfers have dominated for many years, and mainly involve exemptions and the debt amortisation. However, in the last several years the share of tax operations has been systematically dropping – although it still constitutes 1/3rd of the aid being granted while the share of subsidies hardly exceeds 1/4th. In the EU, the share of tax operations constitutes 1/4th of the aid while subsidies make up 60% of the aid. In 2001 the share of guarantees and preferential loans grew significantly in Poland. State aid in Poland serves to stop gap problems rather than solve them, and is intended to alleviate current ailments and not to apply long-term treatments intended at increasing a healthy competitiveness and efficiency in the economy. Moreover, it is granted in an obfuscate manner, and its major beneficiaries for years and years are the same large, repeatedly unprofitable enterprises.

Scenario A: Poland's Membership in the EU

In the accession scenario we should expect a major improvement in the efficiency of state aid granting and monitoring. The funds „saved“ could be allocated to other purposes, especially those preferred by the EU, which serve to improve the economy's long-term competitiveness and the living standards of citizens. These goals cannot depend on significant support at the present since the majority of aid is assigned to large, repeatedly unprofitable state-owned enterprises wherein they serve to maintain social composure rather than to initiate actual reformation.

Moreover, Poland will have to enter a downward trend of the share of state aid in GDP, which, on one hand, will reduce the pressure on budget expenses, and, on the other hand, will diminish the deviation from competition ensuing through public aid. Limitation of the aid may also have an adverse aftermath. This may lead to the closure of many enterprises supported by the state for many years. Pursuant to the EU regulations, the aid for such enterprises can be granted on a condition that real restructuring programs are prepared and, what is more important, such aid can be granted only once. This means that either an enterprise will make use of the last chance or it will go bankrupt. In the short run this may cause significant social and political problems, whereas in the long run it simply means that the problem will be solved with finality.

However, the drop in aid volume will be accompanied by greater transparency, which will favour increased effectiveness of the aid. So, on the greater scale we can expect better effects from state aid. Moreover, the structure of the expenses will look more like the EU structure, meaning that more money will go into research and development – which has a significant meaning to the improvement of economic competitiveness. More funds will go to SMEs, which should favour their expansion and creation of jobs. Also, environmental protection, the status of which in Poland is much lower than in the EU, will also be reflected in those expenses. The weight of regional aid will have to increase. This has a particular meaning in the context of absorption of EU funds allocated for regional development.

Greater transparency will ensue to a large extent from direct vigilance by the Commission, significantly improved „resistance“ to pressure from local politicians, as well as from a change in the form of the aid – greater significance of subsidies and changes in the aid granting process. Accession to the EU will mean „less, but better directed aid“ in Poland, which will have measurable benefits for the budget and the economy.

Scenario B: Poland's Exclusion From the EU

In the non-accession scenario we should expect a „dilution“ of the rules on granting and monitoring of the aid. Of course we cannot count on the fact that legislation will change (this will depend on whether we do not access the EU at all or access it later), but the application of the act would surely change. The government would be more prone to give in to political pressures – it would not have any „arguments“ in the form of the obligation to abide by the EU regulations. The aid granting system would remain illegible and not transparent, and the aid would serve to whitewash problems and not fix them. Funds directed to research and development, SMEs or environmental protection would still be insufficient – majority of the funds would go to traditional beneficiaries of state aid in Poland. This would mean ever greater expenses and ever worse effectiveness of these measures.

Should Poland fail to enter the EU structures, we could expect that conditions for investors investing in special economic areas will improve, e.g. by being able to increase the depreciation rate of fixed assets used to run the business in the economic area (this concerns investors who were not exempted from corporate tax), but also that the limits of the state aid, including regional aid, will rise. Thus, non-accession could result in worsening of the conditions for investors outside of the areas, who, in contrast to investors operating on traditional terms, are experiencing difficulties even now (smaller values of available aid).

Also a situation cannot be ruled out where the government would extend the period of existence of these areas (for longer than the agreed 20 years, or 12 years for technological parks), in order to re-activate the development of the regions, in which these areas are located. The amended SSE act stipulates the areas to be the total area of which cannot exceed the current total area. So, a scenario is possible where the government will increase the area or even establish new areas. Maybe such measures taken by the government would play a part in improving the existence of investors in these areas, but would surely have a negative impact on conditions related to the development of competition.

A Balance Sheet of Accession Gains and Non-Accession Losses Concerning the Competition Policy

The accession benefits concerning the competition policy will include strengthening of the current trends in the law and jurisdiction ensuing from the application of the law preserving economic competition. The need to adapt the functioning economic processes to the competition standards of a single EU market will be particularly visible in the area of network monopolies and the practices concerning state aid. The cost of adapting these monopolies will undoubtedly be the reduction of profits and the intensification of competitive pressure to reduce their operating costs. It will certainly result in a reduction of employment, which may, but does not have to, cause the unemployment rate to go up. This can be effectively prevented by changes in the direction of spending the state aid funds (regional and horizontal) financed from the Polish budget and the EU's structural funds.

Unemployment, which may occur, may effectively be prevented by: directing aid to support the development of SMEs; the development of the infrastructure; and the retraining of employees being laid off from restructured or closed enterprises. This was proven by such Member States as Ireland, Spain, and Portugal. Institutional and programmatic preparation of Poland to make use of these funds requires intensive work to be commenced, especially by the agencies of territorial self-governments, which will be the main partners of the European Commission in realising the regional policy subjected to the compliance principle respected in the European Union.

Strengthening of the competition development tendency in Poland in the accession scenario will influence the growth of competitiveness of the entire economy and the improvement of Poland's economic international ranking position. This will increase our country's investment credibility and should result in increased inflow of investments, without which further restructuring of the Polish economy is not possible.

Non-accession will diminish the pressure to take steps to increase the competitiveness of the Polish economy, which are usually politically unpopular and costly to the budget. Moreover, non-accession will deprive us of the possibility to make direct use of the EU's aid programs, which are not only the sources of financing, but also sources of conceptual thought for our country. The experiences of Member States in diminishing the differences in regional development, restructuring of sensitive sectors and creating institutions serving these purposes can be effectively used by Poland, which will be a Member State of the European Union.

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11. Analysis and Evaluation of Costs and Benefits of Poland's Membership in the EU in the Field of Research, Technological Development and Innovations

Tadeusz Żóttowski

The moment the decision to conclude the negotiations on membership was taken in Copenhagen on 13th December, 2002, Poland found itself in the last stage of preparations to become a member of the European Union. It was decided that accession will take place on 1st May, 2004, after affirmative result of a referendum in Poland (and other accession countries) and affirmative end of the ratification process of the Accession Treaty. Currently, in the eve of accession to the European Union, when the Polish population is preparing for the referendum on membership, it is a good idea to reflect on the benefits and costs of this membership, but also on the consequences of staying out of the Union on research, technological development and innovation, which are so important to Poland's social and economic growth.

The possible status quo of research, technological development and innovations has been adopted as the working thesis in this analysis:

- Poland's accession to the EU requires adaptation in all fields, including research, technological development and innovations;

- Poland's integration with the EU can serve as a chance for research, technological development and innovations to get developed in Poland;
- Poland's staying out of the EU will, to a large extent, cause an isolation of research, technological development and innovations, the degree of isolation depends on the development of the relations with the Union and the European Economic Area;
- Poland's staying out of the EU will not mean an inevitable avoidance of bearing the costs of adaptation to the external environment (globalisation processes), although they will be borne without the use of external transfers (coming from the EU).

The aim of the analysis was to present two scenarios of functioning of research, technological development and innovations over a medium-range time period, i.e. a visionary scenario assuming Poland's accession to the EU, and a precautionary scenario assuming that Poland does not join the EU. The analyses stipulated in this study were not limited to the Community's scientific policy and technological development, but these were compared in a broader perspective with other EU policies deemed as being the most important to the development of research and technological development.

1. This study concerns research, technological development and innovations. *Acquis communautaire* for this branch was set out during negotiations on accession. The scope of *acquis* for this branch is rather small, and so it is not surprising that no negotiation problems have appeared during the initial negotiations. The scenarios presented in this study were not analysed only on the basis of EU's legislation, but also with respect to other important practices significant from the point of view of research, technological development and innovations.

2. The challenges discussed herein which face Poland in the process of creating the European Research (and Innovation) Area ensue from an evolutionary process. The European Union knows it clearly that without taking decisive measures to improve coordination of scientific research and to increase the innovativeness of the economies of the Member States, it will not be able to face external competitiveness. Moreover, the European Union is aware of its competitiveness being reduced in the next several years due to the "enlargement effect". As part of the European Research Area a comprehensive awareness structure is being built, which is supposed to make the Europeans aware of the directions, which their societies and economies must follow in order to face the competitive pressure of the rivals.

3. The visionary scenario discussed in this study analyses Poland's relationship in the currently constructed European Research Area. After its enlargement by another 10 members, the interest of the EU, as a whole, should activate support mechanisms favouring the readiness to participate in the European Research Area; to improve innovation policies and increase interest in the need to link science with the economy; and, in particular, to encourage business interest in the benefits resulting from cooperation with scientific communities. Where costs and benefits are concerned, one may say that the obligations contracted under the Europe Agreement concerning cooperation with the EU may, in the perspective of membership, lead to liberation of extraordinary reserves in Poland resulting in increased competitiveness of the Polish economy, and enterprises in particular.

4. Evaluating the anticipated membership in the European Research Area related to Poland's accession to the EU, from the point of view of the costs and benefits, one may say at this moment that, assuming the visionary scenario, in the perspective of realising the EU's 6th and 7th Framework Program and realising the Structural Funds by 2013, a strong pressure will develop to take measures in Poland aimed at scientific and technological cooperation of Polish enterprises with the science branch, as well as to take actions aimed at computerising the society and the economy. Poland will have to respect the postulate of the European Union to increase average expenditures on research within the EU to 3 % of GDP, which will, of course, constitute a significant cost of Poland's accession to the EU. However, monies from the EU's 6th

Framework Program (totalling 17.6 billion EUR), as well as big portion of funds from the Structural Funds can be used for this purpose.

5. In addition to legislative solutions, the practical activities supporting research, technological development and innovations in Poland will be supported by the development of *foresight* in the field of science and technology as well as computerisation. Under the visionary scenario, properly managed *foresight* will include the courses of EU's development on a global scale. Under the cautionary scenario, if Poland fails to join the EU, the country would be confronted with intensely competitive activities taking place in EU favouring modern and probably effective approach to developing its competitiveness by creating the European Research and Innovation Area.

6. Under the visionary scenario, Poland's accession to the EU will result in automatic access and full participation in the process of developing the strategy and policy and in the decision-making process concerning the measures anticipated by the Community's institutions. As it has been mentioned, Poland will participate in the complicated processes of creating the European Research Area, including its parity ensuing from the Community laws.

7. Poland's participation in Pan-European research projects, (in which the European Union as the whole is a partner), seemingly remains "unchangeable" until the Union is enlarged. The European Union, i.e. its member states *en block*, are partners in many Pan-European programs, which results in their increased and clear participation in decisions concerning their functioning. Functions of the Single European Market will favour Poland's increased participation in Pan-European initiatives.

8. The scientific, technological development and innovations policy developed by the former coalition government as well as the policy developed by the present government assume a visionary scenario. Under this scenario, Poland will participate in the realisation of the Community's scientific and technological development policy, being obliged to such forms of cooperation as are necessary to realise the Community's goals, in relation to a number of other Community policies. It cannot be precisely said which actions to be taken by Poland after accession will ensue from the overall Community goals and which will ensue from the Polish scientific policy aimed at increasing the competitiveness of the Polish economy and at participating in the basic research streams appropriate for a large European country. Undoubtedly, after accession, Poland will have to prioritise its scientific research studies to find a compromise between obligations towards the Community and the obligation to protect its own research.

9. Where the precautionary scenario is concerned, one should consider the fact of the financial aspects of applying the subsidy rule with regards to the scientific and technological development policy. To be more precise, as was indicated above, application of the subsidy rule indicates the ratio of domestic expenditures to expenditures ensuing from the Community's policy to be estimated at 20:80. Under this scenario one should assume that Poland, though not obliged to respect the Treaty, will be forced to participate in Community or Pan-European projects to protect its competitive position. It is rather certain that the new rules on cooperation with the EU stipulated in the new Europe Agreement on association, or the rules on participation in the European Economic Area, will allow Poland to participate in the 6th and 7th Framework Program as an associated member.

10. Under the visionary scenario, according to the analyses that have been conducted, one may assume that the effect of Poland's participation in the 6th and 7th Framework Program, in a 10-year perspective, will lead to the number of technological companies in Poland being increased, to a creation of network structures and company clusters focused on innovative products, services and on implementing innovative technological processes. There will also be a radical strengthening of the holding structures operating in the field of research and technological development, (e.g. development centres, development networks), as well as an

increased role of the institutions intermediating in the innovation processes. It will occur through a joint cooperation with the Structural Funds programs.

11. From the point of view of evaluation of the benefits and costs of participating in framework programs, while the 6th and the 7th Framework Programs are in effect, Poland will only benefit. Where the 6th Framework Program is concerned, Polish research institutions, SMEs (to support their participation 15 % of the funds from the 6th Framework Program has been reserved) and the researchers will have access to the funds under this program, i.e. over 17 billion EUR, on competitive basis. A certain cost to the budget will be the process of supporting the participation by having the Scientific Research Committee provide additional financing to the acquired projects, thus, having budgetary problems, decreasing to a certain degree the funds allotted to scientific research outside of the framework programs.

12. Non-member states, with which the Union cooperates in the field of research and technology, are economically highly-developed non-European countries, developing non-European countries and countries of Central and Eastern Europe. The first group includes the United States, Japan, Canada, Australia, Israel, and countries of South-East Asia. Cooperation with these countries is governed by its own rules. These are Union's economic rivals. It's not surprising that joint projects include, in principle, "mega-projects" requiring huge financial expenditures and characterised by lack of measurable economic benefits.

13. Under the precautionary scenario, agreements concerning bi-lateral scientific research cooperation will constitute the basis for international scientific cooperation. One can expect that many existing agreements will be re-negotiated after Poland has become a member in the EU, because at present they work "from impetus". One should presume that bi-lateral cooperation with OECD countries outside of the EU (USA, Canada, Japan) will be strengthened.

14. Under the visionary scenario, starting in 2004 Poland will make use of Community transfers under the Structural Funds. The National Development Plan is currently being prepared by the government of the Republic of Poland. The SRC presumes that after accession, the Community transfers sent to Poland, i.e. "a large portion of the structural funds should be allotted to the development of scientific research". Where Structural Funds are concerned, use of the funds must be based on an integrated model of the innovation system.

15. Under the precautionary scenario, Poland will not be included in the transfers from the Structural Funds, where it will only make use of the funds from the Framework Programs and other Community programs. Lack of support from Structural Funds will have a harmful effect on the research and IT infrastructure, thus delaying the process of modernising the Polish economy. Poland, if it fails to join the EU, will not participate in the development of the Community's cohesion policy.

16. Under the visionary scenario, Poland has potentially good conditions to make use of its own scientific and technological know-how to increase its industrial competitiveness. It has well-developed R&D facilities and a business sector with a high potential. Each of the elements seems to be well developed. However, they lack mutual relations. Dissemination of scientific and technological achievements to the business sector still leaves a lot to be desired. To achieve the goals related to Poland's participation in the European Innovation System, it will be necessary to quickly prepare a cohesive innovation policy.

17. Assumptions of the Polish "Reform of the scientific research organisation and financing system" refer to the recommendations made during the EU Summit in Lisbon, which pointed at innovations as a quick and effective way of applying the scientific and technological know-how achieved in Europe at the highest level. Innovation also constitutes a key to economic growth seen as balanced development. The precautionary scenario will lack, though, the driving force to increase expenditures on research and technological development in the form of the EU's cohesive scientific and innovative policy and challenges related to the realisation of the decisions taken during the Lisbon Summit. Regardless of the fact whether Poland joins the EU or not, over a

10-year perspective Poland will have to make fundamental institutional changes at different levels (already today formation of the Ministry of Science is being thought about), to restructure scientific research institutions, to concentrate scientific research, to make efforts to coordinate scientific research activities with the activities pursued by the European Community.

18. The study mainly concerned the scenarios ensuing from the fact of Poland being or not being included in the Community's policy on scientific research, technological development and innovations. The branch analysed herein was integrated with numerous other policies, which ensues from the Community's legislature and clear practice. The consequences of joining and failing to join the EU have been analysed, especially from the point of view of the industrial policy (pertaining to SMEs) and the competition policy. Reference to the educational policy is stipulated in the analysis concerning a branch of education, namely education and development of the human resources.

19. The analysis illustrates an evaluation of the status of SMEs and the status of innovativeness thereof, emphasising the need for actions to improve this status. Under the visionary scenario, the government should support the infrastructure necessary to increase the innovativeness of SMEs. Above all, it will be necessary to reform (restructure) the current scientific institutions involved in technological development by adapting them to market economy and by using modern models of innovation systems. Moreover, under this scenario the infrastructure working in favour of commercialisation of technology – the link between the scientific research branch and the economy – should be strengthened.

20. Under the visionary scenario, Poland will construct Domestic and Regional Innovation System in accordance with the requirements of the European Innovation System and the European Research Area. In this context one should anticipate scenarios for the development of regions in Poland and assess the chance for creating the so-called learning regions, as the starting point for creating modern Regional Innovation Systems. Thus, practical application of the term "knowledge-based economy" will take place. Implementation of the principles of an economy based on knowledge will favour the creation of learning regions in Poland, which will lead to the creation of regions at Community's standards.

21. Under the visionary scenario, Polish enterprises will have to adapt themselves to be able to operate using the "learned knowledge", as part of regional or branch-specialised clusters. Currently, the weakness of the Polish (and not only) SME branch is its poor ability to aggregate entities. Creation of *clusters* may favour that process.

22. Under the visionary scenario, Poland, already even as a Member State, will struggle with the problems of the scientific research branch for some time; these problems will be solved over a time period going beyond 2010, under this condition: consistent policy of the government towards constant economic growth, increasing economic innovativeness, supported by positive relations between funds received from Community transfers and GDP growth.

23. Under the visionary scenario, Poland will have to determine the courses of specialisation of its economy and follow these courses consistently, pulling behind the Polish scientific research branch in that direction. Until Poland does that, attempts aimed at increasing the effectiveness of making use of the budgetary resources and changes in the system of financing scientific research by 2006 will not mean much.

24. Under the precautionary scenario, if Poland fails to join the EU, it will have to face strong competitive pressure of all countries and economic blocks in the world, globalisation processes and obligations ensuing from its membership in the OECD. Poland will be forced to work out a scientific and technological development policy aimed at increasing its competitiveness. However, it will have to do that without the support of a "strong backbone" of the Community's scientific and technological development policy, a policy which is constantly strengthened and aimed at establishing the European Research Area. This pressure will be

difficult to combat with being unable to make use of the funds, to which Poland is entitled as a Member State.

25. The scenarios analysed herein take into account the need to develop a system of economic incentives to stimulate innovativeness, which can have a twofold form: the first form involves direct support from the government through a system of grants, loans or direct subsidies, and the second one is based on incentives ensuing from the fiscal domain, reliefs, which encourage companies to take actions aimed at increasing the level of their innovativeness. Poland should apply a system of fiscal incentives to stimulate scientific R&D activities and to create an atmosphere favouring the growth of innovativeness.

26. Under the visionary as well as the precautionary scenario, Poland has a lot of room to manoeuvre in selecting the incentives system to stimulate entrepreneurial innovativeness. However, if Poland fails to join the EU, it will be deprived of a system-based and financial support from the EU aimed at improving the incentive system.

27. The analysis illustrates that a significant drawback of the Polish industrial policy is the fact that its main instrument is comprised of tax operations in the form of exemptions, reliefs, amortizations, which result in tax arrears. Under the visionary scenario, financial institutions supporting the entrepreneurial development as well as innovation processes at different company development phases will be supported (e.g. *venture capital* funds). Making this form of entrepreneurial support more attractive will constitute a very important challenge over the next ten years.

28. Under the visionary scenario, Poland will have to take into account the most serious infringements of EU rules and practices in the field of competition policy, which include: large portion of operational assistance and attempts to increase the industrial potential (e.g. the automotive industry as part of state's assistance in Special Economic Zones).

29. Under the precautionary scenario, considering the globalisation-related challenges, Poland will be forced to pursue a modern industrial policy that will be closely integrated with the scientific and innovative policy. If Poland manages to find forms of cooperation with the European Economic Area, then the industrial policy should not deviate from the Community's standards.

30. Under the visionary scenario, as was shown in many instances, Poland's accession makes it necessary to quickly adapt Polish enterprises to be able to compete on the internal market. The most important medium-range task is to support SMEs in Poland in such a way, so that they can compete with similar enterprises in the EU. Increasing of entrepreneurial competitiveness will make it necessary to support the development of the institutional infrastructure supporting technology transfer.

31. It has been shown many times in this study that the priority of the Polish adaptation strategy for the SME sector is to increase competitiveness and investment expenditures and the exports of the SMEs to the level comparable with the results achieved in the EU.

In the light of accession to the EU, the priority of the government's policy concerning SMEs is to develop the institutions around the business, which support the operations of SMEs. Realisation of this element will also become an element of the state's policy concerning regions significantly suffering from economic and social downfall.

32. It is difficult to determine a precautionary scenario for the SME sector over a time period stretching until 2013. The development of this sector much depends on a favourable economic, legal and social environment. It is necessary to increase *deregulation* of the economy. Should Poland not join the EU, this sector will develop thanks to internal support mechanisms towards aggregation of entities, formation of *clusters*, functioning under entrepreneurial and innovative incubators.

33. Under the visionary scenario, when joining the EU, Poland will be obliged to fully respect the rules of competition addressed to enterprises as well as the state. This pertains to all activities related to the realisation of the scientific and technological development policy as well

as the use of Community's support tools. From the point of view of science and technological development, it will be necessary to study the *pre-competitiveness* state, i.e. to determine how measures taken by companies and scientific institutions, financed from public and Community funds, will influence the distortion of competitiveness of companies on the market. The European Union, the moment it is enlarged by the countries of the Central and Eastern Europe, will be faced with a serious challenge of the "enlargement effect" causing its competitiveness to be reduced. The EU is already considering loosening the rules of competition to promote investments in technology transfer and innovations. Very likely a debate will be held, similarly when the Single European Act was being prepared, whether the Community's scientific policy is supposed to promote only "the cooperation model", or whether it should pertain to special support instruments, which is not possible to achieve without making changes in the competition policy.

34. Under the precautionary scenario, assuming that Poland will keep on participating in the EU's Framework Programs, it will have to respect the EU's competition policy rules. If Poland fails to join the EU, an internal competition law will apply, but it is currently on the European standard level.

An attempt was made in the analysis to determine the costs and benefits of Poland's accession to the EU in the field of scientific research, technological development and innovations. Wherever possible, an attempt was also made to illustrate the effects of the precautionary scenario, under which Poland would not join the EU. The task can be narrowed down to a scenario evaluation of the results of negotiations regarding membership in a chapter "Science and research", the first chapter to be implemented into the negotiation process, chapter, which was closed immediately due to lack of problems with implementing the Community's legislation in this regard. Many authors pointed at the danger related to the "*tick-off-effect*", related to a problem-free closing of this negotiation chapter.

An attempt was made in this analysis of the scenarios to illustrate that regardless of whether Poland joins the EU or not, due to long-established position of Polish science on the international scene, Polish scientists and Polish scientific institutions will find a place of their own within the EU's structure as well as outside of it. However, because there will be no support from the Community, this can be more difficult to achieve and will take much longer. That, which pertains to the perspective of the development of technological development and increasing of innovativeness of the Polish economy – under the precautionary scenario (Poland's failure to join the EU) is not that optimistic.

12. Costs and Benefits of Poland's Accession to the EU With Regard to Transport

Andrzej S. Grzelakowski

I. Methods of Estimation and Evaluation of Costs and Benefits

The objective of the study is to identify and evaluate costs and expected benefits, as well as potential opportunities and risks resulting from Poland's accession to the EU with regard to the transport sector, by means of comparing the two scenarios:

- a) accession to the EU on terms and conditions resulting from the closed negotiations,
- b) remaining outside of the EU maintaining some forms of cooperation on the basis of relationships being part of the European Network.

The objective of the study encompasses the whole transport sector with its connections with both domestic and international environment. In the aspect of time, the years 2004–2006 – as a short term scenario, and 2007–2013 – as medium term were taken into consideration.

Both scenarios generate certain costs, which are differently distributed in time – sometimes differently depending on the field of the transport sector. These costs are dynamic and appear mainly in the long term variant. The so-called external transport costs must be added¹⁹⁸. They reflect the external effects of transport activities. These are mainly costs of congestions, environmental pollution, collisions and accidents, noise, vibrations etc. External costs indicate which one of the two scenarios is more effective in terms of generating savings of indirect transport costs.

When characterizing the cost aspect in macroeconomic terms in both analysed scenarios, transformation costs must be separated from the integration costs. Separating the two categories provides the basis for a methodologically correct assessment of both scenarios, and points out whether the accession scenario is only an enforced, quick transformation variant or whether it creates a new quality in the transport sector.

¹⁹⁸ Fair Payment for Infrastructure Use: A phased approach to a common transport infrastructure – charging framework in the EU. White Paper. COM(1998) 466 final, Brussels, 1998, s. 4

When determining types and sizes of benefits resulting from the integration of the transport sector with the EU or simply its transformation, basic characteristic features of these benefits and their distribution must be pointed out. Therefore, these benefits:

1. are very differentiated as far as typology is concerned – microeconomic and macroeconomic, direct and indirect, current and future, economic and non-economic, and as far as their subjects are concerned – producers and/or consumers of services, other subjects etc.,
2. are not distributed proportionally to costs or, in a broader sense, expenditure,
3. are significantly delayed in comparison to the costs – expenditure made and often proportionally small when compared to the costs,
4. appear sometimes in other areas outside of the transport sector and are often received by others – they can be intercepted to a large extent.

II. Building and Modernizing Transport Infrastructure

Execution of the accession scenario has the following consequences in the area of transport infrastructure:¹⁹⁹

1. the necessity to fulfil obligations concerning transport infrastructure development taken on by Poland in the negotiations – mainly the TINA transport network,
2. the obligation of the EU to co-finance, in the sense of both as pre-accession and post-accession aid, the main infrastructure components from EU funds.

The EU's financial involvement in the realization of investment projects within the transport infrastructure in Poland in the years 2004–6 will be executed using: the Cohesion Fund (2.1 million Euro), the European Regional Development Fund /ERDF/ – designated to co-finance infrastructure projects of great importance to the national economy, as specified in the Sectoral Operational Programme – Transport and Maritime Economy (SOP) in the amount of 740 million Euro, and of regional importance, as specified in the Integrated Operational Programme for the Regional Development (Zintegrowany Program Operacyjny Rozwoju Regionalnego – ZPORR) in the amount of 734.9 million Euro, as well as the European Agriculture Guidance and Guarantee Fund EAGGF with approx. 100 million Euro for investments, primarily roads, in smaller towns and country municipalities.

So, in total, the EU will designate 3,674 million Euro for this purpose, investing almost 2/3 of the amount into the basic network included in Annex I to Decision 1692/96/EC, amended by Decision 1346/01/EC.

As a new EU member state, in the years 2007–13, Poland will also receive funds from the Cohesion Fund and the ERDF for the development of basic transport infrastructure components. Their volume is hard to evaluate at the moment. It can be estimated that in the years 2007–13 Poland could receive 7.5 – 8.5 billion Euro from the Cohesion Fund, and about 3.5 billion Euro from the structural funds (primarily ERDF).

Poland's needs in this area are much greater. For the road sector alone it was planned that the participation of the EU funds in the total amounts necessary to adapt the roads in the TINA network to the requirements of Directive 96/53/EC in that period, i.e. 2007–13, should amount to about 7.1 billion Euro²⁰⁰. For the realization of further development and modernization projects in the transport sector – the modernization of a railway network, expanding the

¹⁹⁹ Common Statement of the EU accepted by Poland on the ministerial session of the Accession Conference on 10 June 2002, Ministerstwo Infrastruktury, <http://www.mi.gov.pl>, p. 6–7

²⁰⁰ Program dostosowania sieci drogowej TINA w Polsce do standardu naciskowego 115 kN/oś do 2015 r..Ministerstwo Transportu i Gospodarki Morskiej, Warszawa 2001, s. 9

infrastructure of airports and seaports, combined transport terminals etc. included in the TINA network, the amount of 4–5 billion Euro from the EU would be necessary.

Transfers from the EU for the purposes of the development and modernization of transport infrastructure, in the context of its adaptation to technical and economic requirements defined in *acquis*, must be considered as direct benefits resulting from the accession. Also, the expenditure of the Polish side – both budget and non-budget expenditure cannot in this situation (the scale of the investment underdevelopment and a unique chance to eliminate it), be treated as costs, since in fact they mean a future benefit. Additionally, these expenditures generate almost simultaneously a number of macroeconomic indirect benefits, resulting from the development and improvement of the efficiency of the transport network. The following benefits, resulting from quality improvement, i.e. improving the technical standards of the network, must be included in this group apart from the ones already mentioned:

- increasing the economic growth by a strong demand impulse²⁰¹,
- increasing the attractiveness of the country and most regions to the foreign capital,
- improving transport accessibility in certain regions and increasing the processes of their convergence,
- creating new jobs, particularly at the stage of the motorway and expressway construction programme, but also during their operation,
- increasing the mobility of society, conditioning a higher level of the labour market flexibility,
- improving the living standard and growth of the social welfare,
- reducing the negative impact of transport – road transport in particular – on the environment and thus reducing external costs²⁰²,
- achieving synergy in the area of cohesion of transport networks, and thus making it possible to reduce transport intensity of the GDP growth.

These benefits will appear as a result of the realization of the transport network development programmes and will successively grow with its extension and with the improvement of technical standards. The fact that these benefits are accumulating in time does not mean that all of them will bring economic and social results improving the national economy. Due to the extent of the opening of the economy after the accession and a supra-national, pan-European character of the basic components of the transport infrastructure, a part of these results, especially those resulting from the modernization of the transport network and nodes, will be overtaken by foreign freight companies and will thus become benefits of the EU. In general, however, beneficiaries of the process will primarily be transport users and the society due to lower external transport costs.

In the non-accession scenario, the costs and benefits are distributed in a different way as opposed to the case of the accession. As an UE associated country, Poland would have no access to the cohesion and structural funds supporting own financial resources coming from Poland and designated to the development of the transport infrastructure. The process of reconstructing and modernizing the network would take place slower than now and much slower than in the accession scenario. So the deterioration of road surfaces and a general degradation of the whole transport infrastructure could increase, which would be reflected in the transport costs included in the prices of products, creating a strong inflation-driving impulse. The effects would be more perceivable for the consumers of transport services, and in fact, by the whole society, due to a limited access to transport infrastructure with a lower standard. Transport accessibility in many regions would be limited even further which would have a negative effect on their attractiveness

²⁰¹ Verkehrsbericht 2000. Integrierte Verkehrspolitik – Unser Konzept für eine mobile Zukunft. Deutscher Bundestag, Drucksache 14/4688

²⁰² These costs were estimated in 2000 in Poland at PLN 12,322 million. Vide Internalizacja kosztów zewnętrznych transportu i infrastruktury. Praca zbiorowa pod kierunkiem H. Bronka. Uniwersytet Szczeciński, Szczecin 2000

not only as production sites, but also as tourist centres. Potential levers for the economic growth and stabilization of the labour market would not be implemented. Competitiveness of the Polish economy – in all its aspects – would be strongly limited.

The extent of costs, resulting only from the lack of access to the EU funds designated to support transport infrastructure would be as follows:

- in a perspective until 2014 – the lack of about 15 billion Euro which Poland could receive in 2004–13 for the purpose of financing of the transport infrastructure,
- serious, direct and indirect economic, social and environmental effects, resulting from the impossibility to implement a balanced transport development policy; such costs can be estimated at the level of at least 20 billion Euro in a perspective until 2014.

These costs, in connection with the benefits that are difficult to quantify and result from the non-accession scenario, are immense. The benefits are mainly short-term effects resulting from a slower adaptation of the infrastructure within the TINA network to the EU requirements. Strong concentration on the execution of the projects coordinated within the EU, financed to a greater extent from MIF credits, along with almost no money for the maintenance and modernization of the remaining domestic network, including the construction of bridges and bypass roads, is certainly a significant macroeconomic expense²⁰³. Not realizing that strategy would probably allow to shift a part of public funds, “bound” within large projects of that kind, enabling better coordination of the development of the traffic network at the country level. Under such circumstances, the distance which in the case of the accession scenario may be created between the development of the TINA network and remaining transport infrastructure in Poland, would be smaller.

The benefits resulting from better cohesion of the development of the Polish transport infrastructure would rather be of a short-term nature. Already in the medium-term, and especially in the long-term perspective, the costs growing in the transport system due to the lack of money for that purposes would eliminate the benefits completely.

So, the non-accession scenario not only generates more costs than benefits, but also the benefits are much lower than those achieved within the accession scenario, which guarantees a sustainable transport development in the long-term perspective.

III. Road Transport

These conditions of the accession negotiated for the road transport sector, including both passenger transport and transport of goods indicate that most of the direct costs and benefits concern the sector of transportation companies. The current state of the adaptation in the legal, institutional and real areas shows that Poland will bear most budget and microeconomic costs until the end of 2003. Currently, increased expenditures for the adaptation of vehicles and transport business regulations to the EU requirements, as defined in appropriate regulations, will cause a significant increase of operating costs in this sector. As a result, due to the current condition of the market, the production rentability will be further reduced. Transport companies, especially those operating on the domestic market, will go bankrupt in a large scale. A part of the costs will also be born by the transport companies in the post-accession period, but these will mainly be costs of the market adaptation.

Higher expenditures connected with the implementation of the *acquis communautaire* and the adaptation to market requirements will however be in the medium term reflected in expected higher financial profits, resulting from an easier access to the market – mainly in international

²⁰³ Vide Costs and benefits of enlargement. NEI, Interim Report 2. July 1999

transports after lifting the cabotage ban. Large diversification of companies operating in the transport sector in terms of road transportation of people and goods, and a large extent of supply dispersion can however have their effects after Poland's accession to the EU. On the one hand, it can have a positive influence on the decisions concerning an earlier lift of the cabotage ban in some EU countries – such companies are of no danger to EU companies operating there. On the other hand, small companies of this kind have fewer possibilities to expand and acquire new, more geographically distant markets. For small transport companies that often are family businesses, entering the market of cabotage transports in the EU countries, it would in fact mean transferring their businesses to the country where costs for entering the market are mostly very high. Therefore, their actual chances to use the opportunities offered by a full opening of the market will be rather small after three or five years of the cabotage ban.

The problem of cost, mainly the cost differences between Polish and EU transportation companies, is essential for the estimation of the extent of benefits or costs of the realization of the accession scenario. A partial opening of the market in the area of international and transit transport, as well as the right to carry out transport between the member countries from the moment of the accession, offers better possibilities for Polish international transportation companies, provided that they will be able to maintain their cost difference in relation to their competitors for as long as possible. It will not be an easy task, taking into consideration the dynamic cost growth that has recently taken place in this sector. Thanks to the consolidation of the sector and the production scale effects – economy of scale achieved that way, it would be possible to significantly reduce unit cost for transport labour in the international road transport in spite of a constant high cost growth dynamics.

High pre-accession costs of the sector and the impossibility to achieve full effects of the accession resulting from the negotiation decisions, will thus have serious short-term social and economic repercussions in this area. These repercussions will be: loss of a significant part of potential income and creation of additional costs, resulting from doing so-called “empty voyages” (when a vehicle returns from its destination point unloaded). It has been estimated that²⁰⁴:

- additional costs, resulting from lost possibilities of performing cabotage transports in the sphere of international road transportation of goods by Polish transportation companies, will amount to approx. 12,650 Euro annually per vehicle, which means an average of more than 550 million PLN per year,
- lost income of these companies will amount to more than 800 million PLN per year.

The high microeconomic and social costs (many job redundancies) in the road transport sector, appearing as a result of the accession scenario, will be accompanied by numerous benefits which will be visible not only in the micro scale, but also in the macro scale. These include:

- saving transport time and cost, achieved by consumers of transport services as a result of the increased quality,
- increase of transport safety and reduction of negative impact on the environment – reduction of external transport costs,
- increase of competitiveness not only in terms of Polish transport operators, but also of its economy – mainly the branches making the most intensive use of road transport services,
- equalization of the competition conditions for the transport sector within branches and between branches,
- increase of production in the sectors of the economy supplying for the road transport (rubber industry, electronic industry etc.).

²⁰⁴ Vide Monitoring rynku przewozów drogowych w roku 2000. Instytut Transportu Samochodowego. Warszawa 2001 oraz Tendencje w rozwoju rynku transportu drogowego. ITS, Warszawa, 2001

These benefits, as well as their additional advantages which are supposed to balance the negative effects for the sector, resulting from its gradual integration with the EU, will however need several years after the accession to become visible. After a two-year period of bringing order into the transport market, and after a transition period introduced by the EU, this is supposed to be as short as possible and no longer than three years, where again there will be a possibility to increase the number of companies operating in this transport sector and thus to reduce initially high market entrance costs. Into a great extent, this effect will be a function of the duration of the transition period. It can be assumed, that for the road transport sector, the accession scenario:

- in a short term of 2–3 years will bring balance of costs and benefits, even though the costs may be greater due to lack of consolidation for example,
- in a medium term, after 2007 will bring strong prevalence of benefits over costs and therefore more in a long-term perspective, conditioning the development of the sector.

The non-accession scenario would not only mean the continuation of the inefficient model currently in operation, but it would also mean an increase of all negative effects of the model, both in micro- and macro-scale. In addition to that, the costs would be extremely high in this scenario, taking into consideration the fact that most of them have already been born during the pre-accession period, but the potential effects possible with the accession scenario would not be realized.

Basically, this scenario means gradual but inevitable degradation of the sector. The supply side would be further dispersed and a wave of bankruptcies would follow as a result of growing operational costs, especially in domestic transports. Economic and social costs would in that case be extremely high.

It would only be possible to reduce them if the group of transport companies was released from some responsibilities introduced by the statutory regulations on road transport and working hours for drivers. This, however, would have certain macroeconomic consequences, resulting from a fixed dual system of transports of goods and would also generate high social costs, resulting from the fixing of the existing system – consequences the economy would not be likely to bear. Additionally, the transformation process in this sector would be slowed down and its share in the GDP would continue to decrease.

In the area of international road transport, also the inefficient model of business organization and sales of services would be maintained. The offer of Polish transport companies would basically still be limited to traditional, most simple customer services, i.e. transportation of goods. Limited access to the logistics market in the EU would not provide sufficient impulses for the development of logistics services and creating or joining distribution and logistics networks in the EU countries. As a result an international transport system based on contingents and granting each other permits would lead to the elimination of Polish transport companies from the EU market. They would soon be replaced with transport operators from the new member countries.

In the non-accession scenario, especially after 2004, there are practically no significant micro- or macroeconomic benefits. Such benefits visible in a short-term perspective will not be able to balance relatively high macroeconomic costs resulting from slowing down of the development of the sector and its adaptation to the EU requirements. In the medium and long-term perspective, there are practically no benefits at all, and indirect or direct costs of this scenario would be extremely high, much higher than in the accession scenario.

IV. Railway Transport

Regulations of access to Polish railway transport market by the EU operators and providing transport services until 2007 and later, as set out in the accession scenario, provide the framework for the operation of the main operator on the Polish market, as well as on the more and more liberalized European market, i.e. PKP Cargo S.A. The three-year transition period granted to Poland with a limited right to access the TERFN network for foreign railway transport companies, is aimed at improving competitiveness of the operator which, even though a monopolist on the domestic market, is very weak in every aspect. His market position seems to be in danger even in the early phase of liberalization of the Polish market.

Thus, to minimize microeconomic costs of the accession in this segment of the railway transport, meaning a potential loss of a significant part of the market and income from the basic activity of PKP Cargo S.A., the variant of partial protection of the Polish market in terms of railway transport of goods was chosen²⁰⁵. In this scenario, the protection of the Polish market is equivalent to economic interests of a monopolist operating on that market.

In this sense, the accession scenario fixes the existing mechanism of the market and does not force the restructuring of PKP Cargo S.A. under the pressure of growing competition. Neither does it support the competition and makes it an instrument used to improve efficiency on the railway market and create a necessary market order. As a result, the macroeconomic costs of the railway transport services which the end-users would bear, i.e. customers of PKP S.A. will not be reduced. On the contrary, they will grow due to an increasing difference between the level of effective freight prices and the quality level of transport services offered.

So at least in a short term perspective, to 2007, while providing significant microeconomic benefits, this scenario will also generate certain microeconomic as well as macroeconomic costs resulting from a longer time of monopolist operation on the market in this segment of transport. However, there will also be certain macroeconomic benefits such as:

- increasing opportunities to develop railway transport and, thus, to realize the strategy of a sustainable development and a reduction of external transport costs as well as supporting the development of combined transport,
- possibility of reducing budget expenditures for restructuring of PKP S.A.,
- providing a better division of transport tasks in the national economy and reducing transport intensity of the GDP growth.

As a result, in the short term perspective of that scenario, the benefits generated mainly due to the three-year transition period are larger than the costs. In the medium term perspective after 2007/2008, the accession scenario will generate significant macroeconomic benefits – higher competitiveness, high effects of consumers of the services, reduction of budget expenditures, higher accessibility of railway transport, higher social mobility. The benefits will certainly be larger than the analogous costs. Also in the micro-scale, the benefits will prevail over the costs, especially if a relative and lasting balance between the price level for access and the use of the railway infrastructure and the prices offered by the users of that infrastructure – the railway operators – will be introduced. Bringing order into that market segment, a result of the implementation of the modified *acquis* in that area in 2001 and 2003 will namely guarantee the development of the railway transport sector, both freight and passenger, on reasonable economic conditions.

There is a significant difference between the accession and the non-accession scenario in that area of transport. By not accepting the modified railway *acquis*, Poland does not need to open its market of cargo transport after 2004 and may continue its strategy in restructuring PKP S.A. and regulating the railway market. However, in that situation, Poland does not participate in the EU's structural funds and Cohesion Fund and does not receive non-returnable funds for the modernization of its railway network. It is not difficult to predict what that variant would mean,

²⁰⁵ Vide Annex no. 3 to the Negotiation statement of Poland in the area Transport Policy

taking into consideration the changing environment after 2004 and maintaining the current negative trend in the demand for services of that branch – the Polish market demand for railway transport is shrinking rapidly²⁰⁶.

Apart from insignificant microeconomic benefits resulting from the maintenance of full protection for the Polish transport market from external competition, it is difficult to see in this scenario any other benefits – both in the short-term and medium-term perspective²⁰⁷. Due to the decreasing demand for railway transport services, there will also be no social benefits resulting from the maintenance of the employment in transport companies on the present level. However, this scenario generates high costs, mainly macroeconomic ones, which could derive from:

- slowing down the dynamic of restructuring of PKP S.A., and even a potential regression in that area;
- the lasting, and sometimes growing pressure to increase budget spending on PKP S.A.;
- maintaining an old, inefficient organization model of transport in a quasi-monopolist market.

As a result of realizing this scenario, generating high costs of business in that area of transport, the chance to reduce the debts of PKP S.A. and a successful continuation of its restructuring becomes unrealistic. Due to the lack of aid for the modernization of railway infrastructure – not only for the TINA network – the effectiveness of operation of an infrastructure management company obliged to maintain and modernize it, will be doubtful. Incomes from weak operators accessing that infrastructure will not generate the required funds. Additionally, there is a great risk of stopping the development of combined transport in Poland in that scenario, with all due effects for both the domestic and international transport.

Thus, the non-accession scenario is a scenario generating high macroeconomic costs, mainly in its budget costs (increased expenditures for railway transport) as well as social costs. It also increases the risk of decreasing income from transit services and a worse balance of transport services in the national balance of payments. The costs of modernization can further increase after the EU railway market will have been fully liberalized, and not only in Poland in the medium-term perspective.

The analyzed scenario is much less attractive in terms of economy and society than the accession scenario, which is also connected with some costs and risks. It generates inflated costs, than in the accession scenario – bringing no comparable benefits.

V. Air Transport

When negotiating the accession conditions for the sector of air transport with the EU, analogous to the railway transport sector, Poland used a strategy of protecting the national carrier, i.e. PLL LOT S.A. – a monopolist in that segment, currently undergoing a process of restructuring and privatization. Having in mind the need to adopt it better to the requirements of stronger international competition, it was suggested to introduce a three-year transition period of limited access to the Polish civil aviation market for carriers from the EU.

Such preferences for LOT would however mean giving up some potential benefits, resulting from the creation of a competitive market of air transport. In case of maintaining these

²⁰⁶ Passenger transports decreased during the years 1993 – 2001 from 540 million PAX to 320 million PAX, and cargo transports from 390 million tons to 175 million tons and still show a negative tendency. It is estimated, that they will not exceed the level of 160 million tons in 2005

²⁰⁷ These benefits mean an amount of less than PLN 20 million per year on average. It is the profit possible to achieve in PKP Cargo S.A.

preferences, the potential short-term benefits of the Polish carrier would be significantly lower than the losses (lost benefits) of passengers, i.e. LOT services customers and of the airports.

A full acceptance of the *acquis* in that area, equaling accessing the treaty on the European Common Aviation Area ECAA, generates benefits like:

- increasing air transports and creating a real, long-term basis for the development of that type of transport in Poland (however, it can intercept 20% of the passenger railway market between agglomerations after 2007),
- increase of passenger and cargo traffic and the income of regional airports – estimated at US\$ 10–12 million per year,
- reducing ticket prices (by approx. 15–20% on average) for international flights, this cost reduction will generate additional traffic,
- increasing the security standard of flights (Joint Airworthiness Requirements – JAR) as well as of the financial stability of the Polish national carrier.

It has been assumed, that these benefits, especially in the macroeconomic perspective, are much higher than the costs resulting from a full implementation of European law in that area, where the extent of internationalization of the regulatory level (ICAO, IATA, JAA, etc.) is one of the highest, not only within transport.

The benefits will be higher for the national carrier if Poland's accession to the ECAA happens at the same time as the accession to the EU. In that case, it would be possible to avoid losses i.e. a potential decrease of income in 2003 due to sudden free access to the Polish market, estimated at US\$ 100 million. Operating in a new alliance, LOT could also use the period to prepare an efficient strategy slowing down the reduction of LOT's share in the offered transport capacity in the long term perspective.

Taking into consideration the extent of potential benefits from the accession scenario, with relatively low costs – mainly microeconomic – the scenario is strongly beneficial for Poland in the short-term perspective. In the medium-term perspective, the opening of air transport markets in Europe creating the Single European Sky and improving the overall safety level of flights, the European Aviation Safety Authority EASA will be created and the scale of the benefits will greatly improve. The costs will be relatively equally distributed in a system of strong airline alliances rather than of carriers. That makes the accession scenario appear even more attractive.

In the non-accession scenario, in 2004, after the ratification of the ECAA treaty by the member states, Poland wouldn't be forced to act quickly to join the treaty. However, due to the fact that PLL LOT as a member of a strong airline group – Star Alliance, and the JAA and EuroCONTROL, would be ready to operate efficiently in the structure of a new European market system, Poland could as an associated country, join the ECAA to the same conditions as Norway or Iceland. That would mean that this particular market segment would be fully regulated by European law. In this scenario, which seems to be comparable with the accession scenario, the relation of benefits to costs is lower than in the accession scenario, where it is additionally supported by synergic effects. The scale of benefits and costs resulting from this scenario depends on the time Poland decides to join the ECAA.

VI. Maritime Transport.

Maritime transport, encompassing shipping and ports industry and widely understood issues of maritime safety, shows a high level of preparation for accession. A major part of the expenditures for its accession preparation has been started already. These are mainly budget costs, resulting from activities in the area of improving structures in maritime administration, harmonizing regulations and implementing required safety standards in the fleet and at

seaports. A part of these costs will be born also after the accession, especially those connected with activities undertaken by the EU in the area of improving maritime safety (Erika I and Erika II packages, etc).

Another group of budget costs from the accession scenario will be costs connected with adapting the fleet and the seaports to the requirements of the international market, which requires improving the competitiveness of the companies operating in that sector.

In issues concerning maritime transport, Poland takes actions at implementing in that sector troubled by a deep structural crisis new regulations concerning granting state aid, based on the Community Guidelines on State Aid to Maritime Transport of July 1997²⁰⁸. The amount of that aid will not be very high, due to the existing budget constraints.

In the area of seaports of essential importance for the national economy included in the TINA network, where freely accessible public port infrastructure can be co-financed from EU funds, the benefits from the accession may be significant. But they will be accompanied by some budget expenditures, especially as far as objects providing navigation and traffic safety are concerned. For the years 2004–2006, the Sectorial Operational Programme – Transport – Maritime Economy estimates that funds at about PLN 200 million²⁰⁹. They cannot be regarded as costs similar to other cost components of the transport infrastructure

In small ports and sea havens of the Polish coastal area, realizing the accession scenario can result in benefits such as:

- receiving from the structural funds of the EU financial support for the modernization and extension of transport infrastructure, able to accelerate regional development,
- the possibility of including the ports in the program for development of costal shipping.

In the maritime transport sector, the accession scenario not only provides a chance for development of shipping companies, port companies and companies operating in the area of port related services, but also makes several macroeconomic benefits possible. These benefits are mainly related to:

- creating new jobs and stimulating regional development in the seaside regions troubled by a structural crisis,
- increasing the role of the maritime sector in GDP growth and increasing the positive balance of maritime services,
- providing ecological safety in the sea-belt and in the sea areas of Poland.

So the accession scenario generates low costs in the maritime transport in both macro and micro-scale. A majority of these costs are adaptation costs and have already been reduced – costs of harmonization of law and building of administration structures.

The benefits resulting from its realization are comprehensive and concern the companies as well as the regions and the national economy. Their overall analysis indicates that already in the short-term perspective they are higher than the costs generated by the scenario. And in the medium-term, this positive relation of costs to benefits will widen.

The development of Polish maritime transport, in case Poland does not join the EU involves many risks. It would not be covered by the aid scheme regulations that the EU allows and applies, and it would not make use of structural funding. Poland would probably lose all its fleet flying the national flag and, in fact, the Polski Rejestr Statków (Polish Register of Shipping) would have increased difficulties in receiving a legal acknowledgment as the EU shipping register. Also, the market would lose many port and sea trading companies.

²⁰⁸ Vide Directive of the Council of Ministers on State help in the maritime sector, February 2001

²⁰⁹ Vide Sektorowy Program Operacyjny – Transport – Gospodarka Morska. Ministerstwo Infrastruktury. Warszawa, grudzień 2002, s. 21 i dalsze

In the seaports, the decrease of trade and traffic would be visible. The seaports would lose their competitive position in the Baltic Sea already after a few years, since they would not be able to create logistic and distribution centers and become centers of entrepreneurship and poles of economic growth under such circumstances. Polish seaports would also not be able to make use of the development of short sea-shipping, strongly supported by the EU, as well as the implementation of the so-called port package providing easier access to port services.

In the short-term perspective, also the degradation of small ports would continue and they would further go on to lose importance in the stimulation of regional and local development. A regress in the development of tourism and yachting would also be visible. The unemployment in the seaside regions of Poland would increase even more and they would further lose their economic activity.

The costs resulting from this scenario would be especially high – for both the corporate sector and the whole economy. In time, these costs would greatly increase.

When comparing the two scenarios with their respective typical constellations of costs and benefits the advantage of the accession scenario over the non-accession scenario is highest in this particular area. A general conclusion may be drawn, that the accession scenarios have a clear advantage in the areas of transport where a majority of the business is done in an international constellation. That concerns the relation of costs and benefits when analyzed in both short-term and medium-term perspectives.

VII. Inland Water Transport

The inland water shipping, that share in cargo transport in Poland is smallest from all transport branches, is one of the best prepared in terms of accession preparation. The new act on inland water transport along with a package of executive regulations will fully harmonize Polish law with EU law, making business easier for Polish shipping companies, who operate mainly on the EU market on the basis of bilateral inland water transport agreements²¹⁰.

However, bilateral agreements only provide easy access to the market without implementing regulations on the freedom of transport business – including cabotage. Full access to the inland water transport market, as stated in the Council Regulation 3921/91EEC, will only be possible from the moment of the accession. The accession provides a great opportunity for Polish inland water transport companies:

- not only lasting through the crisis on the domestic market – decreasing demand and traffic volume, lowering standards of inland waterways etc.
- but also maintaining and possibly improving their position on the EU market.

From the point of view of the short-term and medium-term interests of Polish transport companies who are prepared to operate on the difficult EU market, the accession scenario is a very favorable solution. It will not generate higher costs for them, even in the period of tonnage renewal as regulated in the Council Regulations 1101/89/EEC and 1102/89/EEC. Since there is no supply overcapacity in Poland, it will not be necessary to scrap tonnage on a larger scale and to renew it according to the EU rule “old for new”. A part of the costs for tonnage renewal, whose transport potential is regulated in the EU, is paid by the carriers. This process is financed from special scrapping funds created in the member countries. Poland will create such funds already at the beginning of 2003²¹¹. Apart from contributions by ship owners, the funds will also receive money from the State budget.

²¹⁰ Poland has signed such agreements with Germany and Luxemburg, opening the access to the EU market to the transport companies, even though it is of rather limited nature

²¹¹ Act on The Inland Water Shipping Fund and the Reserve Fund of 28.10.2002 /official journal Dz.U. no. 199/,

The budget costs connected with the harmonization of law, improvement of administrative capacity (inland water transport authorities) and creating the tonnage scrapping fund are not high and are mainly regarded as adaptation expenses. The macroeconomic benefits are much higher in the accession scenario, taking into consideration that, unlike in other branches, here the benefits for Polish transport companies are practically only on their side. The Polish market, which is inaccessible for EU transport companies due to technical and navigational reasons, will remain dominated by Polish transport companies. Their market position will not be in danger and their difficult economic and financial situation will not become worse. Accession to the EU also means a chance to realize the Program for Odra 2006 and, in the long-term, receiving money to modernize inland waterways and ports included in the TINA network.

The accession scenario, which will generate significant benefits for both transport companies and the State budget in the short-term perspective, provides a chance to avert the crisis that has been troubling the branch for several years, creating a basis for the development of inland water shipping in the medium-term and long-term perspective.

In case the non-accession scenario is realized, the sector of inland water shipping would be especially negatively influenced by such a solution. Although almost completely adopted to acquis requirements, Polish transport companies would have to defend their market. The formal basis for their presence on the EU market would only be bilateral agreements, not allowing cabotage transports. The right to perform cabotage transports would however be granted to transport companies from new member states – the Czech Republic, Slovakia and Hungary, which would make the conditions for Polish operators even more difficult, with all respective negative economic and financial effects.

Due to its small capacity, Poland would not gain any benefits from limiting access to the Polish market. The growing costs of operating on the EU market (due to the increasing access limits) would not be accompanied by positive effects resulting from a privileged position on the domestic market. The chances to modernize and renew the fleet and maintain the navigability of the main Polish inland waterways would also be significantly reduced.

The non-accession scenario is for that sector practically a regress scenario, threatening the existence of this transport sector in Poland.

VIII. Final Conclusions and Remarks

The analysis of costs and benefits in the transport area resulting from the realization of two basic scenarios indicates that:

- in all transport areas, the benefits prevail over the costs in the accession scenario, whereas the beneficial effect of that scenario for the transport as well as for its environment becomes clearer in the longer term,
- in the short-term, i.e. in the years 2004–2006 in the accession scenario, the relation of costs and benefits is generally positive in all sub-sectors of transport analyzed here – with the exception of road transport – however it is not high and the distribution is not equal in the branch system of the transport sector and its individual zones of influence,
- the greatest beneficiaries of the accession scenario will in the short-term and in particular in the medium-term perspective, except for the real transport area – the infrastructure – be the inland water transport, the maritime transport and the air transport; i.e. the areas of transport with strongest international connections, operating under largest international pressure; their existence and development depend on creating efficient connections with the international system,

- in the accession scenario, the scale of macroeconomic benefits outside the transport sector is relatively high; in short-term, these benefits exceed microeconomic effects of strictly transport nature, and in the medium term, they are equal,
- in the non-accession scenario, which, due to the branch characteristic of the transport sector, cannot be homogenous, the costs clearly exceed the benefits. Typically microeconomic costs – especially in the medium term perspective – equal social costs and macro-scale costs,
- the scenario of Poland not joining the EU is clearly less beneficial for the transport sector than it is in the accession scenario; regardless of the form Poland's association with the EU would take place. It generates high costs not only in this sector, but also in the macro-scale, costs that cannot even be compared with the costs of the accession scenario, without generating sufficient benefits in both the small- and large-scales.

When analyzing the issue of costs and benefits in the transport sector, the impact of transport policy on their extent and accuracy must be taken into consideration. Successful and efficient policy, based on principles of sustainable development can generate higher benefits and reduce internal and external transport costs in both analyzed scenarios. The lack of such a policy can result in an increase of indirect and direct transport costs and a negative impact on the environment.

13. Analysis and Assessment of the Costs and Benefits of Poland's Membership of the EU in the Fields of Education and Human Resources

Ewa Okoń-Horodyńska, Tadeusz Żółtowski

From the time of making the decision on completing membership negotiations at the EU summit in Copenhagen on December 13, 2002, Poland started the last phase of preparations for EU membership. Now, on the eve of joining the EU, when Polish society is getting ready for a referendum on membership, it is worth considering the benefits and costs of membership and what the consequences of Poland's remaining outside the EU would be for the educational and instructional domains and for the quality of human resources which determine socio-economical development.

1. Poland is undergoing a double transformation. On the one hand we are observing a system transformation aimed at creating a democratic system and a market economy while on the other, Poland is undergoing a transformation determined by the scope of the adjustments to the requirements and challenges of European integration. Both domains of transformation are new to the countries implementing them.

2. The features of the transformation associated with European integration have many dimensions. The first results from the fact that it is not possible to change the form of integration,

it is acceptable only in the existing form. The second dimension entails the need to adopt *ex ante* in many national domains, the institutional solutions of the European Union. The third dimension is associated with the acceptance by every newly accepted member of such EU principles as the free movement of capital, labour resources, goods and services, which overnight will expose the enterprises and societies of the less developed economies to strong competition.

3. Even with the strongly differentiated historical and cultural constraints of the candidate countries, they are quickly adopting EU models and incorporating them within national solutions making them similar to EU solutions. Despite this the collision of the national (old) system with the new system resulting from integration creates various consequences in individual domains of the social and economical environment of these countries. In the case of the domains analysed under this study a situation develops along slightly different regularities and it is determined primarily by the following differences:

- Poland will be joining the EU having one of the most obsolete industrial structures in Europe with the parallel ability to implement accelerated changes in the educational sector and structure of human resources,
- Poland is characterised by a high degree of non-adjustment of production structure to the need of expansion on the EU market, however, at the same time, Poland can offer the many professional sectors needed in Europe,
- Poland will be joining the EU structures at a time when the simple development reserves resulting from the change of the system and higher management efficiency are already exhausted, therefore new development stimulant will be required.

4. The general argument assumes that Poland's integration within the EU will provide a positive balance in the comparison of the costs and benefits in educational, instructional and labour resource domains, while the detailed working arguments are as follows:

- Poland's access to the European Union requires adjustments in all areas not least in educational and human resources areas;
- Poland's integration with the European Union can provide an opportunity for the development of the educational and human resource domain in Poland;
- Leaving Poland outside the European Union structures would create isolation of the educational domain and a slower rate of development of human resources;
- Leaving Poland outside the European Union structures would not mean exempting Poland from incurring the cost of adjusting to the external environment (globalisation processes); they would still be incurred without the possibility of using external transfers (from the European Union).

5. The object of this paper is to analyse two scenarios for the educational and training domains and the creation of human resources, namely the scenario assuming **a visionary approach** (Poland's access to the EU) and **a precautionary approach** (Poland staying outside EU structures). This paper attempts to look into the future of the development of the educational and instructional domain and human resources in Poland in the mid-term perspective.

6. The visionary scenario sets the requirements for basing the economical development on modern factors, while traditional factors should be treated as supplementary. Following this direction would require the determination of the priorities of the State macro-economical policy setting the mid- and long-term economy and society development strategy. The priorities should include: increased investments in education, instructional domain and human resources and material investments, mainly into information technologies and telecommunication technologies. The priorities should be compatible with Community priorities. The participation of Polish projects in European financing of activities uniting the development of educational, instructional and human resource domains should be utilised.

7. Under the precautionary scenario, under which the economical development is not based on modern factors, the challenges determined by EU priorities in the area of strengthening

human resources or building a knowledge-based economy are not undertaken. This could mean that the structural transformation in Poland would slow down and subject-matter weaknesses in regard to anticipating the economical development would deepen. This could lead to the establishment of a national path of development, which would be determined by the vindictive populist argument rejecting acceleration and modernity.

8. Extrapolating the essential issues of Poland's participation in the development of educational and instructional policy of the European Communities for the years 2004–2013 it can be stated that under the **visionary scenario** (considering the status of the implementation of the Article 76 of the European Treaty):

- Poland would actively participate in the further development of educational and instructional policy of the European Union to a substantially broader extent resulting from Article 76 of the European Treaty.
- From the point of view of the assessment of the benefits and costs, only benefits resulting from participating in Community educational and instructional policy can be seen, while the cost of implementing it can be, to a substantial degree, financed from Community funds (for example to a large degree from the Structural Funds).

Under the **precautionary scenario** any activities targeted at Poland's functioning within the Community's pan-European educational system would be associated with financial costs directly affecting Poland's budget.

9. Under the visionary scenario it can be envisaged that in a perspective of 10 years from the time of Poland's accession into the European Union and expiry of the transition periods associated with the free movement of workers, Poland would fully benefit from the provisions of Article 149 and 150 of the European Union Treaty subject to using – during this period – the incentives of the Community's educational and instructional policy, incentives stimulating migration within European Union territory with regard to pupils, students and employees.

10. Under the precautionary scenario, it should be assumed that the stagnation period in the area of co-operation in the educational and instructional domain would be followed by an attempt to negotiate conditions regulating the educational and instructional issues associated with the migration of Polish citizens within the European Union (both legal and illegal migration).

11. Community educational and instructional programs and youth programs were the answer to the objectives stipulated under the Maastricht Treaty. In this respect Poland's access to the *Socrates*, *Leonardo da Vinci* and *Youth* programs constitutes the execution of the European Treaty and the element of preparations to the membership. Under the visionary scenario, Poland would regularly participate in Community educational and instructional programs.

12. Under the visionary scenario the directions of the reform of the Polish educational and instructional system go towards the challenges associated with Poland's membership in the EU. The Polish educational and instructional system especially including vocational education and training aspects and building an information society will change in order to be capable of implementing the directions of co-operation of EU Member States as stipulated under Community law, including active participation in the European process of the development of an information society.

13. The State's obligations associated with the intensification of activities towards building an information society are and will be determined by the strong pressure of the European Union policy in this area, which would contribute to the establishment of a cohesive system supporting the computerisation of the educational and instructional domain and science in Poland.

14. Under the precautionary scenario, Poland would be forced – under the influence of globalisation processes -to continue reform of the educational and instructional domain and create an information society. However under this scenario, Poland would be lacking the strong pressure and financial support of the Community policy, which could create the risk of slowing down the process of current reform and deferring the financing of activities aimed at creating the information society.

15. Under the visionary scenario, the European motivation of achieving educational success of an international nature with the opportunity of using the uniform European scholarship system within the Community programs, foreign student programs and scholarships, obtaining international university degrees and doctorates with regard to the modification of Community law will strengthen. This would open the European labour market to the Polish youth. The competition between Polish (State and private) universities would increase thanks to the new studying opportunities and the obtaining of scientific degrees abroad. It would enforce rationalisation of expenses in Polish universities and program and personnel adjustments. The opportunity of employing foreign lecturers in Polish universities will be more common, which would enforce competition for posts and maybe change the behaviour of the Polish academic environment from the conservative to the more active and innovative. This would enforce faster information flow, balance the level of knowledge, afford new opportunities for co-operation in research and development (mixed research consortia), accelerate the achievement of benefits from the so called delay rents, which could ensure the rationalisation of expenses for research in the Polish research financing system. These changes would additionally bring about other effects. Subject-matter and economical polarisation would have to take place among research and lecturing staff, universities, research centres and institutes. It is likely that under the visionary scenario thanks to adopting the European models of university activity, connections between science and the economy would develop in business practice in Poland.

16. Under the precautionary scenario the utilisation of foreign opportunities of financing Polish education or research by scholarship systems, research and development financing programs would continue under the current conditions, which would not be able to bring about positive changes in the rationalisation of expenses in universities or research financing system. Some competitive challenges would arise as a result of the reduction of the potential number of students (demographical depression), which would force universities to compete for students. This situation however could bring about a decrease of the quality of studies, particularly under a system of 'paid study' at universities operating without public subsidy. The precautionary scenario would lead to slowing down change in the higher education system in Poland, because the Polish academic environment is conservative, it avoids change and the vindictive approach to the issue of financing science. The reduced interest among students from families living abroad and foreigners studying in Poland will also be an important issue.

17. Under the visionary scenario – at the time of Poland joining the EU by the envisaged date – all activities aimed at promoting membership would pay off. The network of educational institutions developed and existing in Poland in the area of "European studies" would prepare to function in the EU, especially on the Single European Market, starting from the impact on the result of the referendum regarding the ratification of the Adhesion Treaty through the economy's human resources, the experts in various sectors of public and private activity and the future officers of the Community institutions.

18. Under the precautionary scenario, Poland would not have to comply with Community law resulting from Article 149 and 150 of the European Union Treaty and the Community secondary law. The status of Poland's relations with the EU will be the deciding factor, i.e. the requirements regarding the new association agreement or the decision to join the European Economical Zone. Assuming that Poland would join the reformed European Economical Zone it should not be concluded that activity towards European education would disappear. Poland will rather be participating in Community educational and vocational training incurring the costs of this participation similar to the pre-accession period, though Poland would not be able to count on Community financial transfers (such as currently under the Phare program).

19. Under the visionary scenario, countries newly joining the EU will bring human resources equal in terms of quality, which under the incentive business environment of the EU can contribute to special acceleration of the development of the EU and improvement of its competitive position. Considering the demographic changes envisaged it can be indicated that

during the first years of the membership these changes would favour the integration processes and thanks to supplying the European labour market with new quality resources, including those from Poland, the labour market would undergo a deep transformation resulting from Community employment policy, which should be substantially modified. In this respect Poland would have a positive influence on the changes to the labour resources in European structures.

20. Under the precautionary scenario many mechanisms amortising the natural slowly changing demographical processes and the occurring social processes will be weakened. Poland, deprived of the opportunity of effectively influencing the labour market and employment, can expect the stabilisation of this bad situation on the labour market. Given the high unemployment rate, taking decisive anti-unemployment measures would be associated with enormous costs. The absence of EU intervention measures on the labour market and improvement of the quality of human resources (for example by not participating in the Structural Funds programs) would rather cause the accumulation of the negative phenomena associated with the development of human resources in Poland.

21. Under the visionary scenario the Community law regarding social policy and employment will lead to an improvement of labour law standards, equalisation of women's rights on the labour market, which would strengthen social dialogue and enable effective activities to be undertaken aimed at combating unemployment and rational employment both on a national and a regional level.

22. Under the precautionary scenario Poland cannot miss the need to implement modern solutions to social and employment policy, as it would be enforced by the global environment. However, in practice Poland would still be affected by transitory, politically determined activities regarding social and employment policy entailing the enormous funds so far witnessed which have brought rather inadequate results.

23. Under the visionary scenario considering the training issue in the variant of expansive integration, this process should be perceived as structured and rational. Increased competitiveness on the labour market would force the need to conduct studies and analyses enabling the demand for employees and voluntary workers with definite professional qualifications and access to the acquisition of adequate qualifications to be assessed. It will be possible to create databases and permanently monitor existing lifelong educational facilities, training in the area of their flexible reactions to changes on the labour market brought about by the economical changes occurring. Such activities will also enforce the establishment of the system of the certification of facilities providing lifelong training and education, which would probably lead to eliminating the weak facilities from the market.

24. The visionary scenario envisages the gradual abolition of the barriers between Poland and the EU Member States consistent with negotiation conditions in the area of free movement of workers. It is very important for the development of the educational and instructional domain in Poland and the unrestricted development of the Polish workforce in the territory of the European Union. Though Poland is awaiting a 7 year transition period regarding the employment of Poles in EU countries and a transition period for the provision of some types of services by Polish companies in Germany and Austria, the agreement with the EU envisages that Poland will be able to introduce – on mutual terms – restrictions regarding employment and the provision of services by EU citizens in Poland. Ultimately then it can be assumed that in practice these supposedly severe restrictions will be cut to size.

25. Under the precautionary scenario, with regard to the issue of the free movement of people, the provisions of the European Treaty will remain in force or more liberal rules resulting from potential Polish access to the European Economical Zone. The precautionary scenario will not be favourable to the Polish labour market. Under the generally envisaged low migration of the workforce to EU Member States, formal restrictions will favour the existence of a grey zone on the labour market and as a result, create disadvantageous conditions for Polish citizens.

26. In the perspective of the year 2013 for the development of human resources, forecasts regarding the structure of the labour demand in the European Union are important under the visionary scenario. Estimations regarding occupational trends and necessary qualifications present a further decrease in the demand for low skilled professions and an increased demand on the labour market for professions requiring extensive and specialist qualifications. The forecasts envisage a slow reduction of the unemployment rate, though in the long-term perspective it still will be high. Such forecasts are also envisaged for Poland. New employment will be generated mainly by the private service sector. In the long-term perspective it is envisaged that in the European Union the work supply for employees under 25 years of age will continue to decline (with the exception of Great Britain).

27. Under the precautionary scenario Poland would not be using the labour market support mechanisms offered by the European Union. Poland would be deprived of the strong political support for reforms necessary in its complex situation on the labour market and controlling unemployment. Therefore it would be difficult for Poland to initiate additional transformation processes on the labour market enforced by the international situation and competitiveness. Poland staying outside the influence of the Community policy and thus outside the European Research Zone would result in not being able to create modern human resources for the science and technological progress sector and therefore it will be difficult to ensure progress in the economy.

28. Under the visionary scenario the Polish small and medium enterprises sector after the period of adjustment to the shock brought about by the confrontation with the Single European Market and the currently unpredictable market behaviour of competitors from the current EU Member States, will strive to increase its competitiveness by inter alia acquiring new skills, knowledge and innovation management in the company and developing modern human resources benefiting from lifelong education systems. The SME sector would acquire very strong financial support from many Operational Measures of the Structural Funds.

29. Under the precautionary scenario, the development of the Polish SME sector will depend on the condition of the global economy, the direction of globalisation processes and the capability of the Polish economy to generate within its own very moderate resources instruments of support for this sector. Polish SME's would not be covered under the majority of the Community programs and the Structural Funds resources.

30. Under the visionary scenario, Poland has the opportunity of joining the process of establishing learning regions as a starting point to build the Regional Innovation Systems in order to stand up to the competitiveness of the European Union regions. From the point of view of the Polish environment and the application of the Structural Funds it seems that firstly, those regions predestined for quick association with the European Union should be considered, i.e. the regions with strong educational and scientific-research potential.

31. Under the precautionary scenario Poland would not get support for the educational, instructional and human resources domains from the Structural Funds, Therefore it would have to incur all the costs of improving the quality of human resources without even the political support of intensively developed Community policies supporting educational, instructional and human resource development domains. This could lead to the marginalisation of Poland as a country with insufficiently prepared human resources capable of participating in the globalisation process. It could also bring about a 'brain-drain' of Polish human resources, especially in those areas necessary for Poland in the process of building a knowledge- based economy.

Presenting under this paper the inevitable challenge for the education system, broadly perceived instructional and human resources development domains in the perspective of the year 2013, it should be stressed that it should be compared with the tasks facing Poland in order to meet them. The current Polish educational and instructional system demonstrates a number of defects, particularly regarding the mechanism integrating the school and extra-curricular

system of acquiring qualifications and competences with the system of preliminary and lifelong professional training and further existence in the economy. It is not possible to implement the rules of functioning of the knowledge based economy in enterprise without improving the innovation and knowledge management systems dependent on an effective educational and instructional system. Thus the following initial tasks for Poland in the educational, instructional and development of modern human resources should be indicated:

- Creating a system of development of human resources for the economy. This would require the elaboration of the education and training strategy considering the regional and local economical constraints and social constraints. In the environment of the Single European Market it is enormously important to improve the flexibility of the educational and instructional systems resulting not just from regulations adopted at a central level, but also adopted at regional and local levels. Under the pressure of the competitive Single European Market and amended Community policies the employers will have to demonstrate a higher interest in the more extensive form of vocational formation associated with the companies.
- Setting the priorities of the strategy of the development of Polish economy consistent with the trends of European competition. The challenges facing Poland confronting technological backwardness, the low competitiveness of the economy, the low innovation of enterprises with the globalisation challenge and the need to modify the educational and instructional system towards the requirements of building the knowledge based economy might not be feasible without rational external assistance. So far the only such external assistance concerns the package of financial support instruments offered by the EU.
- The opening of the economy to globalisation challenges by adjusting this opening to a smaller and mutually supportive extent represented by the EU. Poland staying outside the European Union structure could form the impulse for the development of a new fear distorting the picture of the surrounding world, the emergence of the phenomenon of a shrinking society and escape from the surrounding and pressing world, and this status of social perception would have an impact on the educational and instructional system and alienation in the future.

14. Costs and Benefits of Poland's Accession to the EU in the Area of the Common Foreign and Security Policy and the European Security and Defence Policy

Andrzej Harasimowicz, Przemysław Żurawski vel Grajewski

The objective of this paper is to try to answer the question as to whether Poland's security will improve as a result of accessing the EU and joining the common foreign, security and defence policy or will it deteriorate?

Our task also included an attempt to identify the major factors determining the security of the countries at the beginning of the 21st century and generally – rather than in financial terms – assess the political and economic-social costs and benefits of participating in EU foreign and security policy. This paper also tackles the non-accession scenario and its potential consequences.

Regarding State security affairs the assessment of the costs and benefits should be evaluated from the point of reasons of State. We assume that the *raison d'état* of the Republic of Poland is

to ensure the security of the State, create conditions for the freedom and well-being of its citizens and develop the national culture within a strong and democratic state of law. This requires investment and these are incurred every day by everyone. The authors share the opinion of G. Robertson, the General Secretary of NATO about the first security lessons provided to us by the 21st century: "...it is not possible to defend effectively for little cost"²¹².

I. Development of the Common Foreign, Security and Defence Policy of the EU

The size of this paper does not allow us to present the history of the Common Foreign and Security Policy (CFSP) and European Security and Defence Policy (ESDP)²¹³ more broadly. European integration was from the start a political plan to ensure peace and democracy in Western Europe, for whose implementation targeted economic and legal instruments were selected. The integration of the markets and common policies, institutions and law were supposed to create common interests and activities, the custom and ability to co-operate. European integration supported by the USA turned out to be an economic and organisational success gaining public support, creating in the eighties along with the subsequent enlargements of the Communities a stable basis to return to the plans for creating a political and currency union.

The breakdown of the global Communist block and USA domination created new challenges for the Community in the area of foreign and security policy. These challenges were pressing for Europe as they concerned immediate neighbours: the Balkans, Middle East, North Africa and the post-Soviet countries. The EU had to decide whether it would assume responsibility for the stabilisation of these regions or would it leave this task to someone else. As practically there was no one else apart from the USA, both democratic and close powers became – to their surprise – opposite poles of the new competition – sometimes full of obstacles, underlining animosities rather than common interests. The Communities, the former “economic giant and political dwarf” accepted the responsibility for the stabilisation of Central and Eastern Europe and Southern Europe and the Mediterranean region, subject to two conditions: the enhancement of the union and agreement of roles with the USA.

The reaction of the Communities to these new challenges took the form of the European Union Treaty (Maastricht '92), creating a political union on the basis of the European Communities by adding two new areas of co-operation of member states within the union, so called pillars: the Common Foreign and Security Policy and judicial and police co-operation. Gradually under the influence of the Balkan crisis and the experience gained in the implementation of the CFSP, which was criticised for slowness, lack of clarity and the incapacity to apply force, the Union under the next EU Treaty (Amsterdam '99), strengthened coordination of the activities of the EU member states and institutions and enhanced the scope of majority voting (instead of unanimous decisions). The European Council in Helsinki in December 1999 announced the establishment of the **EU military domain**: The European Security and Defence Policy.

The Amsterdam EU Treaty defines the major objectives and methods of the CFSP as follows:

“The Union shall define and implement a common foreign and security policy covering **all areas of foreign and security policy**”:

- to safeguard **the common values, fundamental interests, independence and integrity of the Union** in conformity with the principles of the United Nations' Charter;
- to strengthen **the security of the Union in every way**;

²¹² G. Robertson, *Słowo wstępne* [in:] R. Asmus, “NATO, otwarcie drzwi”, Warsaw 2002.

²¹³ For more details see: S. Parzymies, *Orientacja europejska w polskiej polityce bezpieczeństwa*, [in:] “Polska polityka bezpieczeństwa, 1989–2000”, ed. by R. Kuźniara, Warszawa 2001; J. Starzyk, *Wspólna Polityka Zagraniczna i Bezpieczeństwa UE*, Warsaw 2002; *European Foreign Policy. Key Documents*, ed. by Ch. Hill and K.E. Smith, London 2000.

- to **preserve peace** and strengthen international security (...);
- to promote international co-operation;
- to develop and consolidate **democracy and the rule of law, and respect for human rights and fundamental freedoms**.

The Member States shall support the Union's external and security policy actively and unreservedly in a spirit of loyalty and mutual solidarity (...) **as a cohesive force in international relations**.

The Council "shall ensure the unity, consistency and effectiveness of action by the Union".

The European Union executes these objectives "by defining the principles of and general guidelines for the common foreign and security policy (...), including matters with defence implications" and by "common strategies to be implemented by the Union in areas where the Member States have important interests in common" which belong to the competence of the European Council.

The Council shall undertake **joint activities** and adopt **common positions**.

"The common foreign and security policy shall include all questions relating to the **security of the Union**, including the progressive framing of a **common defence policy** (...), which might lead to a **common defence**, should the European Council so decide". The EU respects the obligations of the member states resulting from their membership in NATO. In this regard the possibility of political co-operation of the member states in the area of armaments is expected. The planned EU military capacity based on Petersberg Declaration (1992) of the WEU and transferred to the EU domain of responsibility in 1999 was described as ability to fulfil: "humanitarian and rescue tasks, peacekeeping tasks and tasks of combat forces in crisis management, including peacemaking".

"In regard to the CFSP, the EU shall be represented by the Presidency (...) assisted by the Secretary-General of the Council who shall exercise the function of **High Representative for CFSP**." He shall be assisted by the Strategic Planning and Early Warning Committee.

The European Parliament shall be kept regularly consulted and informed about the development of the Union's foreign and security policy.

Decisions are taken unanimously as a principle. Abstentions shall not prevent the adoption of such decisions, though the abstaining State shall not be obliged to apply the decision. The Council can exceptionally (not however including military issues or defence policy) take decisions by the qualified majority about the adoption of the joint actions or adoption of the common position, if these result from a previously adopted common strategy.

The Commission shall be fully associated in the tasks related to the CFSP. "Any Member State or the Commission may refer to the Council any questions relating to the common foreign and security policy and may submit proposals to the Council."

"Administrative and operating expenditure shall be charged to the budget of the European Communities with the exception of military or defence undertakings, charged to member states proportionally to their GDP. The member states which submitted the declaration about abstaining from executing the decision shall not be obliged to contribute to the financing thereof²¹⁴.

The high, if not complete, degree of convergence of EU objectives with Polish foreign and security policy objectives is noticeable. EU public opinion strongly supports the development of common foreign policy (65%) and defence policy (73%), however it does not clearly indicate, which type of security the EU should strive for, since globalisation has significantly enhanced the definition of the security of States. It is not just the outcome of the geographical location and military strength. Security is ceasing to be perceived in strictly military and diplomatic terms in favour of a perception considering economic and social criteria, the openness and innovation of societies.

²¹⁴ Treaty of Amsterdam, Brussels, 19 June 1997

Theoretical concepts are dominated by realistic and liberal theories. According to the realists, economic and military strength create political strength and States are major players in the global economy; the outdated international system creates competitive pressure influencing the balance of power and international security.

According to the liberals, international institutions create an environment, where States define their interests and settle differences, while international economic organisations, enterprises and labour unions are full participants in the global economy having the objective of maximising profits. The standards are the instruments of political action; changes in the balance of economic strength and international institutions condition the actions of the players. The liberal economic system ensures growth by free access to production factors, while growing interdependencies increase security and practically eliminate the use of military measures (win-win situation).

Both concepts are consistent in that the economic-technological factor more and more strongly determines the behaviour of the players and changes the role of the military factor. The emergence of new features of the balance of power in relation to the growing economisation of international relations creates the fact that it is a **geo-economic paradigm**, rather than a geopolitical one that governs security. A State acts in the spirit of the geo-economy, if it protects the interests of its own economy ensuring its competitiveness and access to the markets and resources, while conflicts are solved mainly with the use of economic diplomacy. This version of the balance of power is favourable for smaller countries, as their position is no longer determined mainly by geo-policy, but depends on their ability to find a place in the international distribution of work and trade (such as Ireland). However this requires a strategic trade and development policy²¹⁵. It indicates that the security of the State can increase along with its economic development and increased competitiveness: the costs and benefits of the security of States become two sides of the same coin.

The EU approach is closer to the liberal concept. European integration can be seen as a distinct west European effort to contain the consequences of globalisation. Rather than be forced to choose between the national polity for developing policies and the relative anarchy of the globe, west Europeans invented a form of regional governance with polity-like features to extend the state and to broaden the boundary between themselves and the rest of the world.²¹⁶

Such a comprehensive approach to security and defence issues is characterised by the cohesive application of all influence instruments: economic-trade, political and military is favourable for Poland, as it strongly ties the security of the State with economic development and democratic values. The relative military weakness of the EU is compensated by the security guarantees resulting from Poland's membership in NATO. Therefore Poland's role as a spokesman of the European and transatlantic unity is natural!

What then should the optimum model of the CSFP look like, in order that the EU, when defining its security interests, maximises Poland's benefits and does not create excessive costs for our country?

During the period from 1970–1990, three concepts of the EC/EU as a player on the international forum were presented:

- 1/ **civilian power**
- 2/ **military power** – “the first business of any community is to provide for its security”.
- 3/ **normative power** – defined this way with regard to the standards of international law and the ability to create standards of democratic order.

Today's EU is a combination of these three concepts: it is a civilian power, it develops its diplomatic and military capabilities and it shows an increasing ambition of becoming the normative power exporting democratic stabilisation and the rule of the law. This reasonable

²¹⁵ E. Haliżak, *Ekonomiczne aspekty polskiej polityki bezpieczeństwa*, [in:] “Polska polityka..., op.cit., p. 528–532

²¹⁶ W. Wallace, *Politics and Policy in the EU: the Challenge of Governance*, [in:] “Policy Making in the EU”, ed. by Helen and William Wallace, quoted after: Ben Rosamond, *Theories of European Integration*, London 2000.

policy however also entails significant weakness – it is lacking in the ability to deal with hot military conflict (the Balkans) and even to agree a common position regarding the possibility of the outbreak of conflict. (Iraq) After the changes made to the CSFP under the Amsterdam EU Treaty strengthening its influencing instruments and the decision to create a 60,000 strong intervention force under the ESDP, creation of the Single Market, introduction of the single currency and the migration, asylum and visa policy, many facts indicate that the EU has an ambition to become not just an actor on the international arena, but also the security director if not the security producer. Fulfilment of these various roles will require co-operation with USA, if it is not supposed to lead to tension in mutual relations.

It seems that the EU is moving towards the model of **co-operative security provider**²¹⁷, stipulating five principles in the post-international era, in which States are accompanied by non-State actors (such as international organisations, radical groups of influence etc): the normative role of the law, (the objective of the military strength is to eliminate violence from the conflict), the appropriateness of the reactions and actions, the inclusive nature of the approach, multi-level orientation, multilateral approach. The EU operates in such a way that these principles could create an international security governance system.

The low ability to make decisions and the effectiveness of EU actions is not however accidental. We should not paint an idyllic picture of the CFSP and should remember that in practice this policy is frequently the sum of the national interests of member States, and sometimes an arena of animosity and competition.

The EU puts more pressure on conflict prevention rather than crisis management and conflict resolution. Conflict prevention is perceived as a cheaper method, though not that visible to the public, as it is difficult to calculate the profits or savings from a “not arisen” conflict.

The enlargement of the EU by 10 States will have an impact on the evolution of the CFSP and the political cohesion and decision making ability of the EU. At the same time we should expect a strengthening of the external influence of the EU. It could be a benefit for the new members in stimulating development, especially under the model of the Union as a co-operative security provider. It could also mean an increase of expenditure for diplomatic and consular services, reform and equipment of military forces and border guards, the quasi-public emergency services, for research and the development of dual application new technologies. We can optimistically assume that deliberate expenditure in the State budget for these areas and the combination of the purchase of armaments with offset could have a good impact on the domestic defence industry and co-operating sectors, employment levels, scientific research, the revitalisation of the economy and the improvement of its competitiveness and the ability for external co-operation. However this stimulation of development by State budgetary expenditure will be conducted under conditions of the strict discipline of public finances subject to the regime of the Economic Monetary Union (the so called convergence criteria from Maastricht and the Stability Pact). At the same time it should be stressed that military expenditure is the same as the cost of adjustment of the Polish Army to NATO standards and should not be accounted for a second time in the column of costs of adjustment to the EU.

Therefore the CFSP can be defined as an **evolving and multi-level decision making system**, controlled by member States, which are more and more legally and politically tied by common strategies, positions and actions, the development of common analytical and planning structures, command and staff structures and by a strong federalist trend driven by the needs of **effectiveness and responsibility**.

After the end of East-West conflict, when States and armies were on opposite sides, symmetric threats were replaced by asymmetric threats created for example by terrorist organisations or failed and rogue States. The combination of the various kinds of threat is a feature of the new EU approach to security after the fall of the Soviet Union and the attacks of September 11, 2001

²¹⁷ H-G. Ehrhart, What Model for the CFSP, Institute for Security Studies, Paris 2002

strengthened this trend. The integration of the tasks and function of police forces, immigration, customs and intelligence agencies originates from the evolution of the definition of security²¹⁸. States were forced to co-operate and share sovereignty in order to control the course of events²¹⁹.

The pressure on the normative-legal dimension of the post-international system is a consequence of the changing role of the State. The issue of human rights appears here as a key issue: "security policy increasingly becomes an instrument to uphold the law rather than an instrument to defend self-interest in a system of anarchy. Respect for democracy and human rights become conditions for security."²²⁰

The possibility of Poland's participation in the establishment of a security system based on common objectives and joint actions and the proportionality of outlay will be of enormous benefit for Poland, optimising all the security elements of Poland and the EU.

II. Practical Constraints of CFSP and ESDP

The foreign, security and defence policy has three dimensions: **political-diplomatic, economic** (development policy, reconstruction activities, economic sanctions) **and military**.

The latter envisages providing the EU with the ability to conduct the Petersberg missions covering: humanitarian and rescue tasks, peacekeeping tasks and the tasks of the combat forces in crisis management, including peacemaking.

The CFSP is conducted in four essential directions: the Atlantic, the Mediterranean, the Balkans and the eastern European. The nature of the CFSP is to keep the peace and export democratic stability. From the Polish point of view we should take notice of the EU drive to have a strategic partner in Russia. This assumption is realistic considering that Russia has great potential and is at the same time idealistic, as it does not consider the weakness of its democracy. A strategic partnership with Moscow without a stable democracy in Russia – conducting a bloody war in Chechnya – will be weak and will not give much to the EU: **undemocratic States are not good defenders of democracy**.

The lack of threat from Russia has influenced European (and American) security concepts. The USA's readiness to incur the costs of security in Europe has decreased accompanied by the selective attitude of Washington towards European security issues. The role of a united Germany and NATO in the EU has increased. France is striving towards turning NATO into a bilateral US-EU alliance with the autonomous "European pillar". The probability of European States to refer to the military factor in solving security issues outside the EU has increased (Yugoslavian experience).

The idea of the CFSP of the EU was first presented by France in consultation with Germany, so that next to the common currency it would become Germany's anchor in a united Europe. After 1998 this stream of European integration was joined by a Great Britain which had been reluctant (up to that time) and after 1999 the EU started to build military forces in the form of the ESDP. This policy is conducted in the domain of intergovernmental co-operation assisted by the Community's institutions, the Commission and the Parliament, and is not subject to the jurisdiction of the European Court of Justice (ECJ). Administrative expenses are covered by the EU budget and operational expenses – in a manner typical of the EU – from two alternative sources: the national budget and the common budget. If the countries want to finance the operation themselves, the European Commission and Parliament are excluded from the decision

²¹⁸ J. Apap, *Dążenie do równowagi pomiędzy bezpieczeństwem a wolnością*, [in:] "Podział kompetencji w rozszerzonej UE", CSM, Warsaw 2002, s.89.

²¹⁹ *Polska jako nowy członek "starego" sojuszu*, ed. by O. Osica, M. Zaborowski, CSM, Warsaw 2002.

²²⁰ H. Sjurssen, *New Forms of Security Policy in Europe*, ARENA Working Papers, 4/2000, p. 17, quoted after: Ehrhart, op. cit., s.24.

making process. However if States want financing from the EU budget, then both institutions are included in the decision making process²²¹.

Considering the natural sensitivity of EU member States to “integration” in the military domain, the outcome of implementing the ESDP achieved after 1999 is significant. The rules for the functioning of the new policy within the EU were established. ESDP structures have been established and the staffing of the military authorities has been completed. Military requirements for EU forces have been defined, in co-operation with NATO. (*Helsinki Headline Catalogue*). Concrete units have been submitted by 14 EU countries (with the exception of Denmark, which is outside the ESDP) and candidate countries. Work on the Capabilities Development Mechanism, which is a system of planning and reviewing forces for EU purposes has nearly been completed. The rules for the functioning of European intervention forces, military strategic planning, reacting to crisis and a training program etc have been adopted. Guidelines have been designed regarding the military aspects of command and control (*Command and Control – C2*). In May 2002 the first staff exercises were performed. The agreement with NATO regarding EU access to NATO resources enabled the first independent EU police operation to start in Bosnia and Herzegovina in 2003.

III. EU Security Instruments

The ability to co-operate in the under-mentioned areas will have a substantial impact on Poland's security:

A. Co-operation of the Armaments Industries of EU Countries

The disappearance of the Soviet threat weakening the psychological need for close co-operation with the USA, has revived in large EU countries, the idea of a “third power” (France) or “own way” (Germany) and stimulated the drive towards larger independence on the armaments market; the requirements of global competition and security, force EU countries to co-ordinate armaments within the CFSP. The merger of production capacity would improve competitiveness in the European armaments industry. The history of integration of the armaments industries of EU countries – to date excluded from Single Market rules – is over 20 years old. Poland became a member of the Western European Armaments Group in November 2000. The development of capital, production and technological relations with foreign companies forms not just an important condition for the successful modernisation of the Polish armaments industry, but also international competitiveness enabling the adjustment of the national industry to the requirements of the Single Market²²². However it should be noted that the process of integration of the armaments industries to date has included only 3% of the European capacity in this area.

B. Economic Power as a Tool of EU Common Foreign and Security Policy

The EU will not become a *hard security* structure quickly. The major instrument of influence will concern economic strength and diplomacy. The CFSP will be a preventive policy (conflict prevention as a horizontal issue in all common or sectoral policies), and its successes will depend on the adequacy of action. The prevention policy however, requires some investment. This could create a conflict of interests between the geographical directions of the CFSP, and the distribution of resources in an enlarged Europe could become a sensitive issue. Without reducing the

²²¹ J. Monar, The Finances of the Union's Intergovernmental Pillars: Tortuous Experiments with the Community Budget, “Journal of Common Market Studies”, vol. 35, No. 1, March 1997, p. 57–78.

²²² P. Wiczorek, Przemysł obronny w polskiej polityce bezpieczeństwa, [in:] “Polska polityka bezpieczeństwa”, p.565–7.

prevention issue to just financial support, the role of this component of development policy should be stressed. The role of the European Parliament increases in the construction of the budget and controlling EU expenditure, which in this area starts to fulfil the traditional role of the European legislature organised according to political divisions (e.g. Christian Democrats, socialists) rather than national ones (there will not be a Polish fraction in the European Parliament, although there will be Polish MEPs in the Christian Democrats fraction, for instance). Currently, the EU sets CFSP priorities outside the direct area of Poland's security. Should Poland not join the EU, we envisage Mediterranean and Balkan interests would predominate (20% of the budget of External Actions) eastern European interests (5.8%), supported by Germany only, and in the northern dimension of the EU, the Scandinavian countries as well. The incorporation of such a large country as Poland and many smaller candidate countries in the decision making bodies of the EU could contribute to a change in CFSP accents, which would be beneficial to Poland (for example the Visegrad group has 58 votes in the EU Council, which is the same number as France and Germany together). However, the number of votes itself is only of relative importance, as strategic decisions are made unanimously and majority voting in the EU is not just pure arithmetic. The power of blocking and veto is a strong tool, but rather not during the first period of membership ("who fights by the sword dies by the sword"). The differentiation of EU priorities expected after enlargement could however consolidate the trend towards enhanced co-operation.

C. The Military Factor as CFSP Tool

While during the cold war era the reference to military measures caused a danger of conflict between the superpowers, current experience indicates that military action in the early stage of a crisis could be justified. European security in the context of the CFSP can be currently understood according to the French definition "of extended security", meaning security not just limited to the EU area.

The intervention forces created under the ESDP are not dedicated to defending EU territory (collective defence remains a NATO task), but to performing small and medium scale operations outside the territory of the EU with the intention of imposing political solutions in the interests of the Union (common security) or developing its policy as an influential group of member States. The implementation of these tasks requires a high-tech, mobile and rather moderate professional army, whose potential human casualties would be acceptable to the pacifist orientated European public. The Balkans and the Mediterranean and thus in practice north Africa could be a potential area of independent military action for the EU.

New members should consider the practical aspects resulting from the CFSP experience and perspectives of the ESDP²²³. The building of the ESDP is constrained by a lack of:

- **C4IST system**²²⁴,
- **strategic airlift**,
- **sufficient financing** and reductions in budgetary expenditure brought about by participation in the Economic Monetary Union.

The EU will probably in the near future acquire the technical capability to perform Petersberg missions in the area of the first task (rescue and humanitarian tasks) and the second task (peace-keeping), but not the third (peace enforcement).

The structure of military expenditure of European countries neglecting the financing of research on new types of weapons poses another problem: in 2001 it was 11 bln USD in the EU against 40 bln USD in the USA.

²²³ See: D. Mileczarek, Geopolityczne czynniki kształtujące międzynarodową pozycję UE –wyznaczniki militarne i społeczne, *Studia Europejskie*, 1/2002; O. Osica, *Perspektywy rozwoju wspólnej europejskiej polityki bezpieczeństwa i obronnej*, seria: Opinie, DSiPPZ MSZ, Warsaw 2002

²²⁴ C4IST: *Command, Control, Communication, Computing, Intelligence, Surveillance, Targeting*. – The system that demands outer space infrastructure – reconnaissance and communication satellites.

The effectiveness of the CFSP is also limited by two political factors:

- **the lack of strong political leadership** (no natural leader).
- **the diversity of security priorities of the EU member States.**

The EU is not a monolithic political organism and this situation will not change after enlargement. It tries to deal with it by creating regional (such as northern) dimensions of the CFSP. This weakens differences, but still does not eliminate the competition of national interests.

The type of European intervention forces already existing and created supports the thesis of the “civilian” nature of the EU. The Eurocorps and Mediterranean forces – EUROFOR and EUROMARFOR are an example; they report to the governments of the countries, which created them and have the status of double subordination units since the international forces created by the EU countries – NATO members are included into NATO military structure too (except for the French). These forces operate on the principle of the Combined Joint Task Forces and either completely or partially will be part of the planned European military structure.

The estimation of the size of the **potential intervention forces of EU Member States** indicates that on the basis of the Persian Gulf and the Balkan war experiences, the mobilisation capacity of EU countries for an ‘out of area’ operation are from about 70 to 100 thousand soldiers. At the EU summit in Helsinki (XII ‘99) it was agreed that the CFSP should be equipped with a military instrument: cooperating voluntarily in EU-led operations, Member States must be able, by 2003, to deploy within 60 days and sustain for at least 1 year military forces of up to 50 000 –60 000 people capable of a full range of Petersberg tasks. A year later it was decided to increase this unit to 100 000 people, 400 planes and 100 ships. The progress will depend on the fate of the latest NATO initiative adopted at the meeting in Warsaw (IX ‘02) on the establishment of a 21 000 person strong quick reaction force. The establishment of the NATO quick reaction force due to the principle of a dual (NATO and EU) subordination could accelerate the establishment of forces usable under the EU flag.

IV. Poland's Potential Contribution to the CFSP and ESDP of the EU

A. Objectives of Polish Foreign Policy vs. EU Foreign Policy Objectives

As mentioned before, EU policy objectives are essentially consistent with Poland's interests. Poland, by joining the EU will strengthen its stabilisation potential. Poland is expected to utilise EU instruments to optimise its own security within the Community. This does not mean full compliance with all currently executed policies and geographical accents (for example the Mediterranean priority or the strategy towards Russia).

Poland is interested in a strong EU as it provides it with an opportunity to play a significant role in international policy. As the largest candidate it will have 27 votes in the EU Council (over 8% of the total number of votes), which will provide Poland with the opportunity to influence decisions. Actual influence will depend on the contribution to common security and the ability of Polish political circles to define and pursue Poland's interests in the Union. The geographical location of the country and other similarities suggest that Poland should obtain such a position in order to determine for example the eastern policy of the EU in much the same way as that which the Spain managed to obtain with regard to Latin America or the North African i.e. Maghreb countries.

The Polish position on security issues is based on the principle of the Parliamentary constitution of 1505 *Nihil Novi (sine communi consensu)* – *nothing new without our common consent*: “Considering its geographic location, Poland cannot afford to remain on the fringes of initiatives determining the developmental directions of European integration”²²⁵. This especially applies to

²²⁵ W. Bartoszewski, *The EU's Future Shape – the Polish point of view*, in: *The Future of the EU*, ed. by Jan Barcz and Katarzyna Żukrowska, Warsaw 2001, p.16.

the CFSP and therefore as announced by Minister W. Cimoszewicz: "Poland intends to actively participate in the CFSP from the pre-accession phase..."²²⁶. The development of the ESDP should not weaken transatlantic links. Poland is in favour of the "co-ordination of activities, of supplementing, of a joint system of planning military forces including all 23 countries of NATO and the EU. The ESDP should be reliable and based on the common evaluation of the security environment and the perception of threats, real and uniformly trained military forces based on a solid financial basis and the common political will. Poland wants to participate in the process of consolidation of the European armaments industry and associated research programs. Poland is concerned about the currently forming divisions of countries into *armaments manufacturers* (current EU members) and *buyer-countries* that is candidate countries"²²⁷.

One of the tasks of Polish foreign policy concerns "the harmonised development of the European Security and Defence Identity within NATO and the ESDP within the EU" assuming "...that NATO will maintain its leading role in the area of security policy"²²⁸.

Currently the CFSP is being developed without the participation of the candidate countries, but this situation will change soon after accession, when the problems of their borders, trade conditions, energy and environmental safety etc., become internal problems of the EU. The significance of EU eastern policy will increase in naturally and Poland should be prepared to deliberately incorporate its interests in the eastern dimension of the entire EU. Poland's impact on the eastern policy of the EU should strive to enlarge the democratic stability zone and the development of the free market and trade. Thus it should apply strong pressure on the classic methods of European integration and develop higher forms of strategic partnership on this basis. The reverse of these actions could be dangerous for political cohesion in the EU.

The analysis of the security of Poland and the costs and benefits of participating in EU security policy should therefore consider as yet incomplete the process of democratisation and transformation of Russia, Belarus and Ukraine. These countries cannot be yet recognised as fully democratic and interested in stability in the western meaning of these terms. In the opinion of the Deputy General Secretary of NATO for political issues "only through co-operation with the USA can we keep such a platform of approach to Russia, which would prevent the return of traditional Russian reactions, which is to secure Russia's security interests at the expense of its neighbours."²²⁹ Currently the security of Poland is not at direct risk from this direction; however we cannot exclude the possibility of a change in this situation. The USA is currently the only power able to effectively balance Russian potential. Recent experience indicates that only the USA is able to conduct a large operation requiring the use of force. Should Poland be threatened by a superpower, the material and moral values of the EU to eliminate the threat might not be sufficient. On the other hand the "community" defence factor would start operating automatically, because it would be difficult to imagine a lack of reaction to aggression on any territory forming part of the Single European Market or the Euro zone. Thus Poland's national interest requires the adoption of the following objectives as priorities of Polish foreign policy:

1. In the architecture of European security, strive to achieve the principle of "the community of democracy" and enhanced security (EU as "a co-operative security provider");
2. supporting independence, the democratic and free market stability of the eastern region (counteracting the re-integration of the post-Soviet area under Moscow's leadership);
3. maintaining the strong role of the USA/NATO in euro-Atlantic security structures.

²²⁶ Information by the Minister of Foreign Affairs on the main directions of the Polish foreign policy (presented at the 16th Session of the Sejm on March 14th, 2002), Ministry of Foreign Affairs of the Republic of Poland, <http://www.msz.gov.pl>

²²⁷ W. Bartoszewski, *op.cit.*, s.88–89.

²²⁸ W. Cimoszewicz, *op.cit.*

²²⁹ K-P. Kleiber, *Europejska Tożsamość w dziedzinie Bezpieczeństwa i Obrony (ESDI) a przyszłość NATO*, CSM, Warsaw 2001.

Poland's intervention potential – the real intervention potential of the Polish Army is manifested in its current participation in foreign missions. Polish military forces participate in 14 peace missions abroad, including four of them of a military nature. 2623 soldiers and civilian employees serve under these missions. Raising these forces in one place and time is not possible. It should also be noted that the reconciliation and observation missions of a peacekeeping nature performed under the UN are of a different nature to peace enforcing missions.

Currently, Poland could raise 2 battalions and auxiliary units (a total of about 2100 soldiers) for EU intervention forces. Unfortunately they are short of combat helicopters and transport planes. The Polish Navy has assigned one submarine, a corvette, three missile ships, a transport-mine ship, a mine destroyer (trawler) and a rescue ship to NATO forces. The evaluation of Polish intervention capacity indicates the essential importance of human resources. This capacity could be increased in a military-political sense by a reduction in the level of the involvement of the Polish Army in UN missions and the transfer of assets in favour of intervention capacities, and the establishment of a central-European quick reaction force together with the Czechs, Slovaks and Hungarians and raising Polish–Lithuanian and Polish–Ukrainian battalions for European intervention operations.

Poland, the Czech Republic and Slovakia signed an agreement in 2001 on the establishment of a three battalion strong brigade, which is to achieve combat readiness by 2005 and ultimately be 2500 soldiers strong. The Polish–Ukrainian battalion (**POLUKRBAT** – 750 soldiers) and the Polish–Lithuanian battalion (**LITPOLBAT** – 780 soldiers) already exist and are used in EU and NATO operations.

The existing Polish intervention forces combined with Polish–Lithuanian and Polish–Ukrainian battalions would provide intervention forces amounting to a total of over 3500 soldiers. Supporting them by the planned Polish–Czech–Slovak brigade would provide an additional two army battalions, i.e. about 1200 to 1500 soldiers, which would put this contingent in 9th–10th place among European NATO members. The Polish diplomatic position and the impact on the directions of the EU military policy would not gain sufficient material basis under these conditions. Therefore it is necessary to execute the obligation taken by the government concerning putting at NATO's (EU) disposal, one framework brigade (about 4000 to 5000 soldiers) supported by an air rescue group, rescue ship, two trawlers and a Military Police platoon. Strengthening the planned brigade with a mixed Ukrainian–Polish and Lithuanian–Polish troops would give a total of about 6000 soldiers which corresponds to Spain's military contribution. The political impression of Polish military activity would be larger, as pure Polish formations, or with the significant (Polish–Czech–Slovak brigade) dominating participation of Polish troops, it would give a total of about 8000 soldiers. (Polish brigade about 4000 soldiers + Polish–Czech–Slovak brigade about 2500 soldiers + Polish–Ukrainian battalion about 750 soldiers + Polish–Lithuanian battalion about 780 soldiers).

When entering the above calculations into the costs column it should be stressed that **Poland – similar to other NATO countries – EU members – after joining the EU will be able to use the units assigned to the NATO intervention forces as units serving under the EU flag without the need to incur additional costs according to the dual subordination principle. Putting a contingent of about 6000 soldiers at EU disposal under the ESDP would give Poland the political and moral grounds to use EU resources and the opportunity to execute the priority objectives of Polish policy.**

B. Security Interests of Poland and the EU

Poland, neighbouring from the west with a stable EU and NATO area, has its security interests concentrated in the east – in the Baltic countries and the CIS countries. From the Polish point of view, the independence of Ukraine is a factor determining the stability of the region. Considering the size of the countries involved, in the security issues in the area of Poland's direct

interests (Russia and Ukraine) the military dimension of the CFSP (potential 60,000 army) is of a secondary nature for these issues. From Poland's point of view, the political-economic influence of the EU on the security of the region is more important. In practice it could mean for Poland the need to fight for the distribution of EU funds for external actions. The EU could become, for Poland, subject to Poland's ability to influence the European decision making process, the instrument of preventive stabilisation policy concerning the consistent interaction of the three EU pillars (economic – financial, diplomatic – military and internal security plus the Schengen treaty) on the security dimension.

Poland does not have the economic capacity to independently conduct effective action in the area of the above mentioned objectives and territories. The execution of Poland's security interests (economic-social stabilisation and the strengthening the rule of the law with our eastern neighbours) will be either executed as a part of EU eastern policy developed with Poland's participation or will not be executed at all. This indicates that Polish eastern policy during the first years of EU membership should be... *'west orientated'*.

The energy security of the State is also a significant issue. Polish and EU interests regarding the diversification of energy supplies are not always the same. The dependence of the candidate countries of central and Eastern Europe on the supply of Russian energy could become a problem for the EU itself right after enlargement. The transit location of Poland is important and it should be utilised to improve its energy security.

To recapitulate:

1. Poland to strengthen its security needs: development incentives improving the openness and competitiveness of its economy; active presence and strong voice on European and global issues; the guarantee of territorial integrity and reliable allies. Poland's membership in the EU would supplement NATO guarantees by these development and diplomatic factors. Equal participation in the EU decision making process will enable Poland to best develop its ability to influence her neighbours. **It is the primary benefit to Poland from joining the EU foreign, security and defence policy.**
2. Poland's membership in the European Union may strengthen the euro-Atlantic trend.
3. Poland has common interests with a group of countries similarly geographically located (Germany, the Nordic countries, current candidate countries), with Turkey (an important USA ally interested in maintaining Ukraine's independence and a reduction of Russian influence in the Caucasus area and Caspian oil fields) and with Great Britain (major pillar of transatlantic option in the EU).
4. Multi-level competition with French policy is likely and the lack of full compatibility with the objectives of German policy cannot be excluded either (the compatibility of the geographical priorities does not necessarily mean compliance of objectives: German: the Russia first policy against the Polish: Strategic partnership with Ukraine). Poland should strive to develop consultative dimension of the Weimar Triangle and its role as a major driving force in integrating an enlarged EU capable to minimise possible contradictions.
5. **The external economic dimension** of the European Union CFSP is the most important instrument of this policy for Poland, while Poland is interested mainly in the extension of EU development policy, acquiring an influence on the distribution of EU assistance funds and their increase for the countries neighbouring Poland to the east.
6. Given Poland's economic weakness, **the military contribution of Poland into the ESDP** and the influence on CFSP decisions obtained on the basis of NATO membership, **will give Poland a political and moral right to significantly influence the political decisions made under the second Pillar and on the distribution of the financial resources targeted at EU external actions.**

V. Costs and Benefits of Poland's Membership in the EU

The benefits of Poland's accession to the EU decisively exceed the costs. Benefits concern the increased level of security, strength and importance of Poland in the international arena, the improvement of the level and quality of life and the safety of its citizens. The costs are associated with Poland's contribution to the common budget and the increased level of expenditure on administration, including diplomacy, but not as much on the army due to the already mentioned principle of double subordination (NATO/UE).

a) Benefits

Poland's participation in the foreign and security policy of the EU (and NATO) will give it a subjective position and an equal impact on the decision making process, which would improve its political, military, economic, social and environmental security. This is the basic benefit.

Further benefits result from:

- Access to the material, logistic, administration, information-analytical, programming and training resources of the EU;
- the ability to support the cohesion of the second pillar of the EU with the US and NATO policy;
- the ability to develop eastern policy and other directions of EU foreign policy;
- the impact on the distribution of EU funds under the External Actions,
- participation in military research projects and co-operation of the European armaments industries.

b) The costs of the participation in the CFSP concern expenditure for the participation of Polish representatives in the decision making and consultation bodies of the CFSP, the need to develop the diplomatic-consular service and provide technical equipment for central administration. Poland's participation in the creation of the EU intervention forces should be entered into the shared costs column which are not dependent directly on EU membership, as they result from obligations under NATO already undertaken. Costs might also arise shared proportionally to the GDP in relation to the actions of the Polish Army at a time of executing missions under the EU flag (unless the Council decides otherwise). Poland by contributing to the Community budget will be co-financing the actions of the CFSP covered from the common budget.

VI. Costs and Benefits Resulting From Not Accessing the EU

a/ Benefits – we were not able to identify any benefits resulting from absence from EU decision making bodies. Administrative savings should not be considered as a point in favour of resigning from the above mentioned benefits. Even the issue of maintaining full independence of Poland's foreign policy cannot be argued as the decision making system of the CFSP is governed by the unanimity principle and no EU country can be forced to participate and finance actions undertaken under the second pillar of the EU.

b/ The costs are associated with reduced security and its significance and the economic and military strength of Poland in the region and international relations, meaning:

- the inability to influence decisions and action under the CFSP/ESDP;
- the inability to influence eastern policy conducted by the EU;
- the inability to counteract the potential evolution of the CFSP/ESDP towards the anti-Atlantic option and the Europeanisation of security issues;
- the inability to utilise EU potential to execute the objectives of Poland's policy;
- the marginalisation of the political significance of Poland, pushing it into the role of pawn in games between the EU (Germany) and Russia.

The material reviewed enables it to be stated that accession would result in a better representation and defence of the *raison d'état* of the Republic of Poland and the major factors of its security would be strengthened. In the majority of cases this would be associated with an increase in total expenditure, which means the support of the national expenditure from the common budget. The decrease in national outlay concerns the protection of Poland's borders, which will partly become the internal borders of the EU and partly would be included under the Schengen regime. The increased outlay could be of a pro-development nature and improve the security of the State in the long-term, strengthening the quality of governance and the ability to identify and present the national interest, the impact on external decision making processes, competitiveness of the economy, investment attractiveness, military industry, the armaments market and research in the area of new technologies.

Ability to defend the territory could be temporarily reduced, but this would occur in a situation of the lack of a direct threat. At the same time the presence of an early warning system about changes in the military-political situation developed under the ESDP should enable Poland to change its defence priorities in case of a change in this situation.

The benefits for Polish foreign and security policy originating from not accessing the EU could not be identified and no '*a priori*' assessment was adopted. The costs of not accessing the EU would be on the other hand high, given the sequence of events experienced already by Poland in its history: isolation and political marginalisation, deterioration of trade conditions, decrease of economic growth, increased social division, reduced military power.

15. The Costs and Benefits of Polish Accession to the EU in the Field of Justice and Home Affairs

Iwona Piórko, Monika Sie Dhian Ho

1. Introduction

Cooperation among Member States of the European Union (EU) in the fields of border controls, visa, immigration, asylum, policing and criminal law is of a relatively recent date. However, following processes of globalization, the completion of the Internal Market, and the abolition of internal border controls by most of the EU Member States, cooperation in the field of 'Justice and Home Affairs' (JHA) has moved rapidly up the EU agenda. JHA cooperation involves matters of high political salience for EU Member States as well as for candidates for EU membership. Issues like illegal immigration and the fight against organized crime are of major concern to citizens in the current Member States and have played an important role in recent national elections. Candidates for membership have had to introduce stringent external border and visa regimes in the run-up to EU accession, and are eager to become part of the area without internal frontiers as soon as possible. Sensitive as cooperation in these fields may be, there is also much to win for both sides: removing barriers to free movement of persons, increasing security and improving access to justice.

The objective of this chapter is to assess the costs and benefits for Poland in the field of Justice and Home Affairs of two possible scenarios: accession to the EU, and non-accession to the EU.²³⁰ In the run-up to the Polish referendum on EU accession, public debate on the

²³⁰ The consequences of free movement of labour will be dealt with elsewhere in this book, in the chapter on migration of workforce.

consequences of membership is likely to intensify. A cost benefit analysis of EU accession in the field of JHA is important to inform this debate in at least four ways. First, an outline of the terms of Poland's accession in the field of JHA will increase awareness of EU activity in this area and of the consequences of Polish involvement and non-involvement therein. Second, an overall picture of the short- as well as long-term effects of accession is needed, since many costs are already being felt today, while important benefits will only materialize upon or even after accession (Tang 2000: 2). Third, there is a widespread consensus that whereas integrating Poland into the EU has positive effects at the macro-level, costs will be unevenly distributed. An analysis of the distributional effects of EU accession in the field of JHA may contribute to sensitivity among decision-makers concerning where the costs will be most felt (Inotai 2000: 19). Fourth, awareness of costs and benefits of Polish accession in several sub-policy areas of JHA, their timing as well as their distribution, will allow Polish and EU decision-makers to introduce supporting and compensating measures and/or adjust their policies.

Strictly speaking, a cost benefit analysis requires the identification of the benefits and the costs of a policy, as well as a translation of these benefits and costs into monetary values (Rossi and Freeman 1989: 386). However, especially in the field of JHA, it is seldom possible to translate the costs and benefits in monetary terms. Costs and benefits in the field of JHA often concern rights (e.g. free movement of persons, access to justice) and feelings (e.g. of security) instead of tradable goods and services with a market price. Therefore, in the following analysis the focus is on the identification of the costs and benefits, which will only be quantified where possible.

Section two will give an outline of the terms of Poland's accession to the EU, as negotiated by Poland and the EU Member States. These terms are used as an approximation of the policies that the EU and Poland would pursue in the case of accession.²³¹ Taking these expected policies as the point of departure, section three analyses the costs and benefits for Poland of EU accession in the field of JHA. Section four assesses the costs and benefits of the non-accession scenario. The conclusion returns to the research objective stated above as well as to the four announced contributions to the debate on EU accession.

2. Negotiated Terms of Polish Accession in the Field of JHA

This section outlines the terms of Poland's accession to the EU that will be the starting point for the cost benefit analysis. As Justice and Home Affairs cooperation was not brought into the EU until the Treaty of Maastricht (which came into force in November 1993), the requirements in this field have taken the candidate countries by surprise. Furthermore, the massive changes introduced by the Treaty of Amsterdam (ToA, which entered into force in May 1999) have caused considerable uncertainty as regards requirements. The ToA enshrined the maintenance and development of an 'Area of Freedom, Security and Justice' as a new, central treaty objective of the EU, that is, at the same level as for instance the Economic and Monetary Union. The EU is now committed to develop policies in the fields of visa, asylum, immigration and other policies related to free movement of persons (e.g. judicial cooperation in civil matters), and to develop common action in the field of police cooperation and judicial cooperation in criminal matters. Moreover, the ToA imported a substantial body of measures that had been developed outside the EU into the EU framework: the 1985 Schengen Agreement and associated implementing acts (together called 'the Schengen *acquis*'). The objective of the Schengen Agreement is the abolition of internal border controls among its Member States. To compensate for the loss of internal border controls, a set of measures has been agreed among the Schengen Member States

²³¹ Section 2 is based on the provisional agreement reached in the accession negotiations between Poland and the EU Member States as regards chapter 24 (Justice and Home Affairs) (July 2002), and has been updated after their conclusion at the European Council of Copenhagen (December 2002).

in the fields of external border controls, visa, asylum, immigration, police, customs and judicial cooperation, data-exchange (the Schengen Information System, SIS) and data-protection. All these measures are now part of the EU *acquis*, allowing for free movement of persons within the EU, with the exception of the United Kingdom and Ireland. These countries had to be given special 'flexible' arrangements in order to gain their consent to the introduction of Schengen into the EU framework.

In the accession negotiations the EU has taken the position that candidate countries have to accept the entire JHA *acquis*, including the Schengen *acquis* as integrated into the EU framework. Poland has put forward that it is prepared to accept the entire *acquis*, expressing reservations however about accession to some JHA conventions that have not been ratified by all EU Member States themselves. No transition periods have been negotiated. This means that in principle all JHA *acquis* has to be implemented upon accession. This however does not apply to all Schengen measures. Although the Schengen *acquis* has been integrated into the EU system, one important rule of the Schengen Agreement has remained intact. This concerns the rule that a new member has to go through a period of close monitoring of implementation of Schengen obligations (the Schengen evaluation process) after its accession to Schengen (now the EU). Moreover, a new member has to await a separate and unanimous decision of the Schengen Executive Committee (now the Council of the European Union) before it can fully participate in the Schengen *acquis* and most notably before internal border controls can be lifted. Thus Austria, Italy, Greece and the Nordic countries had to wait several years after their accession to Schengen before this decision was taken. Analogously, internal border controls will not be lifted upon Poland's accession to the EU. Considering the fact that internal border controls will remain intact, not the entire Schengen *acquis* has to be implemented upon accession either. The Council of the EU has published an 'Information note' on Schengen and Enlargement, making a distinction between the requirements that have to be implemented upon accession to the EU and the ones that are to be implemented upon the lifting of internal border controls at the latest (Council of the European Union 2001). Moreover, the Council has announced that the implementation of Schengen does not contain a predetermined timetable for the abolition of checks on internal borders after accession. The implication of this two-stage procedure is that not all costs and benefits of EU membership in the field of JHA will materialize upon accession, but at a later, not yet definable stage.

3. The Accession Scenario

In the case of Polish accession to the EU, all the requirements outlined above will have to be implemented, Poland will become part of the Area of Freedom, Security and Justice, and will enter the EU institutions, cooperation structures and permanent monitoring systems. In this section it is assessed what benefits (section 3.1) and costs (section 3.2) accession implies.

3.1. Benefits of Accession

Poland's accession to the EU will significantly contribute to the achievement of Polish justice and home affairs objectives (e.g. free movement of persons, better access to justice, enhanced internal security). It also indirectly supports Polish economic objectives (e.g. reduced corruption leading to a better investment climate). Five processes linked with EU accession will foster these Polish policy objectives. These are: (1) creation and strengthening of the legal framework and sound institutions; (2) staffing, training and equipping; (3) improvement of inter-institutional cooperation; (4) coherent strategic policy-making; and (5) integrating Poland in the Area of Freedom, Security and Justice, EU institutions, cooperation structures, and monitoring systems. The first three processes may partially have taken place independently from EU accession (e.g.

as part of the transformation or adjustments to globalization). It is important to realize though that EU accession has in many cases put JHA issues firmly on the Polish policy agenda, whereas globalization and economic liberalization have initially been leading to a reduction of Poland's internal security (Inotai 2000:22). All five accession-linked processes contributing to the achievement of Polish objectives will be dealt with hereunder.

Firstly, the necessity to fulfil EU requirements as well as the EU monitoring of achievements have fostered the creation and strengthening of the legal framework and of sound, efficient institutions. The introduction and consolidation of uniform norms and rules have reduced uncertainty and arbitrary decision-making. Such developments can be noticed in all JHA sub-policy areas. The early foundations of a modern border control system were laid shortly after the change of political regime by two acts, which among others replaced the Border Protection Army by the newly created Border Guard. Far-reaching changes were however introduced by the accession-inspired 2001 amendments to these acts. These changes implied an increase in the scope of competences of the Border Guard (e.g. to operate in the whole country), making it more effective in border protection, border traffic control and fighting border-related crime (Adamczyk 2002: 30–1). They also involved the adoption of important EU requirements like an equal degree of checks at external borders carried out in accordance with uniform principles and an internal control system, which both reduce arbitrary decision-making by border guards.

In the fields of visa, migration and asylum, the accession process is supporting institution building as well. In order to implement the EU visa regime, the network of diplomatic missions and consular offices is being strengthened. The Act on Aliens (adopted in 1997 and amended in 2001) has introduced the legal framework in the area of immigration and asylum and created the Office for Repatriation and Aliens (the central competent agency with respect to aliens). This legal framework in combination with the centralization of decision-making in one government office contributes to the development of a more coherent and comprehensive migration policy, as well as to fair and faster procedures relating to the treatment of asylum applications. EU monitoring in the context of accession has played a substantial role in placing and keeping immigration and asylum policies high on the Polish agenda, e.g. when in 2001 the Polish government was seriously considering to dismantle the then six months old Office for Repatriation and Aliens as part of a broader restructuring of the Polish administrative system (Commission of the European Communities 2002: 115).

The fight against organized crime, drugs, fraud and corruption, and the protection of data also benefit from accession-driven institution building. Examples are the creation of the National Centre for Criminal Information²³², the Central Bureau for Investigation, the General Inspector for Financial Information, the Inspectorate General for Personal Data Protection, and the Council for the Prevention of Drug Addiction. More in general EU standards support the development of an accountable and reliable police organization and customs authorities. EU insistence on anti-corruption measures has encouraged Polish anti-corruption policies (e.g. the introduction of liability of legal persons, as well as codes of ethics and strong internal control systems). Appropriate sanctioning of corruption in the judiciary (e.g. the revision of the existing unlimited penal immunity for magistrates) shall contribute to a social feeling of justice. The same holds true for measures to make the Public Prosecutor's Office fully independent from the government. EU accession requirements have also supported respect for human rights and fundamental freedoms and the development of an independent, reliable and efficient judiciary. The latter involves among others a reduction of the number of pending cases as well as of duration of court proceedings (e.g. by introducing simpler procedures), better access to justice and enforcement of judgements.

²³² The National Centre for Criminal Information is supposed to become the national interface for SIS II-the second generation Schengen Information System that is being developed at the moment.

The second beneficial effect of EU accession lies in the improvement of staffing, training and equipment, which substantially fosters the achievement of Polish policy objectives. In consequence of the deployment of professional border guards all persons crossing the external borders are checked systematically and effective border surveillance is ensured between border-crossing points. Recruitment of qualified law-enforcement personnel contributes to a more effective fight against organized crime, drugs, fraud, corruption and terrorism as well as to fewer delays in courts. All these policy objectives are also served by the training of staff (in operational skills, knowledge of legislation, languages), development of infrastructure and acquisition of equipment (e.g. computerisation) needed for EU accession.

The third benefit of EU accession concerns better cooperation and exchange of information between authorities, making them more effective and efficient. EU accession requires for instance bilateral and international border cooperation (e.g. to deal with readmission), cooperation between control-authorities on each side of the border, intensive consular cooperation, cooperation between customs authorities and the border guard, and cooperation between police, prosecuting and judicial bodies.

The fourth benefit of EU accession involves the encouragement of coherent strategic policy-making. Policies in many JHA sub-policy fields needed to start from scratch after the fall of communism. EU accession preparations have led to the development of strategic policies (e.g. the Strategy of Integrated Border Management, Anti-Corruption strategy, Drugs strategy, and recent work on migration policy), as well as to their coherence and comprehensiveness (e.g. the addition of measures on family reunification in the 2001 amendment of the Aliens Act). Policies in the field of migration and integration are all the more needed, since EU accession will make Poland more attractive for immigrants, reinforcing the growth of immigration that is already ongoing (resulting from transformation and globalization). Where the Polish labour market and social security system might need considerable foreign labour in the future, increased immigration can be considered a benefit. Moreover, the opening-up of Polish society to new cultural influences may also bring advantages (Iglicka 2001). However, in order to ensure these benefits from immigration a coherent strategic immigration and integration policy is essential.

Last but not least large benefits shall be derived from the fact that accession will integrate Poland in the Area of Freedom, Security and Justice, the EU institutions, cooperation structures, and permanent monitoring systems. As EU citizens, the Polish will benefit from increased internal security, better access to justice and-after the separate Council decision to lift internal border controls has been taken-from free movement of persons. Poland will moreover acquire full decision-making rights upon accession. This also holds true for the development (or reform) of the Schengen acquis as integrated into the EU framework. Poland shall thus be able to launch initiatives to deepen cooperation (e.g. harmonizing border control standards, promoting burden sharing or a structural fund in the field of JHA) and to make proposals for reform of existing policies (e.g. as regards the visa regime or policies vis-à-vis neighbouring countries in the East). In case certain initiatives are not considered to be in the Polish interest, Poland can try to influence fellow Member States not to adopt them, or in the last resort can block them.²³³ EU membership will also strengthen Poland's position as a regional actor, its Eastern neighbours being aware of the Polish possibility to influence JHA policies. Furthermore, accession would make Poland part of the EU cooperation structures. Exchange of information and experience, the usage of common methods and tools, participation in institutions like Europol and Eurojust, and becoming member of networks like the European Judicial Network will significantly support the Polish fight against organized crime, drugs, terrorism, fraud and corruption. Access to the information of the Schengen Information System (which Poland will get only after SIS II has been developed and

²³³ In the present situation nearly all decision making in the field of JHA is governed by unanimity. According to the Treaty of Amsterdam, in 2004 the Council can make a unanimous decision to introduce qualified majority voting for all or part of EU policy making in the fields of visa, asylum, immigration, and other measures related to free movement of persons.

the Council has decided to lift internal border controls) deserves special mentioning in this respect. Inclusion in the permanent monitoring systems of the EU will foster commitment to the objectives of the Area of Freedom, Security and Justice. To conclude, accession will give Poland access to funds reserved for EU members.

3.2. Costs of Accession

Compliance with the requirements for EU membership in the field of JHA will have financial, socio-economic and socio-political costs. When analyzing these costs it is again important to keep in mind that not all of them exclusively result from EU accession (e.g. judiciary reform required by the EU would have to be undertaken anyway as part of the autonomous Polish transformation process). However, some are very much linked with EU accession (e.g. the introduction of the EU visa regime and the highly contested implementation of some conventions like the 1995 Agreement on illicit traffic by sea). Poland has been receiving support from the EU as well as from individual Member States to alleviate the financial burden of implementing the EU *acquis*.

Financial costs of accession are a consequence of high implementation costs of the JHA *acquis*. Striking example is the implementation of the EU requirements in the field of border controls. As a result of Poland's accession to the EU, its border with Russia (Kaliningrad), Belarus and Ukraine will become an EU external border. It will be one of the longest stretches of external land border guarded by a single Member State (over 1150 km). If neighbouring candidate states do not enter the Schengen zone at the same time as Poland, the external border to be controlled would be even longer (e.g. including a temporary external border with Slovakia of nearly 550 km). Fulfilling the EU requirements regarding border controls entails big investments in staffing and training. It is estimated that a modern Polish border control system requires 18 000 officers (Ministry of Interior and Administration 2000: 142). Bringing the Border Guard at full strength means hiring new officers, replacing conscripts by professionals and training all personnel. Moreover, massive investments are needed in infrastructure (e.g. border stations) and equipment (e.g. means of observation, transport, special technology and most importantly communication and information technology). Total costs of border controls in the three years to come are estimated at around 257 million Euro (Ministry of Interior and Administration 2002: 108). EU financial assistance in this field was initially expected to amount to 94 million Euro. Considering the impressive gap between these two figures and very tight budgetary conditions, extra funds for external border controls were part of the financial demands put forward by Poland at the European Council in Copenhagen. The perceived self-interest of the incumbent Member States in strengthening the future external border of the EU may have contributed to their eventual willingness to grant an additional 108 million Euro for the control of Poland's Eastern border.

Visa policy is another sphere where a substantial financial effort will have to be made to implement the EU system. Introduction of visa requirements for citizens of countries with which Poland previously had a visa-free regime is likely to result in a large increase in the number of visas issued. This number is estimated to grow up to 3,5 million annually (at present it is approximately 230 thousand) (Ministry of Interior and Administration 2000:29). To deal with this increase large investments are being made to strengthen the Polish consular posts in terms of organization and logistics, staff and equipment (including visa processing information technology). Further substantial budgetary allocations will be necessary for the implementation of EU *acquis* in other JHA areas. These involve costs in the fields of asylum (e.g. data transmission equipment for Eurodac²³⁴ and reception centres for asylum seekers), illegal immigration (e.g. deportation

²³⁴ Eurodac is the European automated fingerprint recognition system for asylum seekers.

costs) and police and judicial cooperation (e.g. national interface for SIS II and training of magistrates, judges and prosecutors).

Apart from financial costs there will be socio-economic ones. These mainly follow from the obligation to introduce visa for citizens of thirteen countries-the most difficult cases being Ukraine, Russia and Belarus-as well as to terminate the 1985 agreement (with the then Soviet Union) on local simplified border crossings with these three countries. The effects on border crossings can only be estimated. By way of comparison: the implementation of the 1997 Polish Aliens Act-introducing several requirements for border crossing-resulted in a 30 per cent decrease in border crossings in the first year (Rakowski and Rybicki 2000: 20). A better basis for estimations might be the Slovak introduction of visa for Ukrainian citizens in June 2000, as part of the implementation of the Schengen acquis, which was followed by a significant drop in border crossings (mainly in the number of Ukrainians coming to Slovakia: from 1, 7 million persons in 1998 down to 0,3 million in 2001) (Duleba 2002: 2).

The application of these EU measures would firstly entail social costs. As a result of the termination of the agreement on local simplified border-crossings, for instance visiting family that lives across the border may become less easy.²³⁵ Secondly, there would be economic costs related to a decrease in trade with Eastern neighbouring countries. At a macro-level these costs are expected to be limited, considering the relatively small scale of the Eastern market compared to the EU market (which will become even bigger after eastern enlargement, and which is considered to be the natural field of expansion for Polish export) (Orlowski 2001: 97). Moreover, registered Polish trade with the Eastern neighbours-which is the greater part-is unlikely to be affected by modern border management and clear and simple visa procedures. This expectation is supported by the fact that the Slovak introduction of visa for Ukrainians was followed by a quite impressive growth of freight trains crossing the border (Duleba 2002: 3). However, it is foreseen that non-registered trade will be affected significantly, as the Slovakian example indicates as well. Following the introduction of visa, a relatively big drop in the number of border-crossings of buses and cars (means of transportation often used by petty traders) was noted (Duleba 2002: 2-3). Economists however point at the fact that the importance of unregistered trade for the Polish economy has decreased anyway over the last years. Petty trade is seen as a temporary phenomenon, as it is largely based on differences in product prices on the Polish and Eastern markets. Moreover, part of this trade involves the evasion of duties on alcohol and cigarettes, which makes it even harmful for the Polish budget (Orlowski 2001: 101). Nonetheless, specific regions and sectors will suffer seriously from the drying up of petty trade. This concerns the underdeveloped eastern voivodships and sectors like the small-scale textile industry in Lodz that highly depend on unregistered trade with Eastern countries. Accession-related benefits for these regions (e.g. reception of structural funds, investment in infrastructure and employment of people for the purpose of strengthening border controls (Council of Ministers 2000: 110)) are unlikely to compensate for the loss of employment and sources of income in these regions. This being said, the shift from eastern to western export markets as well as the decline of petty trade, are trends that cannot be attributed in full to EU accession, painful regional adjustment processes to globalization taking place anyway.

Lastly, EU accession will implicate socio-political costs. These derive firstly from the loss of policy autonomy that EU membership implies. The obligation to adopt and implement the entire acquis means that Poland is confined in making its own priorities among policies (e.g. resulting in high investment in JHA instead of in other sectors) and within policies (e.g. resulting in a focus on security-related matters). The EU visa regime is again an example where the political costs of

²³⁵ Mr J. Skolimowski, Director of the Consular and the Polish Communities Abroad Department of the Ministry of Foreign Affairs mentioned that the number of border crossings in the framework of the simplified border traffic, amounted to 23,4 thousand between Poland and Belarus and 15,2 thousand between Poland and Ukraine, in 2001. Speech at the conference 'The European Union and its Future Neighbours - How much Freedom, How Much Security?', Center of International Relations, Warsaw, 6 and 7 December 2002.

this loss in policy autonomy are felt. The introduction of visa may disturb relations and historic ties with neighbouring countries as well as with Polish minorities that live there. The introduction of visa requirements is getting a frosty reception in Poland's neighbouring countries and their societies, having triggered President Kuchma of Ukraine for instance to comment that the EU is replacing the Iron Curtain with a paper one. Reciprocity in visa introduction is feared (although there are signs that Ukraine might not introduce visa obligations for Polish citizens)²³⁶, as are implementation problems in existing readmission agreements²³⁷. Furthermore, in some cases the position of Poland to negotiate visa-free travel for Polish citizens is weakened, Poland having to abolish visa obligations for certain countries as part of the adoption of the EU visa regime. EU citizens can travel without visa to these countries (e.g. Australia, Canada), while Polish citizens cannot. In consequence of Poland's obligation to adopt the EU visa regime, Poland can no longer use visa-free travel to Poland as a negotiation tool, to get visa-free travel of Polish citizens to these countries in exchange. Apart from the loss of policy autonomy, there will be direct social challenges in the field of JHA ensuing from accession. Immigration pressure is likely to increase (in general but also in anticipation of the introduction of visa) (Adamczyk 2002: 39), and the transformation of Poland from a transit to a destination country will continue. The same holds true for flows of asylum seekers, with refugees deciding more and more to stay in Poland until at least a decision on their status has been given (Commission of the European Communities 2002: 116). Moreover, as a result of the implementation of the Dublin Convention on the State Responsible for the Examination of an Asylum Claim, Poland will most probably have to deal with an even higher number of asylum seekers. All this makes necessary proper immigration, asylum and integration policies (e.g. as regards the large Vietnamese community and the growing number of asylum seekers from Chechnia).

4. The Non-accession Scenario

Complicating factor in assessing the costs and benefits of non-accession to the EU is the greater uncertainty concerning Polish and EU policies. Would Poland and the EU agree (like in the case of Norway) on some form of 'inclusion without membership' (Monar 2001: 80) in the field of Schengen/JHA? Or would Poland not pursue cooperation beyond the existing Europe agreement with the EU²³⁸ and revise parts of the preparations already made in the run-up to EU accession? Since the costs and benefits of these trajectories are significantly different, a distinction will be made hereunder between two sub-scenarios, namely the 'Norwegian scenario' (section 4.1) and 'the hard-line scenario' (section 4.2).

4.1. The Norwegian Scenario

In case Poland does not accede to the EU, it could still seek a considerable level of cooperation with the EU-including in the field of Schengen/JHA-without membership. A case that comes to mind is Norway that in 1999 negotiated an agreement with the EU associating itself with the Schengen acquis, following the negative outcome of the referendum on EU membership several

²³⁶ Mr Bilousow from the Ukrainian Embassy in Warsaw for instance stated that the Ukrainian reaction to the introduction of visa would depend on the compensatory measures that are offered (symbolic price of the visa, special regime for businessmen, students, etc.). Speech at the conference 'The European Union and its Future Neighbours – How much Freedom, How Much Security?', Center of International Relations, Warsaw, 6 and 7 December 2002.

²³⁷ According to Lubomir Hanus of the Ministry of Interior of the Slovak Republic serious shortcomings in the implementation of the readmission agreement with Ukraine followed the Slovak introduction of visa for Ukrainian citizens. Speech at the workshop 'Current Level of Illegal Migration and Trafficking in Persons in Ukraine', IOM/European Commission/State border guard committee of Ukraine, Brussels, 30 January 2002.

²³⁸ The Europe Agreement, that came into force in 1994, contains no requirements for Poland in the field of JHA.

years before. It is unlikely however that Poland would be able to negotiate the same terms of association as Norway did. Since Norway was part of the Nordic Passport Union²³⁹, Norway's fellow Nordic Member States that did accede to the EU (Finland and Sweden) fought hard to associate Norway and Iceland with Schengen, in order to continue free movement of persons among the Nordic states (Laitinen 2002: 87–9). Poland is not part of any such passport-free travel area with other candidates for EU membership that could—after their accession—push for Polish association with Schengen. In case of Polish non-accession it is more likely that the EU Member States would prefer a form of cooperation without full association with the Schengen *acquis*. The costs and benefits for Poland of such an association agreement would obviously depend on the question which parts of the *acquis* Poland would have to adopt. It is assumed here that the terms of such an agreement would be comparable to those of the Norwegian case, with the possible exception of free movement of persons in the near future.

What would then the benefits and costs of such an association with Schengen be? Following the Norwegian case, association would require Poland to adopt and implement most of the operational parts of the Schengen *acquis*. Moreover, it is likely that the EU Member States would insist on the implementation of additional non-Schengen JHA requirements, to strengthen Polish administrative and judicial capacity. Association with Schengen would therefore bring benefits that are comparable to those presented in the accession case (section 3.1, especially item (1)–(4)). The crucial difference with the accession scenario is however that in case of association with Schengen, Poland would only to a very limited extent become part of the EU institutions, structures and policies (and therefore miss many benefits mentioned in item (5) in section 3.1). For example, while Poland might get access to SIS after thorough monitoring of Polish implementation of association requirements, it is not at all certain that free movement of persons in the near future would be part of the package. In the case of association it is moreover likely that the EU would provide less financial assistance. Furthermore, Poland would not get decision-making rights, since these are the Member States' prerogative. Norway can only try to 'shape' decision-making, using its right to explain the problems it may encounter and to express itself in the Mixed Committee set up by the agreement. However, if Norway decides not to accept an EU measure building upon the Schengen *acquis* or if there are longer delays in implementation than specified as acceptable, the association agreement will be considered as terminated. These harsh terms already caused substantial public debate in Norway (Monar 2001: 81). In the Polish case, association with Schengen would imply the obligation to implement the majority of the JHA *acquis*, without receiving the right to decide on initiatives to deepen cooperation and proposals for reform, nor the possibility to block new measures which Poland does not consider in its interest. All in all association with Schengen would bring significantly fewer benefits than EU accession. Since Schengen association requirements would largely coincide with those for EU membership, the costs of both scenarios are comparable. Poland would face comparable financial costs to implement all requirements, socio-economic and political costs of introducing the EU visa regime, and other political costs related to loss of policy autonomy. One difference would be that Poland could keep slightly more of its policy autonomy, allowing it for instance not to implement parts of the non-Schengen JHA *acquis* (e.g. those Conventions that are very costly to implement). However and more importantly, significant socio-economic and political costs are likely to follow from the fact that Poland would distance itself to a certain extent from the EU.

4.2. The Hard-line Scenario

In case Poland chooses for the hard-line scenario, neither further cooperation nor association with the EU would be sought in the field of JHA. Indeed, Poland might even decide

²³⁹ Created by the Convention on the Abolition of Passport Controls at Intra-Nordic Borders, signed in Copenhagen on 12 July 1957.

to revise parts of the preparations already made in the run-up to EU accession. In this scenario Polish citizens would be deprived of the benefits of the Area of Freedom, Security and Justice (e.g. free movement of persons, increased security and better access to justice). The Polish government would have to strengthen institutions, staff, and equip them, and improve inter-institutional cooperation without the external leverage, financial aid, and exchange among experts, connected to EU membership. Poland would have to fight international organized crime without access to European databases like SIS and without cooperation in Europol. The results of such a scenario would obviously depend strongly on Poland's ability to do all this by itself. Moreover, Poland would have hardly any clout to influence EU policies in the field of JHA, being neither a partner in decision-making (cf. the accession scenario), nor in the deliberation (cf. the Norwegian case).

Crucial difference with the accession and 'Norwegian scenario' would be that Poland could keep more of its national autonomy, allowing it better to make its own priorities and choices among policies and within policy areas. Financial costs could be limited by not investing as heavily in for instance external border controls and the creation, staffing and equipping of consulates. However, many investments in asylum, immigration and law-enforcement institutions, staffing, training and equipment would have to be made anyway in the medium or long term, in the context of Poland's transformation and adjustment to globalization and in order to achieve Polish policy objectives in this sphere. Furthermore, Poland decided to start preparing for accession more than a decade ago. As a large part of the JHA investments already made is 'EU-specific', the sunk costs of switching to the hard-line scenario shortly before planned accession to the EU would be substantial. Socio-economic and political costs vis-a-vis the Eastern neighbours would depend among others on the visa- and border-crossing policies that Poland would choose. However, the socio-economic and political costs of abandoning the trajectory towards membership and isolating Poland from an enlarging EU would be serious, especially in the medium to long term.

5. Conclusion

The objective of this chapter has been to assess the costs and benefits for Poland in the field of Justice and Home Affairs of two possible scenarios: (1) accession to the EU; and (2) non-accession to the EU. Since there is great uncertainty concerning Polish and EU policies in the case of non-accession, a further distinction has been made between two sub-scenarios (the 'Norwegian scenario' and the 'hard-line scenario'). The ambition has been to make four contributions to the debate on Polish accession to the EU. The first was to increase awareness of EU activity in the field of Justice and Home Affairs and of the consequences of Polish involvement and non-involvement therein. In order to do so, the negotiated terms of Polish accession in this sphere have been outlined in section 2 and, where relevant, costs and benefits have been linked with specific JHA sub-policy areas in section 3 and 4 (e.g. in the case of border controls and visa policies).

The second contribution strived for was to give an overall picture of the short- as well as long-term costs and benefits of accession and non-accession to the EU. Clearly, in the accession scenario the majority of the costs has to be made 'in advance'. This holds true for the financial costs of implementing the JHA *acquis*, as well as for the socio-economic and political costs (e.g. the introduction of visa for Ukraine, Belarus and Russia as scheduled for July 1st 2003). Benefits are already felt today, directly in the area of justice and home affairs (e.g. strengthening of institutions) and indirectly in the economy (e.g. improving the investment climate). However, increasing security, fighting corruption and reforming the judiciary are long-term processes, the full benefits of which will not be felt today or tomorrow. Moreover, very tangible benefits of EU

accession in the field of JHA, like access to the data of the Schengen Information System and free movement of persons, will only materialize when the Council considers Poland ready to fully implement the Schengen *acquis*. If Poland were not to accede to the EU and were to opt for the 'Norwegian scenario', the timing of costs and benefits would not significantly differ from the accession scenario. The most important difference would be that substantial benefits of accession would be missing (EU decision-making rights, free movement of persons in the near future). If Poland chooses the 'hard-line scenario', less costs are foreseen in the immediate future. The sunk costs would be significant however, while the financial, socio-economic and political costs of isolating Poland from the EU would be serious in the medium to long term.

The third contribution aspired in this chapter was to increase awareness of the distributional effects of EU accession in the field of JHA. The analyses show that the benefits of accession in this sphere are fairly evenly spread, since they involve rights that will be given to all Polish citizens (e.g. free movement of persons) as well as the production of public goods (e.g. internal security, rule of law). The socio-economic and socio-political costs of implementing the JHA requirements for membership will however be felt primarily by regions and sectors depending on small cross-border trade with neighbouring countries in the East, as well as by Polish citizens having ties with communities in these countries. If Poland does not accede to the EU and opts for the 'Norwegian scenario', the distributional effects will be largely comparable to the ones that would materialize in the accession scenario. In the case of the 'hard-line scenario' the socio-economic and socio-political costs of isolating Poland from the enlarging EU would be rather evenly spread among people.

Fourth, does the assessment of costs and benefits in sub-policy areas of JHA, their difference in timing as well as their distribution among regions, give indications as to crucial issues for Polish and EU decision-makers? The analyses in this chapter support the idea that costs and benefits strongly depend on policies followed by the EU, Poland and other states. The materialization of many tangible benefits for Poland is for instance directly connected to the EU decision to abolish checks on internal borders. Polish commitment to implementing the Schengen *acquis* in full as well as its capacity to do so will obviously be of great influence as well. Commitment and capacity of Poland's neighbouring countries also play an important role. If the new Member States are not ready at the same time, some may have to wait for others or temporary external borders would have to be introduced. Other EU policies will also have a great impact on costs and benefits of accession for Poland. Will the EU develop a sense of common responsibility as regards core matters of the JHA area (e.g. external border controls, asylum policies)? Will the EU recognize the need for burden sharing among Member States and for the continuation of substantial financial aid to the new Member States in the field of JHA (e.g. in the form of a new structural fund)? Will the EU agree to mitigate the negative consequences of Polish alignment with the EU visa regime (e.g. by a new arrangement for local simplified border traffic)? Will the EU increase its involvement with the implementation of JHA policies and strengthen monitoring and safeguard mechanisms for all Member States (not only the new ones)? Upon accession Poland can use its influence to convince its fellow Member States of the importance of these directions.

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16. Institutional and Political Costs and Benefits of Polish Accession to the EU

Rafał Trzaskowski

Introduction

Without doubt, one of the most important benefits of Polish accession to the EU is the ability to affect the process of reforming the European Union and adjust it to the challenges posed by reality. In this context, without doubt, the most important question is what form of European integration would be in the best interests of Poland.

1. Debate Regarding the Future of the European Union

From the late fifties, until the Nice Treaty was signed in December 2000, apart from the introduction of the majority voting system in the Council of the European Union and the reinforcement of the role of the European Parliament in the decision making process, the system of European institutions generally was not subject to any radical change. Only the Nice Treaty constituted a major step forward in preparing the EU institutions for expansion. Most Member States agreed that a change of the vote weighing system, extension of qualified majority voting and temporary compromise regarding the composition of the Commission are insufficient. Therefore the Fifteen decided to hold another Intergovernmental Conference in 2004. The aim of the conference, and Convention preparing the agenda, where apart from the Member States, EU institutions and national parliaments are also represented, is to implement changes of a constitutional nature.

In certain respects, the final outcome of the reforms will reflect prevalent attitudes of Member States – whether the Union should reinforce its supranational nature or whether decentralising tendencies would prove stronger and lead to further reinforcement of the

national factor. The basic question is whether institutional reform will result in signing a constitutional treaty or whether the reform will have more modest results. The preparation of a document of a constitutional nature will require numerous actions – mainly a treaty definition of fundamental principles governing the legal system of the Union, a more precise delimitation of competence between regions, Member States and the Union and a greater inclusion of the role of national parliaments in the integration processes. A modest variant would be only limited to simplification of the treaties currently in force and an attempt to explain the principles governing the Communities to the citizens better.

Member States of the European Union have taken into account the arguments of the candidates and decided to allow representatives of all interested parties to participate in the newly created forum, whose duty was to prepare a reform of EU institutions. Thus, Poland as well as other candidate States acquired the right to appoint three representatives for the Convention – one representative of the government and two representatives of the Polish Parliament (both the Sejm and the Senate). In turn, after signing the accession treaty, all candidate States on equal terms will participate in the work of the Intergovernmental Conference in 2004 the aim of which is to prepare the final version of a new EU treaty on the basis of guidelines presented by the Convention.

Participation in the process of reforming the European Union, not only in the scope of institutions but also of the most important EU policies, since such reforms will take place over the next few years, constitutes one of the most important benefits of Poland's accession to the European Union. Poland together with other new Member States of the EU will participate in the process of adjusting the European Union to the reality. They will have an opportunity to directly affect the formulation of underlying principles of the community. The final form of the European Union will also be a result of the aspirations and views of the new members and therefore there is a chance that their interests will be taken into account.

Community Method or Intergovernmental Method?

The most important issue related to the formulation of Poland's position regarding the future of Europe is the realisation that all issues discussed in the Convention are mutually related like a set of connected vessels. It is impossible to answer detailed questions regarding the bringing of national parliaments closer to the process of European integration or regarding delimitation of competence without trying to answer a fundamental question – what particular form of the community would be in the best interests of Poland? There is no doubt that in the decision-making process the Member States will have the final say. Recently some politicians are trying to undermine the role of supranational bodies – of the European Commission and Parliament. In the Convention there is a debate between the proponents of a stronger role of nation States – most of all, and proponents of greater role of supranational bodies and therefore of strengthening the so-called community method. The most important task for Poland is to develop an approach towards this fundamental issue.

In the context of the discussion of Poland's attitude to the future form of the European Union it should be recalled that the choice between two alternative solutions – the strengthening of national governments in the process of integration and consolidation of the community method is a key issue. Since new members of the club cannot afford to act on purely ideological premises, the choice should depend on the role that Poland would like to have in the European Union. If we perceive ourselves as a strong and dynamic State that in the first days after accession could become an equal partner with Germany, France, the United Kingdom, Italy and Spain then we might consciously decide and provide support to some form of directorate of the largest European countries, including the possibility of electing a regular chairman (President) of the European Council. In turn, the community method always was the best guarantee of interests of small and relatively weak States. If we are aware of our relative economic and

indirectly political weaknesses, supporting the community method would constitute a better solution that should be taken into serious consideration.

While the strongest EU Member States can perfectly defend their own interests, the weaker States would need an ally. An ally that in the name of defending basic EU values, such as the principle of solidarity, eliminating differences in the level of development among EU members, will prevent or at least limit the possibility of forcing anyone to adopt solutions that are unacceptable to them. The European Commission has played the role of honest broker who initiated actions of communities. Commission's proposals are an attempt at reaching a certain kind of compromise between interests of all involved parties.²⁴⁰

Logically speaking, the weakening of the Commission and the European Parliament is supported by those States that are certain that they would be perfectly able to force their interests and do not need any mediators or the support of an independent authority. It seems that supporting the inter-governmental method would be a significant error that Poland could make. It seems that Poland should defend those Community mechanisms that lie in its best interests. Even if already today we perceive ourselves as a European State predestined to have an effective impact on internal affairs of the EU, we should honestly answer the question as to whether we are perceived in the same way by our European partners. Perception of other EU Member States, outside own potential, is a *sine qua non* for the possible incorporation of Poland into the directorate of the most influential States in the Union.

Moreover, some commentators correctly point out the inconsistency between support for the intergovernmental method and the demand for solidarity from the European Union.

Large financial transfers are more characteristic for a closely integrated community than for a loose association of States.²⁴¹ Naturally it does not mean that Poland, in its official position, should unconditionally support all plans of forming a European federation, but it should not oppose them strongly either. This type of declaration might prematurely preclude our full participation in the European avant-garde that might be formed in the future. Support for a federation of nation States and criticism of every other vision of federation are two completely disparate issues. The term 'federation of nation States' is a sufficiently flexible and imprecise term that it allows for many interpretations.²⁴²

2. Poland and European Union Decision Making – Participation in EU Institutions

At the beginning of deliberations regarding Poland's participation in the decision making process it should be noted that the last institutional reform implemented at the Nice summit in December 2000 produced positive results for Poland. The closing of Intergovernmental Conference proceedings in 2000 removed a formal institutional obstacle preventing expansion of the EU. European Union Member States agree that the implementation of reform of a constitutional nature due to take place at the Intergovernmental Conference in the year 2004 may not constitute another condition for expansion. The successful conclusion of the Nice summit enabled the Member States to focus on other priorities, thus mostly on the expansion challenge. It is most important that the Nice summit, by providing Poland with the same number

²⁴⁰ Most Polish candidates realised this during pre-accession negotiations.

²⁴¹ See: K. Bachman, *Gdzie są polscy federaliści?*, „Rzeczpospolita“ of January 4th, 2002 r., P. Albiński, *Dylemat dla Polski – Jaki Model Europy?*, „Przegląd Europejski“, no. 1, 2002.

²⁴² In this context, P. Albiński, in truly Machiavellian spirit proposed that Poland would support federalist solutions with sufficient intensity to enrich the dialog with their proponents, particularly in Germany, but cautiously enough not to provoke European opponents of federalism to block our accession in the year 2004. P. Albiński (2002) *ibid*.

of votes in the Council and in the European Parliament as Spain, has recognised our equal status.²⁴³ Therefore Poland will have a potential to play a significant role in the EU decision making process.

Gaining equal status in the decision-making process undoubtedly and therefore direct impact on the formulation of community law, shape of EU policies and the EU budget constitutes the most important political benefit of the expansion. Poland as an associate member, whose trade is nearly 70% dependant on EU markets must comply with most EU standards without any opportunity to affect their formulation. **Only accession to the European Union will enable Poland to fully transform from being the object of decisions made into a decision making entity.** Participation in the decision making process as quickly as possible constitutes the most important justification of Poland's aspirations to accede to the EU as soon as possible – in the year 2004. This date only will provide Poland and other new Member States with the ability to participate in the formulation of the financial perspective for the years 2007–2013. **The absent have no vote.** Negotiations of the budget for subsequent years will start in 2005; if expansion is delayed past that date our needs and aspirations might be totally ignored and it might result in unequal treatment until the year 2013.

2.1. Council of the European Union²⁴⁴

The supreme decision making instance in the European Union is the Council of the European Union, also referred to as the Council of Ministers, where all decisions are made by ministers from all Member States. Depending on the issues discussed, these are ministers of foreign affairs, ministers of finance, agriculture, environmental protection etc. Proceedings of the Council are prepared by Member State ambassadors by the Committee of Permanent Representatives (COREPER), who in turn use the results of work performed by countless work groups. Most decisions are thus made by the Member States themselves only with the active participation of supranational institutions. Only recently the role of the European Parliament, which comprises deputies elected in direct elections in Member States, increased in the decision making process. It is also the Member States themselves, through a complex system of committees, that are responsible for supervising the process of implementing legal instruments agreed by the Council. Generally speaking, there are few areas where the Member States would not have the final say. Therefore status of a State in the Council generally reflects its ability to affect the decision making process.

A supranational body such as the Commission enjoys significant autonomy in the scope of market competition only since it acts as a certain kind of anti-monopoly institution and supervises the provision of public aid. Special role of the Council generally entails exclusive right of legislative initiative in all issues related to Community policies.²⁴⁵ The success of the Commission in the past decades of integration resulted mainly from the ability to formulate conclusions that proved to be acceptable to Member States present in the Commission. The Commission's proposals are often amended by the Council and Parliament, although they are rarely rejected. In other words, the supranational nature of the Commission does not mean that it is detached from the States constituting the Union. Conversely, its supranational character allows for securing the interests of the whole Community, without infringing on the interests of nation States.

²⁴³ Statement of Secretary of European Integration Committee in reference to European Union summit in Nice, December 9th, 2000 Monitor Integracji Europejskiej, no. 33, UKIE, Warsaw.

²⁴⁴ In co-operation with Leszek Jesień

²⁴⁵ Except for intergovernmental policies, where the legislative the Commission shares the initiative with member states.

2.1.1. Compromise Culture

The European Union always strives to take into account the idiosyncratic preferences of its members, if they are based to some extent on concrete, motivated argument. Very seldom does the majority attempt to force anything upon the minority. Union standards are often so complex in nature since during their formulation, the objections of all Member States are taken into account. The European Union protects the cultural diversity of all of its regions; it is often the case that it provides exceptions from its laws for that purpose. The problem is that such exceptions can be secured by the participants of the decision making process only. Against prevalent perception the European Union, even if it often forces harmonisation of various spheres of life, does not pursue this goal for the price of abandoning national preferences and never threatens the uniqueness of French cheese, the quality of German beer or the Swedish right to limit alcohol consumption. All kinds of absurdities, such as the classification of carrot jam as a fruit product, the actual length of a cucumber or the permissible size of sprats are a simple derivative of the interplay of interests taking place between the Member States. These are the methods that the manufacturers of these products – by lobbying their governments – use to protect their interests. It often takes on hilarious forms, but is the result of exceedingly great care for the respect of the interests of Member States rather than a result of the ‘bureaucratic interventions of Brussels’. The primary objective of the European Union is to ensure the correct operation of the Common Market and thus to eliminate any limitations of the free flow of goods, services, labour and capital. The Single Market encourages the Union to improve its competitive edge.

There is a specific “compromise culture” in the Council of the European Union. Even in areas where decisions are made by majority vote, in practice Member States work right up to the last minute on a compromise that would satisfy all the parties, rarely resorting to vote. Relations within the Union and between the Member States are characterised best by the fact that consensus is often sought for weeks and even months. Majority voting serves as a motivation forcing the parties to behave in a constructive manner rather than a tool used in practice. This observation was confirmed by empirical research that proved that voting takes place in the Council in 11% of all possible cases.²⁴⁶ The theoretical ability to form a blocking coalition forces Member States to start negotiations before actually voting. More interestingly, the further expansion of the European Union, against all fears, has not resulted in more frequent voting by the Council.

2.1.2. Expansion of Majority Voting

Speaking in formal terms, an increasingly smaller number of decisions is made by the Council of European Union unanimously. This trend of replacing unanimity with majority voting has been continued since the launch of the Single European Act, i.e. since the year 1987, in all the following Treaties – the Maastricht Treaty, the Amsterdam Treaty and the Nice Treaty.

It seems that Poland may view the results of the Intergovernmental Conference regarding the expansion of majority voting positively, although not without reservation. On one hand the Nice Treaty incorporated most of Poland’s proposals presented in the position of the Minister of Foreign Affairs, limiting unanimity, although not in matters of a quasi-constitutional nature and not in matters directly affecting national sovereignty, or in the fields, where it could result in additional budgetary burdens, such as the fiscal aspects of environmental protection or fiscal policy.²⁴⁷ On the other hand, we should be aware that in the Union there are fewer and fewer areas where Poland would be able to use its right of veto in order to secure concessions in other important issues. Although presently it is very difficult to point out areas where Poland’s

²⁴⁶ W. Wessels, Nice Results: The Millenium IGC in the EU’s Evolution, „Journal of Common Market Studies“, Vol.39, No.2, 2001.

²⁴⁷ Ministry of Foreign Affairs, *Traktat Nicejski – Polski punkt widzenia*, Warsaw, 2001, p. 26. See also Monitor Integracji Europejskiej, no. 36, Special Edition, UKIE, Warsaw.

interests would be significantly different from the interests of all other Member states. If Warsaw decides that a defensive strategy should be adopted and a certain decision regarding an important issue should be blocked it will find partners in the expanded Union with which it would form a blocking minority.

It is more important for Poland to preserve unanimity in the area of structural funds until the year 2007, which means that even during the formulation of the new financial perspective for the years 2007–2013 the poorest EU States such as Spain, Portugal or Greece would not accept a decrease in aid to their least developed sectors, (it is enough that one of them uses the right of veto). Thus the EU budget might provide smaller funds to new Member States. Current accession terms already foresee that Poland will receive funds that are at least twice as small as those received by Spain – country that is twice as wealthy as Poland.

2.1.3. Poland's Position in the Council of the European Union

After the Nice Treaty enters into force, the formal position of Poland in the Council of the European Union will be very strong, particularly due to our economic and demographic potential. Poland is one of few new Member States that was treated fairly, not to say generously, during the division of votes in the Council. As for voting in the Council of the EU, in comparison with the system used before the Nice Treaty entered in force, **the most, i.e. 31%, was gained by Spain and Poland**. Both countries *de facto* were treated as large countries (therefore they will have a similar power to create coalitions based on the number of weighted votes).

The table below presents the number of votes granted by the Nice Summit as compared to extrapolation of the system used before the Nice Treaty. It also presents a comparison of the percentage share of each country in all weighted votes. The last column of the table shows the difference between the extrapolation of the pre-Nice system and the provisions of the Nice Treaty occurring in the importance of each country.

2.1.4. Poland and the Creation of a Coalition in the Council of the EU

Having 27 votes assigned by the Nice Summit, Poland will become a valuable member of many coalitions. Poland together with two other large Member States, will need only one medium size country (having at least 6 votes) to block adverse decisions. Possible coalition of Central and Eastern Europe countries, having at least 101 votes will be able to block all adverse decisions.²⁴⁸

As a result of the Nice Treaty all the major coalitions will be able to block decisions, most often by securing 91 votes, and in the case of large States (if Germany is one of them) and in the case of a hypothetical federalist hard core decisions could be blocked by the demographic factor.

Thanks to the number of votes granted, Poland will be able to play a positive, if not decisive, role in many constructive coalitions – e.g. the coalition of Baltic Sea countries (Poland, Germany, Sweden, Denmark, Finland, Lithuania, Latvia and Estonia) will have 95 votes, without Poland only 68. Thanks to its potential, Poland will be able to initiate numerous alliances, including countries most interested in the introduction of an active economic policy towards Russia or supporting democracy in the Ukraine and Belarus, or energy source diversification. The agriculture example illustrates how enormously important the role of Poland in the future Union may be. A coalition of countries wishing to maintain the status quo in the common agricultural policy, including France, Spain, Greece and Portugal, would have to apply for the aid of Italy or Poland to effectively block adverse decisions.

²⁴⁸ Central and Eastern European countries will be able to create a blocking minority only if Bulgaria and Romania accede to the EU, since both these countries have 24 votes together.

Table 1. – Comparison of number of votes and percentage share of votes of each country – extrapolation of the current system vs. Nice Treaty

Country	population %	votes/%	Number of voices/Nice	votes/%	Difference
Germany	17,1%	7,5%	29	8,4%	+13%
France	12,2%	7,5%	29	8,4%	+13%
Italy	12,1%	7,5%	29	8,4%	+13%
United Kingdom	12,0%	7,5%	29	8,4%	+13%
Spain	8,3%	6,0%	27	7,8%	+31%
Poland	8,0%	6,0%	27	7,8%	+31%
Romania	4,8%	4,5%	14	4,1%	-9%
Holland	3,2%	3,73%	13	3,76%	+1%
Greece	2,2%	3,7%	12	3,5%	-7%
The Czech Republic	2,2%	3,7%	12	3,5%	-7%
Belgium	2,1%	3,7%	12	3,5%	-7%
Hungary	2,1%	3,7%	12	3,5%	-7%
Portugal	2,1%	3,7%	12	3,5%	-7%
Sweden	1,8%	2,98%	10	2,89%	-3%
Bulgaria	1,8%	2,98%	10	2,89%	-3%
Austria	1,7%	2,98%	10	2,89%	-3%
Slovakia	1,1%	2,2%	7	2,0%	-10%
Denmark	1,1%	2,2%	7	2,0%	-10%
Finland	1,1%	2,2%	7	2,0%	-10%
Lithuania	0,8%	2,2%	7	2,0%	-10%
Ireland	0,7%	2,2%	7	2,0%	-10%
Latvia	0,5%	2,2%	4	1,2%	-50%
Slovenia	0,4%	2,2%	4	1,2%	-50%
Estonia	0,3%	2,2%	4	1,2%	-50%
Cyprus	0,2%	1,5%	4	1,2%	-22%
Luxemburg	0,1%	1,5%	4	1,2%	-22%
Malta	0,1%	1,5%	3	0,9%	-40%
Total EU		100%	345	100%	
QMV			258		
Blocking minority			91		

Source: own calculations

Table 2. – Ability to create a blocking minority through coalition

Coalition	Number of votes
Proponents of keeping the Common Agricultural Policy in the current form (F, PL, SP, P, GR)	107
Central and Eastern European Countries (PL, ROM, BL, CZ, H, SK, Lit, Lat, Est, Slo)	101
Baltic Sea Countries (D, S, DK, Fin, PL, Lit, Lat, Est)	87
Mediterranean Countries (I, SP, P, GR, Mal, Cyp)	95
Net payers (D, GB, NL, S, A)	91
Three large countries	87
Federalist <i>noyveau dur</i> (D, I, NL, B, Lux) ²⁴⁹	87

Source: own calculations

²⁴⁹ Traditionally, so-called federalist hard core countries include France, still its true attitude, as opposed to Italy, is far from supporting any federalist solutions.

Naturally, it should be added here that the decision making strategy adopted will largely depend on the terms of Poland's accession to the European Union. Whether it will be a decision blocking strategy aimed at changing the adverse terms of accession or a strategy of participation and a creation of majority coalitions will largely depend on our assessment of the quality of membership proposed by the Union. One might postulate that the worse the terms of our accession are, the less constructive the role of Poland in the decision making process will be. It should be remembered that a defensive strategy has a price – the more constructive the attitude of a given country, the more important is its participation in the success of a given majority coalition and the greater is its impact on decisions made by the Council of the EU.

2.1.5. Poland and Presidency in the European Union

Every half year, a different Member State assumes the leadership or 'Presidency' of the European Union. Presiding over the EU entails the formulation of an agenda, presiding over the proceedings of every opening of the Council of the European Union and work groups as well as representation of the EU outside, e.g. in negotiations with candidate countries. The current system of Presidency means that every Member State becomes the helmsman of the Communities once every seven and half years. After expansion this period would be extended to thirteen years. This type of institutional solution has been criticised for some time mostly for its inability to maintain political consistency.

There are many arguments for keeping the current system of presidency. Mostly because thanks to this system every EU Member State has the opportunity to check its capabilities as 'helmsman' and bask in the glow resulting from representing the Union in contacts with third countries,²⁵⁰ and also learn and deeply understand the EU institutional system. Moreover, the fact of presiding over the EU encourages a given Member State to behave more constructively. The presiding country makes every effort to ensure the success of its leadership since its prestige depends on it. Thus, every country during its leadership is forced to restrain its particular ambitions.

For Poland, as well as for other candidate States the issue of EU leadership is very important. The very fact of taking over the leadership is incredibly prestigious, and more importantly enables the quicker learning of EU administrative culture. The impact of EU leadership on the internal context is of particular importance. The organisation of top level meetings of the EU in different regions of the country,²⁵¹ representation of the Union in external relations and forcing the priorities most often complying with the nation's expectations make the leadership an important media fact advertising – and usually increasing – the popularity of the Union in a given Member State.²⁵² The leadership is also related not only to particular measurable financial costs, e.g. administrative costs, but also the enormous organisational effort that many new Member States are simply unable to handle. Taking over the leadership is a risk since success largely depends on experience, the network of informal contacts with both the administration of all Member States and EU institutions. The weaker the administrative system of a given country the greater the extent to which the leadership is handled 'de facto' by the Secretary General of the Council. Poland, as a large country may have great ambitions in this respect, but will it be able to fulfil them?

²⁵⁰ We mean here political representation, in trade negotiations, according to exclusive competence doctrine, the Community is represented by the Commission.

²⁵¹ Although, as a result of Nice Treaty provisions, summits of the European Union (European Council) will be organised in Brussels, it does not apply to informal meetings and to countless meetings of the Council of Ministers.

²⁵² Often result in an increased popularity of a given government responsible for the leadership, proven best by the example of the youngest EU member States – Finland and Sweden.

2.2. The European Commission

One of the most delicate issues discussed in relation to the last institutional reform was the composition of the European Commission. With further expansion, the number of members of the Commission increased systematically and any attempt to limit the size of the panel always resulted in controversies. Most EU Member States treated the right to appoint a representative for the European Commission as their irrevocable privilege. It is commonly understood that having a representative in the Commission equals the ability to promote national interests on the forum of this supranational institution. This line of thought is misleading – the Commission is by definition completely independent from Member States. Moreover, it is the duty of every commissioner to represent common European interests rather than particular national interests, thus members of the Commission should be elected on the basis of their competence only. To date, however, in practice, the choice of a commissioner has usually been dictated by political reasons. With the significant strengthening of the President of the Commission, particularly of his impact on the election of his colleagues, that resulted from the Amsterdam Treaty and Nice Treaty there is a chance that the importance of the candidates competence will increase. A commissioner ought to represent a certain sensitivity, an administrative culture on the Commission rather than the interests of a Member State – he is supposed to act as a kind of expert, and if needed, explain the specific nature of his homeland to his colleagues. The fact that the Commission represents all nationalities also serves an important legitimising role preventing total alienation of the institution in public perception in Member States.

A compromise solution was accepted in the Nice Treaty reconciling the arguments of countries wishing to establish the maximum size of the Commission and the proponents of the ‘one commissioner per Member State’ formula. Starting with the year 2005, after the mandate of the current Commission expires, every Member State will have the right to appoint one commissioner to the time the number of States exceeds 27, then the Member States will be forced to decide – unanimously – regarding the rules of egalitarian rotation (rotation that would cover all Member States on equal terms). Thus, in the very near future, after another expansion of the EU, every Member State will have the right to appoint one commissioner.

The issue of having the right to appoint a member of the Commission will be of primary importance to Poland. Legitimation of the institution in Poland and the fact the solution will undoubtedly enable the institution to better understand our national characteristics are significantly more important to us than to countries that have been represented in the Commission for years and whose citizens have been largely accustomed to the concept of representation at supranational level. The issue of candidates, who will be proposed by Poland for this title, is a fundamental question; the more competent the candidates, the greater the possibility that a Polish commissioner will be assigned significant duties. Pursuant to the provisions of the Nice Treaty, the President of the Commission will be responsible not only for the choice of his colleagues from the list presented by every Member States but also for the distribution of duties within Commission. If the internal process of selecting Polish candidates for the Commission is motivated by political reasons only there is a risk that our commissioner will have to accept quite unambitious tasks.

The European Commission entails not only the title of ‘commissioner’ but also administrative posts. For new Member States there will be a quota within which citizens will be able to apply for work in the Commission. Probably Poland will receive more than ten top tier posts, including one or two posts of Director General and the ability to fill several hundred lower level posts. Although the Member States propose their candidates for highest level posts, ordinary administrative workers are selected on the basis of an exam administered by the Commission. As in the case of a commissioner there is a relation – the greater competence of candidates for highest level posts the higher the probability that they will be assigned to the Polish, particularly if Poland without a doubt is perceived as the most important State among the future members.

The same applies to the lower administrative posts – Poland will have the opportunity to bring into the Commission, on important posts, many of its citizens provided that competent candidates attend the examinations.

2.3. European Parliament

One of few changes directly resulting from the perspective of an expanding EU introduced in the Union institutional system by the Amsterdam Treaty was limiting the number of members of parliament to 700. The Nice Treaty changed this provision, however, increasing the limit to 732. Pursuant to the provisions of the Treaty, Spain and Poland acquired the right to elect 50 deputies. Moreover, Polish citizens will have the right to participate in elections to the European Parliament in all Member States of the EU, provided that they have registered address there.

Table 3. Number of deputies in the European Parliament per single Member State assigned by the Nice Treaty.

Country	Population	Nice Treaty
Germany	82,038	99
The United Kingdom	59,247	72
France	58,966	72
Italy	57,612	72
Spain	39,394	50
Poland	38,667	50
Romania	22,489	33
Holland	15,760	25
Greece	10,533	22
Czech Republic	10,290	20
Belgium	10,213	22
Hungary	10,092	20
Portugal	9,980	22
Sweden	8,854	18
Bulgaria	8,230	17
Austria	8,082	17
Slovakia	5,393	13
Denmark	5,313	13
Finland	5,160	13
Ireland	3,744	12
Lithuania	3,701	12
Latvia	2,439	8
Slovenia	1,978	7
Estonia	1,446	6
Cyprus	752,000	6
Luxemburg	429,000	6
Malta	379,000	5
	481,181	732

In the protocol regarding the enlargement, attached to the Nice Treaty, the number of deputies was calculated for 27 Member States. After the Copenhagen summit there are no doubts that after the first expansion there will be 25 Member States, therefore the number of deputies per country will be adjusted *pro rata*, meaning that 54 rather than 50 deputies will be elected in Poland in 2004. Already after the signing of the Accession Treaty, the Polish Sejm and Senate will have the right to delegate their observers to the European Parliament. Apart from the right to vote, the status of observers will not be different from the status of deputies, they will

be authorised to participate both in the work of all parliamentary commissions and political groups.

The role individual deputies serve in the Parliament largely depends on their experience and knowledge of EU issues. Therefore, the merits of candidates that will run in the elections for Parliament will be extremely crucial. In Parliament, as well as in every EU institution, informal relations are of particular importance; therefore linguistic competence will be crucial. The more experienced the persons with significant knowledge of European integration that reach the European Parliament – the greater the impact they will be able to have on the work of the institution, promoting the interests of new Member States; this will be of enormous importance particularly during discussions on the EU policies and budget.

2.4. Other EU Institutions

Benefits resulting from acceptance of Community *acquis* will be discussed in a different section of this Report. It should be noted though that Poland will have the right to nominate one judge for the European Court of Justice, at least one judge for the Court of First Instance and will participate in the rotation of Advocate General who prepares opinions on the basis of which the Court reaches its decisions. Recognition of the specific nature of our legal system and traditions by the European Court of Justice, which remains in constant dialog with the constitutional tribunals of Member States, is the most important benefit of our accession to the European Union in this area.

Poland will also acquire the right to be represented in the European Court of Auditors, whose duty is to control the EU budget. The Court, in close co-operation with the Supreme Chamber of Control will also supervise the effectiveness of spending EU funds and will prosecute any possible irregularities in this respect.

After expansion, 21 Polish representatives will be represented both in the Socio-Economic Committee (being a consulting body comprising representatives of employers, employees and the self-employed) as well as in the Committee of Regions of the European Union.

After accession to the European Union, the Chairman of the National Bank of Poland will become a member of the General Council of the European Central Bank, and after Poland joins the euro zone – of the Bank's Management Board. Poland will also acquire the status of stockholder of the European Investment Bank and will have the right to appoint one representative to the Board of Governors and Board of Directors of European Investment Bank. Through these nominations, Poland will be able to affect the policy of the bank, one of the most important tasks of which is supporting investment projects in the least developed regions of the European Union.²⁵³

3. EU Citizenship

The issue of EU citizenship will be related with significant benefits for Polish citizens. Pursuant to article 17 of the Treaty establishing the European Community, every person having citizenship of a Member State automatically becomes a citizen of the Union – with the proviso that EU citizenship supplements but does not replace national citizenship.

EU citizenship guarantees every Polish citizen the ability to vote and be a candidate in local elections and in the elections to the European Parliament at the place of his/her registered address, even if it is located outside the territory of Poland. Polish people will also be able to send petitions to the European Parliament, European Ombudsman and all other EU institutions and

²⁵³ For more information see: C.Herma, T.Ciszak, R.Dziewulski, P.Ronkowski, K.Smyk, A.Wójcik (2003) *op.cit.*

bodies. More importantly, all correspondence can be sent in Polish since Polish will have the status of one of the official languages of the Union.

Every Polish citizen in the territory of a third country, where there is no Polish diplomatic agency, will have the right to be protected by the consular or diplomatic authorities of all the other Member States of the EU on the same terms as the citizens of those countries.

More importantly, after the expiry of transition periods,²⁵⁴ the Polish will be able not only to freely travel all over the territory of the EU but also work in any Member State. Moreover, employees will have access to all facilities guaranteed by Community law. Examples might include equal residence ownership rights, the right to social security or the right to provide education for his/her own children.

Conclusions

One of the tasks of this Report is to present a non-membership scenario. In the case of institutional and political costs and benefits – such a scenario is not particularly difficult to imagine. If as a result of the referendum, Poland rejected the ability to become, although late, part of a mainstream, post-war Europe – the stream of European integration, it would abandon the opportunity to gain greater control of its own fate both political and economic, including broadly understood security. Undoubtedly our formal sovereignty would be greater, there would be no superior authority than our legal system. Nevertheless, our actual sovereignty – and thus the ability to affect the surrounding reality – would decrease. Poland would have little impact on the majority of decisions that would affect the lives of most of Polish entities and citizens. It is particularly obvious if we consider our main trade streams.

If we realistically assume that our trade partners cannot be changed that easily – the non-membership scenario is not optimistic. The most important positive political argument for our integration with the Union is the ability to fully participate in the decision making process. If we remained outside the Communities we would be sentenced to the passive implementation of decisions that we would not be able to affect. If we wanted to sell our products to the EU, our entrepreneurs would have to comply with standards set up by the Member States. If we wanted to be allowed into the territory of the EU we would have to comply with EU regulations anyway although we would be deprived of all the benefits resulting from the Single Market – and most of all, of our share in the four freedoms – the free flow of goods, services, capital and labour. If our companies wanted to merge with an EU company they would have to submit unconditionally to the verdict of the EU. If we wanted to receive aid from the EU, our impact on the use of funds transferred to Poland would be incomparably smaller than of a Member State. We would remain outside the Schengen system, being deprived of the ability to affect EU policy ensuring internal security to the continent. We would not participate in joint research projects, the door to the defence system – currently being created – would be closed to us. Examples of this kind could be cited ‘ad infinitum’.

The most important issue remains that the political aspect of the non-membership scenario in reality would not mean keeping the ‘status quo’. It would be a scenario similar to political impairment of our impact on the functioning of European institutions. Currently, relations between Poland and the European Union are based on the association formula, although virtually most processes taking place, economic or political, takes place in anticipation of our membership. If it was clear that Poland would not accede to the EU, apart from a decrease in direct foreign investments, this fact would have significant political consequences. Negotiations are conducted differently with future members and differently with associate members,

²⁵⁴ Transition period for flow of labour was defined in flexible form of 2–3–2 years, but it may also take 7 years, although some countries wish to abandon these periods entirely.

particularly with a country that would consciously abandon integration aspirations. The best example is Turkey, whose opinion has a lesser value for the EU Member States than the opinion of Poland has. In our part of Europe there is no room for a vacuum. Poland is neither Norway nor Switzerland, not only economically, but primarily from the geopolitical perspective. Neutral isolation is not the alternative to EU membership. We should be aware that a negative decision regarding the accession to European Union would leave Poland outside the political mainstream and economic development of Europe.

17. Social Communication. Perception of Costs and Advantages of Poland's Accession to the EU

Mirosława Marody, Sławomir Mandes

Poland's accession to the European Union has been the strategic goal of subsequent governments for years – independent of their political affiliation. Finishing the negotiations on 13 December 2002 at the Copenhagen summit means undoubtedly the completion of a very important stage on the way to that goal, it does not, however, mean that it will be achieved. It will be the individual members of Polish society who will decide on Poland's accession to the European Union by voting for or against integration with the Union by national referendum.

Thus, it can be assumed that the success of the long-term integration process will in the end depend on the attitudes of Polish society towards the European Union as shaped within social communication. Awareness of that fact was the basis of the *Program of Society Information* (in Polish: Program Informowania Społeczeństwa – PIS) adopted by the Polish government in 1999, where it is said in the introduction: “The goal of the State's information policy concerning European integration is gaining conscious support for Poland's membership in the European Union from the majority of society (...)” (PIS 1999, p. 4). However, statements on the advantages and threats resulting from Poland's accession to the European Union also are made by many public persons who are not directly involved in the execution of the government's information policy and are also made in the activities of various opinion-making centers and media. It is impossible to judge beforehand, which of these two types of information has the stronger impact on the decisions made by their respective recipients and thus may be more effective in shaping their attitudes and behavior.

That is why the first part of the study includes the analysis of messages emitted both by government agencies as well as by two additional groups who play a major role in shaping the public, namely

members of the parliament and the mass media. Conclusions concerning the efficiency of all forms of transmission can be drawn only indirectly, by analyzing attitudes towards particular issues and the feeling of being informed on integration with the EU as reported by respondents in the public opinion polls. This will be the topic of the second part of the study. In the third part, more general conclusions have been formulated, resulting from the analyses.

1. Communication Concerning the European Union

When trying to grasp the various types of information effects that have been mentioned above, messages sent by the three main sender groups have been analyzed:

- government agencies, whose statutory task it is to spread information on the European Union; and
- members of the parliament – the analysis concerned their statements delivered during the parliamentary debates on the negotiations with the EU; and
- the mass-media – the analysis concerned texts published in two daily newspapers: *Gazeta Wyborcza* and *Nasz Dziennik*, representing different views on the question of European integration.

1.1. Institutionalized Channels of Information on the European Union

Spreading knowledge on the European Union is an important part of the activities of many institutions, both the government agencies²⁵⁵, and the non-governmental organizations²⁵⁶. However, most important for the realization of that goal is the activity of the Office of the Committee for European Integration. As far as the contents are concerned, the activity is determined by the arrangements of the *Program of Society Information*, and, as far as the logistics are concerned it covers running the Center for European Information and co-ordinating the actions of the so-called Program Partners, i.e. non-government organizations, local self-government, the media and the European School Clubs, who perform directly the tasks resulting from PIS.

Leveling general terms, these tasks have been defined as “providing information on the process of integration with the EU, **on the effects of Poland's membership of the EU – on the advantages and costs of the integration for Poland and its citizens**. The information provided is supposed to help build **rational and lasting** social support for integration with the EU” [underlining in the document] (PIS 1999). One of the first achievements on that field – even before formulating the *Program* – was the opening of the Center for European Information of the Office of the Committee for European Integration in May 1997²⁵⁷. In 2000, the Regional Centers of European Information began their operation, and their network is constantly growing. And from 1999, implementation of the tasks of the PIS has started by supporting Program Partners with subventions granted within the competition “Małe Granty dla NGOów” (Small Grants for NGOs) and “Media 2002”.

The schedule of realization of the two aforementioned competitions shows some noticeable features. Namely, from the beginning i.e. since 1999, the competition is proclaimed in April, the

²⁵⁵ Separate information programs have been elaborated by the office of the General Negotiator (“Zrozumieć Negocjacje” – To Understand the Negotiations), as well as by the Department of European Union and of Accession Negotiations in the Ministry of Foreign Affairs (“Futurum” project, encompassing debates conducted under the name “Forum Wspólnie o Przyszłości Europy” – Together on Europe's Future).

²⁵⁶ Special activity in that field can be observed in Poland from the Robert Schuman Foundation, the Stefan Batory Foundation, the Klon/Jawor Association

²⁵⁷ Its creation was made possible by financial help from the EU designated for an EU information campaign in Poland (PHARE – SIERRA).

winners are announced in July, and the contracts are signed no sooner than in August. Since the Office of the Committee for European Integration has to account for the subventions granted before the end of the calendar year, this means that the beneficiaries have to complete their projects by 30 November of a given year. So, the Office grants a period of 3 months for the realization of the projects. This results in the domination of "quick" projects, like training or publications instead of a systematic, long-term information project.

In May 2002, the Plenipotentiary for European Information, Mr. Sławomir Wiatr, started a mass information campaign. It was preceded by a thorough analysis of the information activities conducted until then. The analysis showed among other things, that despite many activities conducted by the government administration since 1998 (and from 1999 within the PIS, for the realization of which approx. PLN 40 million was spent), the feeling of being well-informed is very low, especially among country and small town residents, persons of lower education, and persons of low financial status. It turned out, that this feeling of lack of information goes hand in hand with a common lack of knowledge about sources of information existing, and people have almost no inclinations to seek additional information²⁵⁸.

These results became the starting point for the campaign begun in May 2002 under the title "Unia bez tajemnic" (Union Without Secrets). The contents conveyed within the campaign included basic information on the European Union and its operation; the benefits that the individual member States, especially the poorer ones, draw from their memberships; and also on the opportunities that open for Poland should it accede to the EU. An additional goal of the campaign was the promotion of sources of information about the EU (Regional Centers of European Information, teletexts, call-center, internet portal).

The information campaign was realized on a large scale. It included²⁵⁹:

- three cycles of short films (about the European Union, integration and the SAPARD and IACS programs) aired on all TV stations²⁶⁰;
- a cycle of 47 short radio programs²⁶¹;
- placing texts informing about the EU and including the addresses of the Regional Centers of European Information on teletexts;
- introducing a call center which was free of charge²⁶²;
- introducing an internet portal enabling easy access to information about the EU²⁶³;
- printing a poster promoting sources of information about the EU in 150,000 copies
- preparing a cycle of information brochures about the EU and integration²⁶⁴
- implementing a mobile information point (Eurobus)²⁶⁵.

But in public opinion the information provided within the campaign clearly did not match the demand. In October 2002 – after six months of the campaign – only 1/3 of the respondents thought that it answered the most important questions concerning Poland's accession to the EU or that it was possible to learn from it where to seek more precise information on integration (CBOS 2002/188).

²⁵⁸ Only 8% of the respondents declared willingness to search for information. The low ratings of TV information programs about the EU were also a proof for the passivity of the people (Sprawozdanie 2003).

²⁵⁹ All data based on Sprawozdanie 2003.

²⁶⁰ The total running time was approx. 120 hours, according to surveys 98% of TV audience saw them between 9 May and 18 December 2002.

²⁶¹ The programs aired 3000 times in total, at times, where about 23% of adults listen to radio

²⁶² From 9 May to 19 December 2002 its consultants received 93,877 calls with a total time of 1,510 hours

²⁶³ It was visited by more than 126,000 people in the analyzed period.

²⁶⁴ A total of 1,335,000 copies.

²⁶⁵ It visited 57 towns and cities and it was visited by 50,000 persons.

1.2. Debate About the EU in the Daily Newspapers

The main goal of this part of the study was to analyze the press arguments for and against integration, as well as an analysis of stereotypes concerning the EU. The contents of two daily newspapers were analyzed: "Nasz Dziennik" and "Gazeta Wyborcza". There were two reasons why these two papers were selected – both newspapers belong to the most read dailies and show diametrically different attitudes towards the EU –in a sense they are two poles showing the temperature of the debate about the EU.

All editions of the newspapers from the third week of each month from March to August 2002 were analyzed. Articles including significant references to the EU were eligible for examination. A total of 106 articles from *Gazeta Wyborcza* and 114 articles from *Nasz Dziennik* were analyzed.

The analysis of the assembled press material showed a relatively small number of explicit arguments for or against Poland's accession to the EU – from a total of 106 articles from *Gazeta Wyborcza*, direct arguments for Poland's accession to the EU appeared in only 26, and in *Nasz Dziennik* arguments showing the pointlessness of our country's integration with the EU could be found only in 16 articles. In the case of *Gazeta*, the arguments were mainly general, and in some articles integration with the EU was presented as a process without alternative. In the case of *Dziennik* the arguments against integration pointed to particular threats for our country resulting from its accession to the EU, such as price growth, the fall of Polish agriculture and the economic and political servitude of our country.

Both newspapers concentrate on building the preferred attitude towards the EU not by means of arguing for or against accession to the EU, but by creating a positive or negative image of the EU. That is particularly visible in the case of *Nasz Dziennik*, but it is also true about *Gazeta Wyborcza*.

In *Gazeta Wyborcza*, the EU was shown as normative reference point for Poland; it was treated as an integral part of Poland's social and political reality. The integration process was presented as a natural and irrefutable goal. It was reflected by conveying information concerning the negotiation process: criticism and any activities refuting the reasonability of integration are considered obstructive for actions aimed at realizing that goal.

In *Nasz Dziennik* the negative side of presenting the EU was clearly predominant. It was shown as an arrogant institution paying no attention to the opinion of the candidate or for that matter even member States, and as a source of danger for morale and even health²⁶⁶. Every backing down of the negotiators was presented as a submission to the dictates of the EU, which a Polish government could not oppose. At the same time, articles were to be found in *Nasz Dziennik* which showed Poland as a country that was being deceived and abused.

It is characteristic that neither of the newspapers presents a positive image of the negotiators. Their work is mostly described as inefficient. However, this general evaluation is supported by completely different arguments on the level of detailed description. In *Gazeta Wyborcza* the negotiators were described a little like race horses, who have to complete subsequent stages of a run – i.e. the negotiation areas. It was often recalled how many stages had been completed, how many they still had ahead of them and how they ranked among the other candidate countries. In *Nasz Dziennik*, every decision made by the negotiators was presented as an unopposed concession to the EU.

²⁶⁶ The issue was mainly the attitude to abortion and homosexual marriages and presenting the EU as a source of BSE

1.3. Image of the European Union in Parliamentary Debates

In order to take into consideration the full spectrum of the public debate on the European Union, selected parliamentary debates also underwent an analysis of their contents. The debates concerned: 1) the statement of the Polish government on negotiations with the European Union concerning funds which are to be transferred by the EU to Poland in 2004–2006 (01.03.02); 2) the statement on the progress of the work of the European Convention (24.07.02); 3) considering the citizens' request to make the question of the consent of Polish citizens to sell land to foreigners the subject of a national referendum (12.11.02). In total, 107 members of parliament participated in the debates.

There were much more explicitly formulated arguments for and against the EU in the parliamentary debates than in the press discussions. Taking a closer look at the arguments, it can be said that positive and negative arguments are precise reflections of each other – provided one party said A, its counterparty claims it is not A. There are mainly general arguments, but also new arguments appear that have not so far been used in the press: e.g. it has been pointed out that Poland's accession to the EU would increase the level of public security. Also the argument pointing out that the quality of public life and the overall security of the country would be improved, is a new one. On the other hand, in the statements of EU opponents, the Union is predominantly presented as an arrogant, ruthless institution securing its interests by gaining new sales markets.

2. Attitudes Towards the European Union

Studies of Poles' attitudes towards the integration process conducted by various research centers are focused on three main issues:

- declared support for Poland's integration with the EU
- the feeling of being well-informed
- hopes and fears related to Poland's accession to the EU.

2.1. Support for Poland's Integration With the EU

Support for Poland's integration with the European Union measured by the question about the vote in the accession referendum (fig. 1) was highest in 1996 (80% supporters). From that point, it continuously fell to remain at a steady level (53–60%) from 1999. In May²⁶⁷ 2002 a slight rise in support was observed (62%), but the indicator fell back to its previous level the following month and reached a level of 59% in December 2002 after slight fluctuations.

²⁶⁷ Begin of the information campaign

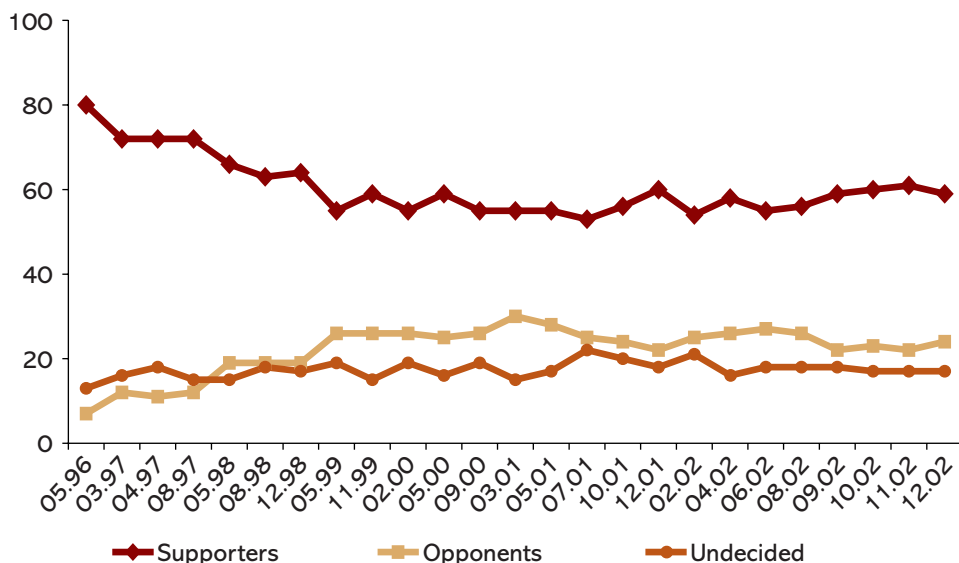


Fig. 1. "If the referendum on Poland's accession to the European Union took place now, would you vote for accession or against it?"

Source: CBOS 08.02, 11.01

The level of participation in the referendum declared was subject to similar fluctuations. In March 2002, 51% of respondents declared they would certainly attend the referendum, in May the percentage grew to 60%, and then fell to 58% in December (CBOS 2002/206). Considering the fact, that the declaration of attending the referendum can hardly be directly transferred to actual action, and that it requires an attendance of at least 50% for the referendum to be binding, there are grounds for fearing for the success of voting on the accession.

Respondents declaring their attendance are mainly persons of a higher social and economical status and residents of wealthier and more urbanized provinces. The willingness to attend is also higher among residents of the western provinces, located on the German border; they already have had some experience of a united Europe being engaged in regional co-operation (Regionalne 2001).

2.2. Feeling of Being Well-informed

There are various interpretations of the constant decline of support for integration visible from 1997. One of the explanations that appears rather often points at too large "generality and too high level of abstraction of the advantages pointed out, which is why only a minority of society is able to see advantages resulting for themselves. That would mean that the knowledge about positive results of integration is limited only to certain social groups and certain issues" (ISP 2001).

Indeed, as shown by the polls conducted by CBOS, from 1997 those considering themselves poorly informed on Poland's integration with the EU have always been in the majority. Over the last 5 years, the percentage of such persons hovered around 50%; only in October 2002 did it decrease to 44%. Even assuming that the change was a result of the latest information campaign, it is surprisingly small, taking into consideration the huge amount of information on the EU transmitted by the media. Moreover, in October 2002 – i.e. after six months of the campaign –

68% of the respondents still thought their knowledge on Poland's integration with the EU was insufficient (CBOS 2002/188).

Also other indicators show the low efficiency of the information campaign discussed above. Even though the percentage of persons stating they felt well-informed on Poland's integration with the EU grew by 4%, so did the percentage of those stating they did not feel so well informed. During the same period, the percentage of respondents declaring their certain attendance at the referendum decreased by 2%, and the percentage of those declaring they would vote in favor of the accession decreased by 8%, while the percentage of the opponents of accession grew by 3% (CBOS 2002/206).

As these results show, the feeling of being informed is not directly reflected in the support for the integration – at a time when the support for integration decreased, the feeling of being informed slightly increased. And the level of knowledge on the EU measured in objective indicators is relatively low, the particular areas of operation of the EU are poorly known. The respondents know relatively much about the strictly economical issues, in other areas their knowledge seems to be rather rudimentary (Perceptions 2002). An especially stunning fact is the very low level of knowledge about the EU among members of local authorities and opinion leaders in small towns. “Compared to farmers or private businessmen, opinion leader are less informed, they know less about EU topics; they are passive and unwilling as far as seeking additional information on their own is concerned, they stick to stereotyped views on integration and they copy slogans from the media” (Mach & Niedźwiecki 2002: 96).

2.3. Hopes and Fears Connected With Poland's Accession to the EU

Despite the lack of knowledge about the EU, both its supporters and opponents are able to justify their views, pointing – respectively – to advantages and threats resulting in their opinion from Poland's accession to the EU. Among the former, the most frequently named are: reduction of unemployment, better perspectives for economic growth, increase of the standard of living; while among the latter, statements predominate indicating the unfavorable effects of the economic gap between Poland and the EU members and the threats to Polish agriculture and the sovereignty of Poland. (CBOS 2002).

Apart from the question of how far these hopes and fears are realistic, it should be emphasized here that the arguments used by the supporters and opponents of integration are mere repetitions of arguments appearing in the media and in parliamentary debates. It is especially visible in the negative evaluations of accession negotiations, dominating the statements delivered in parliament and in the media. These are reflected in the opinion supported by 64% of respondents that Poland's interest was not well enough secured during the negotiations. Shortly before their completion, 55% of Poles thought that Poland could have achieved much more within the negotiations (CBOS 2002/203).

The social assessment of the negotiations shows the huge amount of fear related to the integration process, fear that both supporters and opponents have, resulting from a rather realistic assessment of Poland's situation as a country that is poor and thus unable to be an equal partner with the developed countries of the EU. The difference between the opponents and supporters of accession pertains merely to the conclusions that are drawn from that fact. While it releases defensive or even escapist reactions in the former, for the latter the integration of Poland with the EU seems to be something of an inevitability – something that is the logical result of social and economical development, guaranteeing that Poland will be lifted from delays in its economy and civilization.

It is important that, as qualitative surveys show (Mach, Niedźwiecki 2002, Perceptions 2002), rational arguments are often pushed to the background and are replaced by emotions during discussions on Poland's accession to the EU. These emotions express a clearly articulated need for Poland's status to be accepted and respected. Poles don't want to feel like petitioners, who

have to bargain over things other member countries already have, who receive something out of pity. Thus, paradoxically, news on the progress of negotiations could evoke a feeling of frustration expressed by the negative attitude towards the Polish negotiators and towards the idea of integration itself. That would explain the “simultaneousness of the beginning of accession negotiations and the decrease of the percentage of respondents declaring voting in favor of the accession, which could mean that there is a deep causal relationship between the two events” (Koseła 2002: 227).

3. Conclusions

In the light of the analyzed attitudes of Polish society one can say that that despite the increased information campaign lead by government agencies, its results are close to nothing, because:

- persons considering themselves poorly or incompletely informed on EU issues are still the dominant group among respondents; only 12% of the respondents consider themselves well-informed;
- almost one third of the respondents are not interested or are hardly interested in gaining information on the integration process;
- both the structure and the individual areas of operation of the EU that have been discussed in detail during the campaign are hardly known to the respondents;
- the low level of knowledge on the EU and the integration process has also been stated for representatives of local authorities and opinion leaders in small towns, whereas these were the main target groups of the campaign.

Such a state of things should not be surprising, since the actions of government agencies have the following features:

- a latent assumption of the activity of potential recipients²⁶⁸; the programs are focused mainly on providing information on sources and not delivering the factual message;
- most of the information programs realized are of a very general, not to say superficial character; the message delivered to recipients is very formal and abstract, whereas – as surveys show – people are interested in factual information on the life and experiences of persons living in the EU;
- the language used in the information material is considered to be not easily accessible and hardly comprehensible to a majority of the population;
- the main sources of information about the EU and the integration process for Poles are: TV, press and radio, whereas the main actions of the centers for European information is publishing brochures, leaflets and organized training sessions; the mass media have only been used widely in the latest campaign, but most programs were still only the general basics of the EU.

Taking into consideration the above findings, it can be assumed that the information program implemented by the government proves inefficient as far as the realization of its basic goal, which was propagating objective knowledge about the EU, is concerned. Anyway, it is not really relevant, since, as surveys show, against the assumptions of PIS, the support for integration with the EU is hardly connected with the feeling of being well-informed about it.

Attitudes towards integration with the EU are shaped not by neutral knowledge about its organizational structure and its policies, and certainly not by a rational analysis of costs and

²⁶⁸ It was also a basis of the latest campaign: despite earlier analyses, indicating passivity of recipients, most initiatives realized within the campaign – like the Eurobus, posters and teletext information on Regional Centers of European Information and brochures required an active participation of the recipient.

advantages, but by accepting some emotional assumptions and the presence of weakly justified hopes and fears concerning the integration process:

- the basic assumption of supportive attitudes is the belief that integration is something of an “historical necessity” for Poland, either due to globalization processes or due to the lack of any viable alternatives;
- the basis of attitudes opposing the EU is the assumption that integration processes are negative for Poland because of the economic weakness of our country;
- while pro-EU attitudes are accompanied by hopes for faster economic and social growth, anti-EU attitudes go along with fears concerning loss of autonomy, a worse starting position and discrimination;
- the attitude towards Poland's integration with the EU is correlated with attitudes not directly related to evaluations of profits and losses resulting from EU membership²⁶⁹; due to the profile of those attitudes, undecided persons seem to be closer to the opponents rather than to the supporters of Poland's accession to the EU.

A common feature that can be found in statements made both by opponents and supporters of integration, and one that is clearly visible in press publications and parliamentary debates, is a special mix of pride and humiliation. The feeling of humiliation stems from the awareness that despite its aspirations to be a “superpower”, Poland is just a poor, under-developed country, and pride appears in all sorts of statements that can be reduced to the slogan “we have to stand our ground” (“make them respect us”).

This complex of being the “ugly duckling” of Europe (Giza 2002), convinced, that it is a wonderful swan and eagerly expecting the others to recognize it, pervades the whole Polish debate on the EU. It must be considered very dangerous from the point of view of the factors influencing attendance and voting in the accession referendum. For it makes reasonable discussion impossible and includes an element of unpredictability and irrational rebellion, which can come up at the most unfavorable moments.

As experiences in other countries show, the outcome of almost every referendum is uncertain. Political activation of integration opponents as well as a simple coincidence, e.g. an event that seems unimportant but is strongly connected with the integration process in a negative way, can be decisive for the outcome of the referendum, if used properly by the opponents of Poland's membership in the EU.

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²⁶⁹ Among others, the perception of the experiences of Polish economy, the feeling of one's own agency (possibility to influence public decisions on various levels), political orientation and, to a certain extent, general value orientation (Siemieńska 2002).

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