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Poland's 10 years in the European Union

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Poland's 10 years in the European Union

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Introduction

This report is an attempt to sum up the first 10 years of Poland's EU membership from a political and an economic perspective. The authors have intended to answer the following question: within these 10 years, how did Poland change Europe and how did Europe change Poland? The purpose of this publication is to integrate different political, economic and social aspects into a coherent and comprehensive image of Poland as an EU Member State. The chapters differ not only in subject matter but also in modes of presentation and methodology. The authors have deliberately chosen not to use a rigid form so as to reflect the complexity of the subject.

The report presents Poland's EU membership from two perspectives: it shows how Poland has influenced the European Union but also how it has changed itself throughout these years as an EU Member State. The last decade was a time of evolution – from a country looking at the EU through its national interests, Poland became a country that is feeling more and more responsible for the European project. It was also a time when Poland's status changed – we have become a country that is held in high regard by others and considered a significant player in the EU. Although we have not performed as well as we could have in some fields, the political net result of our EU membership is certainly favourable.

The economic part aims to demonstrate how EU membership has influenced our country's social and economic development. Data shows that, compared with other countries that joined the EU in 2004 and 2007, Poland has made the best use of the opportunities offered by EU membership. We owe it to our great mobilisation and effective internal policy, but most of all to the initiative of Polish entrepreneurs who have made very good use of Poland's presence on the single market. This part is also an attempt to compare Poland in 2003 with Poland ten years later and to present the effects of our country's EU membership. Among the positive effects are the successful integration with EU markets, the effective use of EU funds and the significant decrease in unemployment and poverty rates. On the other hand, the effects of migration and the sometimes uneven distribution of benefits among citizens do not seem favourable. However, according to most Poles, the net result of EU membership is certainly positive. Public opinion polls confirm that the situation is far better than most Polish citizens could have expected in 2003.

The authors of this publication have assumed that a description of the past decade would have a high informative value. To see how Poland changed within the last 10 years, they carried out an analysis that consisted in comparing fears and concerns expressed before EU accession with statistical data relating to particular fields. Moreover, they have attempted to review arguments presented by Euro-sceptics during the 2003 referendum campaign (losing sovereignty, price increases, collapse of industry and agriculture, inability to use EU funds). We can say with all certainty that their concerns proved unfounded.

The last chapter presents a scientific simulation of how Poland would look today if it had not joined the EU. The results are explicit – Poland would be poorer, Poles would earn less and unemployment rates would be higher. We have fully capitalised on the opportunities offered by EU membership. It is a success for all Polish citizens.

However, it is very difficult to analyse the effects of EU accession in isolation. In some cases, the only way of obtaining such information was to compare the current situation with the situation before joining the EU. Two comparative approaches have been adopted for the purposes of the analysis: the temporal approach, taking into account changes that have occurred within the last 10 years, and the regional approach, based on comparing Poland with other countries of the region.

The starting date adopted in the report is the year 2003 – the last year before Poland's accession to the EU, while the final date is December 2013. However, where possible, data from the beginning of 2014 were also included. Work on the report was concluded in April 2014, when complete statistical information about the latest events and processes was not yet available. The main macroeconomic data presented in the report are as of 24 March 2014.

The assessment of Poland's status in the region was based on a comparison between Poland and the EU-9, i.e. Eastern and Central European countries that joined the European Union in 2004 and 2007 (therefore excluding Malta, Cyprus and Poland). The term "Central and Eastern Europe" is used on purpose, in order to stress the uniform approach to this area. The report also includes comparisons with the EU-27 average (excluding Croatia, which joined the EU as late as in July 2013).

Given the need to account for so many aspects in one publication, the authors often had to be selective and focus on the social and economic spheres that they thought were most influenced by EU accession. They attempted to present complex specialist issues so that they are understood by everyone interested in Poland's EU membership. As a result, the EU's influence on the Polish economy, society and legal and institutional order has not been presented as a set of abstract processes and phenomena, but rather as real changes that are noticeable in everyday life.

The publication of the Ministry of Foreign Affairs was written by the European Union Economic Department in cooperation with other departments. It is a follow-up and – in a way – a crowning of analytical reports assessing and summing up Poland's EU membership that have been drafted by the Office of the Committee for European Integration and MFA since 2003.

The report includes MFA's own data, as well as information from other relevant ministries and government agencies responsible for particular aspects of Poland's European policy. Last but not least, we cannot forget the contribution of external experts whose remarks and comments proved very useful.

Main findings

1

In the course of the last ten years, Poland has become a significant political player in the European Union. In 2004, we joined the EU as a "new" Member State, full of hope, but also fearful of losing our sovereignty. In 2014, we will celebrate our first decade in the EU as a strong and influential Member State that knows how to pursue its interests but also acts with responsibility in the process of European integration.

Over the years, Poland has learned to influence and impact the EU in line with Polish interests and needs. We have supported the idea behind the internal market, knowing full well how much Poland stands to gain from it. We have been actively engaged in the eurozone reform debate, acting on the assumption that we will be part of this project in the future; **we have been very much engaged in key debates on the European system, convinced that it is our business.** For years we have been investing in the EU energy policy, to better protect our energy security. This process is being continued and has been gaining strategic momentum since the crisis in Ukraine and Europe's response in the form of the Energy Union. We have applied our EU membership to shaping our neighbourhood, specifically by actively pursuing the EU's Eastern policy.

Negotiations of the Multiannual Financial Framework for 2014–2020, a key to Poland's long-term development prospects, have been one of Poland's most important and hardest-won political achievements. Poland has successfully negotiated PLN 441 billion (up by PLN 19 billion compared with 2007–2013) despite major EU budget cuts. Our well thought-out and consistently implemented strategy was based on an alliance with European institutions and on cooperation with countries belonging to the Friends of Cohesion group. Poland came out of these tough financial negotiations without burning any bridges.

Poland has won a strong political position and the reputation of a country that is predictable and responsible. This was possible thanks to Poland's very good economic performance and political stability in the hard times of economic crisis, and to the high public support for integration, unlike in many other European societies. The successful Polish Presidency of the EU Council in the second half of 2011 – a good investment in a more effective implementation of Poland's interests in the years ahead – has also contributed to it.

Poland's experience in cooperating with different institutions and Member States, and the fact that our country has become deeply "rooted" in the European process have also added to the favourable political net result of Poland's EU membership. **Thanks to a strong presence of Polish MEPs in the European People's Party, Poland has been able to effectively influence the position of this largest political group in the European Parliament and to get its members to vote in favour of issues it considers crucial. The presence of Polish MEPs in the second largest political group of the EP was also of importance in the context of effectively representing Polish interests.**

As a team player, we have been building effective coalitions, knowing that in a Union of 28 states not much can be achieved singlehandedly. The Visegrad Group, which together has the same number of votes as France and Germany combined, is a particularly effective instrument for pooling influence. Today, the Visegrad Group is the most successful regional group in the EU. Since 2012, we have also witnessed reinvigorated cooperation in the Weimar Triangle, which has become a very important forum for consultations and development of Poland's, Germany's and France's common positions on key European policy issues.

Poland's EU membership has had a positive impact on our country's economic performance. If our country had not joined the EU, in 2013 our GDP per capita in purchasing power standards would have been at the 2009 level, i.e. it would have been lower by 11% relative to the EU-27 average. In 2013, the value of Polish exports would have been lower by PLN 164 billion (i.e. by 25%). Our capital expenditures, in turn, would have been lower by PLN 36 billion (i.e. by 12%) in 2013, and throughout the 2004–2013 period — by PLN 200 billion (i.e. by 7.8%). Last but not least, employment would have been lower by 10%, and unemployment higher by almost 38%. In other words, the number of unemployed would have been higher by over half a million. To recap, if Poland had not entered the European Union, many more people would be out of work, we would be earning less, and the Polish economy would be developing at a much slower pace[1].

Poland's accession to the European Union on 1 May, 2004 marked the beginning of an important stage in the country's economic development. Now that our presence in the EU is already taken for granted, and the absence of borders and unrestrained access to study and work in all the EU countries have become a fact, it is worth looking back on the last ten years. On the eve of Poland's EU accession, the majority of Polish citizens looked at the European Union as a gate to a better world. However, our joining the EU was accompanied by serious concerns – the critics of enlargement painted a grim future for our country, while some parts of society were readying themselves for years of hardship and sacrifices. It seemed that it would take one or more generations before Poland could enjoy a higher standard of living.

Yet, the positive effects of EU accession became apparent much earlier. Within a decade, Poland's key social and economic indicators improved significantly, although changes did not always occur as quickly as might have been expected. But the concerns expressed by Polish citizens before Poland entered the EU – that Poland would become a net payer, that it would not be able to effectively spend EU money or would become a market for EU Member States' goods and services – proved unfounded.

The last ten years have shown that joining the European structures does not automatically translate into a country's better economic performance and improved standard of living. **The EU membership presents itself as an opportunity, not as a guarantee of development. Whether a country can fully capitalise on this opportunity depends on how it decides to conduct its economic policy.**

Compared with other countries of the region that joined the EU in 2004 and 2007, on balance Poland has made better use of the opportunities offered by EU membership. We have become a leader of economic growth – **after joining the EU, our GDP grew 48.7%.** Poland (together with Slovakia) outperformed not only other countries in the region, but also in the EU as a whole. Besides this, **Poland's economy has passed the most important test – the global economic crisis.** In 2009, Poland was the only country in the EU to avoid a recession.

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1 Own report based on estimates by P. Kowal, J. Kuskowski and J. Zawistowski from IMAPP Foundation using the DSGE Unified Macro Framework 1.0 (UMF 1.0) model, December 2013.

In 2008–2013, Poland's total GDP increased over 20%. It was by far the best performance in the EU.

Our pace of growth, which was faster than in other countries, helped Poland reach two-thirds of the EU's average level of economic development. After 10 years, Poland has overtaken Hungary, a country that was wealthier than us upon EU accession. In 2003, **Poland's GDP per capita in purchasing power standards** amounted to 48.8 per cent of the EU-27 average, **while in 2012, it already amounted to 66.9 per cent,** an increase by 18.1 percentage points.

Economic growth has been accompanied by major changes in the labour market. **Within the first 10 years of our presence in the EU, two million jobs have been created:** members of all social groups, including half a million economically inactive people, have been employed. The economic growth has significantly improved the situation of the Polish people: in 2005–2012, the number of people at risk of poverty or social exclusion decreased by 7 million, and 1.3 million people were lifted out of poverty.

Before Poland's accession to the EU, economists had expected that our economy would see rapid economic growth thanks to an increase in the scale of public and private investments and of their share in the GDP, a more rapid modernisation of the economy, and higher confidence of global markets, resulting in a more rapid inflow of foreign direct investments. Changes in the structure of the economy had been expected in a mid-term perspective. Economists had predicted that sustainable positive effects of EU enlargement would come gradually and over a long period (after 20–30 years). The underlying economic assumptions turned out to be true. In the first years of EU membership, Poland saw an investment and consumption boom, followed by structural changes. The most important of these were a higher share of services and a lower share of agriculture in the generation of Poland's GDP; higher productivity of the economy spurred by technological progress and greater competition on the domestic market, the inflow of FDIs, increased production of medium- and highly-processed products, and a higher share in world trade. The outcome of these changes is visible in annual rankings of competitiveness, in which Poland has been rising gradually, but systematically. For instance, Poland has moved up from 48th position in 2004 to 33rd position in 2013 in the IMD World Competitiveness Center ranking.

The good net result of Poland's EU membership would not have been possible without a consistent and responsible economic policy that eased business cycle fluctuations. Poland has managed to establish efficient institutions that guarantee economic stability, such as an independent central bank, the Financial Supervision Authority or the Bank Guarantee Fund. An effective prudential oversight of the banking sector has saved us from the pitfalls of the free movement of capital. The Polish Constitution has placed a ceiling on public debt, which has effectively protected our country against overspending. An effective model for implementing the country's development policy using EU funds has also been put in place.

During Poland's ten years of EU membership, we did not run a current account deficit that would have exceeded safety thresholds. Our economy remained competitive thanks specifically to moderate increases in labour costs. Also, EU accession did not have a major impact on inflation in Poland. Thanks to effective and prudent measures, Poland's economy only experienced a slower growth during the critical years of the crisis, at a time when almost all the other EU Member States went into recession.

Thanks to EU membership, Poland's image and financial credibility have improved. In 2007, credit rating agencies (Standard and Poor's and Fitch) upgraded Poland's rating from BBB+ to A-.

Increase in Poland's credibility in the aftermath of EU accession led to a lower rate of return of treasury securities. Now the Polish government pays less to service its public debt. Poland's interest rates are now at 2.5 per cent (a level that could not have been reached before June 2013), which has contributed to the country's development by reducing investment costs.

Poland has also made very good use of the opportunities offered by the EU's common market and its four pillars: the free movement of goods, persons, services and capital. **We have become part of the world's biggest free trade area, which is home to 500 million consumers and 20 million firms.** As recently as 2003, it seemed improbable that Polish entrepreneurs would join and make their mark on the common market. Our EU membership has lent Polish products, in particular agricultural products, more credibility. Poland has effectively increased its exports to EU countries, as well as to third countries. During the last decade, Poland's share of exports within the EU doubled to 4%. It is the highest increase of all the countries in the region and the second highest in the EU (after the Netherlands). **In 2013, we exported to the EU almost three times as many goods as before joining the EU. Poland has consolidated its leadership position as the biggest exporter of all the EU Member States that joined the EU in 2004 and in 2007**: almost 27% of goods exported from Central and Eastern Europe originated in our country.

Since accession, the attractiveness of investing in our country has increased significantly. As from 2004, the aggregate value of foreign direct investments inflow to Poland has exceeded PLN 405 billion. In the last decade, Poland has been the most desired investment destination in Central and Eastern Europe (in particular among investors from the rest of the EU). In fact, every third euro they have invested has ended up in our country.

Assessing Poland's achievements, in particular those resulting from Poland's presence on the internal market, note should be taken of the following facts:

- **Thanks to the free movement of goods, we have seen an unprecedented success of Polish companies, which have exported goods worth almost PLN 3.5 trillion to the EU in 10 years**. This is twice the value of Poland's GDP. Moreover, Poland has become one of the leading European producers and exporters in key industrial sectors (such as the automotive industry, the electronic and home appliances sectors or the furniture sector), and an important service provider on the EU market.
- **Polish entrepreneurs have turned a PLN 13.5 billion trade deficit with EU member states** in 2003 (- 2 per cent of GDP) into an impressive **trade surplus of almost PLN 100 billion** in 2013 (6 per cent of GDP).
- **Since Poland's EU accession in 2012, Polish firms have made a profit of almost PLN 550 billion (EUR 135 billion) on exports of services to the EU** (the positive balance exceeds PLN 37 billion (over EUR 9 billion)). Thus, Poland has become the leader among countries that joined the EU

in 2004; almost 30 per cent of services delivered to the EU by Central and Eastern European countries in 2012 came from Poland. After 2004, Poland saw the most rapid growth in the export of its services (an increase in value by 160 per cent) of all the countries in the region. This trend was especially visible in the transport, business support and tourism sectors.

- Poland has seen an export boom and an increase in productivity: right after accession, the number of firms exporting their products and services grew twice as fast as the total number of companies. As a result, **in 2013, Polish companies earned one fifth of their revenues from exports.** Since 80 per cent of these exports were to the EU, most of the revenues were generated thanks to our presence on the internal market. However, after ten years of EU membership, many Polish companies are still not present on the EU's common market. This means that they have not yet tapped into the significant development potential offered by this market.
- **Within the framework of the Erasmus programme, more than 120,000 Polish students benefited from a study or work placement in other EU Member States and 37,000 lecturers gave classes at universities or received training in other EU Member States.**
- Thanks to the possibility offered by the free movement of services in the EU, Polish companies delegated approximately 230,000 workers abroad, creating jobs for 100,000 people back home.
- In the last ten years, Polish direct investments in EU Member States have increased a few dozen times from PLN 4.6 billion in 2003 to PLN 137 billion in 2012.
- Although in 2005 the CEO of one of the largest low-cost airlines in Europe said: "Who wants to go to Gdańsk? There isn't a lot there after you've seen the Shipyard Wall"[2]. In the last ten years, foreigners have made over **630 million** trips to Poland, of which over 140 million as tourists. Foreign travellers to Poland have spent a total of PLN 284.3 billion[3]. In 2014, one hundred cities in the world have direct flight connections to Warszawa, four times as many as before Poland's EU accession.
- Liberalisation of air transport services has contributed to the dynamic development of air traffic (in 2004–2013, 185 million passengers passed through Polish airports); enabled the entry of low-cost airlines into Poland; and made travelling in Europe easier for millions of Poles. In 2004–2013 as many as 82.8% of all Polish tourists travelled to EU Member States (Poles made 80.6 million trips, of which 66.75 million represented travel to EU Member States)[4].
- Thanks to the implementation of EU legislation, phone and data roaming rates dropped fourfold in Poland. In 2007, only 9.2 per cent of Polish

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2 K. Done, "Polish low-cost airlines set to expand into UK and Irish markets" *Financial Times*, 8 December 2005.

3 *Turystyka w Polsce w latach 2004–2013. Oszacowania wskaźników ekonomicznych*, Department of Tourism of the Ministry of Sport and Tourism, (as at 14.03.2014).

4 The total number of tourist trips takes into account both travel to one country, as well as multi-country trips. The total number of tourist visits, without taking into account the total number of visits in respective countries, amounts to 76.95 million.

citizens travelling to the EU used roaming services. By 2013, this number increased to as high as 60 per cent.

Over the last decade Poland has become a construction site. EU funds have played a major role in helping the country modernise more rapidly.

The total investment volume grew by 75% in 2004–13. Between 2009 and 2011, the cohesion policy funded 51.6% of Poland's public investments. Despite fears, **from the first year of our membership in the EU Poland has received more from the EU budget than it has contributed to it. Since 2009 Poland has been the principal net beneficiary of the EU budget.** After deducting Polish contributions, **we have received PLN 250.5 billion (EUR 61.4 billion)** since our accession ten years ago[5]**.** This means that for every zloty it paid to the EU budget from PLN 125.4 billion (EUR 31 billion), Poland received three zloty out of it for a total of PLN 375.9 billion (EUR 92.4 billion)[6]. The outcome of the Multiannual Financial Framework negotiations shows that Poland is likely to remain the biggest net beneficiary in 2014–2020 as well. No other country in the history of the cohesion policy had ever received as much funding within one financial perspective as Poland under the current framework.

Funds received in 2004–2013 were well spent by Poland:

- Thanks to EU funds in 2004–2013 over 160,000 projects were implemented[7], and some more are still being implemented. **673 km of motorways have been built; 808 km of expressways** have been built or modernised[8], 36,000 km of the sewage network and 683 sewage treatment plants have been constructed[9].
- Companies also benefited from EU funds. Since 2004 **entrepreneurs have carried out 62,600 projects,** for which they received approximately PLN 85.5 billion in EU funding[10]. In 2007–2013 the implementation of just one programme[11] produced the following results: the implementation of 551 new technologies in enterprises, as well as 215 results of R&D work. In addition, as part of the so-called incubators, 972 innovative ideas were supported and 2960 e-services were introduced[12].
- In 2004–12, Polish farmers received PLN 53.7 billion in direct payments from the EU budget, during which time an average of 1.4 million farms benefited

5 Data based on *Zestawienia transferów finansowych środków unijnych w ciągu 116 miesięcy członkostwa* (as at 31 December 2013) of the Ministry of Finance; for the sake of comparison, euro amounts have been converted into zloty at the NBP average annual exchange rate for that year.
6 *Ibidem*.
7 See http://www.mapadotacji.gov.pl/statystyki-i-porownania (as at 24.03.2014).
8 Based on information provided by the General Directorate for National Roads and Motorways dated 22 January, 2014.
9 Based on evaluation study *Ocena efektów inwestycji środowiskowych finansowanych w ramach NPR 2004–2006 oraz danych z KSI (SIMIK 07–13)* drafted by the Ministry of Infrastructure and Development dated 21 March, 2014.
10 Based on information provided by the Ministry of Infrastructure and Development dated 17 December, 2013.
11 "Innovative Economy" Operational Programme.
12 Based on information provided by the Ministry of Infrastructure and Development dated 17 December 2013.

from direct payments. This means that one beneficiary was eligible, on average, for PLN 38,362[13]. Poland's agriculture and the agri-food sector were significantly modernised – over 1.5 million farmers received nearly a third of EU funds, i.e. more than PLN 117.7 billion (EUR 29 billion)[14].

- EU funds have also helped to change the education system – **over half of Polish schools** (close to twenty thousand) **have been equipped with computer labs**. In total, around 250,000 computer workstations have been created. Furthermore, over 2,800 preschools have been set up, with a further 2,200 units generating additional preschool places[15].

Thanks to Poland's EU membership, **Poles have access to the labour markets of other EU Member States and may benefit from European social security.** The free movement of workers within the EU has led to migrations from Central and Eastern Europe, a phenomenon whose scale proved bigger than had been anticipated prior to the 2004 enlargement. A large number of Poles have taken advantage of the free movement of persons, which is a fundamental principle of the internal market. The possibility of taking up legal employment in EU Member States has reduced the natural risk relating to emigration in the pre-accession period. This, in turn, has led to a positive change in the way people think about the European labour market, which has become just as accessible as the Polish labour market. Today it is perfectly natural to choose between a job in Rzeszow and one in London, while before 2004 many feared that Western Europe would run out of jobs for new EU Members States' citizens.

Migrations of Poles have certainly had a big impact on the country's socio-economic situation, but seen from today's perspective their net result is relatively difficult to assess and by no means conclusive. In the short run, the opening of Europe's labour markets no doubt helped reduce tensions on the Polish market. A drop in the economically active population was offset by migrants' money transfers back home (in 2004–2013, money transfers amounted to approximately PLN 145.2 billion[16] EUR 36 billion and were equivalent to 60% of net EU budget transfers). Compared with other countries of the region, the scale of emigration was not as great as in Lithuania, Latvia, Romania and Bulgaria, which have recently seen more of their citizens leave the country.

The report would not be conclusive without mentioning Polish Euro-enthusiasm – another Polish achievement in the EU which is no less important than good economic performance. Ten years ago Poles could hardly be labelled the Community's most pro-European members. Shortly before accession as few as 42% of Poles believed that EU membership was good for Poland. Polish Euro-enthusiasm grew steadily each year as Poles became increasingly aware of the benefits of EU accession for Poland.

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13 See http://www.arimr.gov.pl/uploads/media/20012014_Platn_bezp.7-13.pdf (as at 24 March, 2014).

14 *Zestawienia…, op.cit.*

15 Based on information provided by the Ministry of Infrastructure and Development dated24 January, 2014.

16 Based on information provided by the NBP, as at 24.03.2014; for comparative purposes, euro amounts have been converted into zloty at the NBP average annual exchange rate for that year.

Today, when there is very clear support for the EU among all Polish social and age groups, **we often fail to realise the long road that we have travelled as a nation during the last decade.** Thanks to the openness and trust of millions of Poles, pro-European sentiments are now a valuable capital that many other EU Member States could only envy Poland.

Political dimension of Poland's EU membership: how Poland has changed Europe

2

Poland's position in the EU after 10 years of membership

During the pre-accession period, Poland's membership of the European Union was regarded as an historic opportunity and investment in the future. We were driven by aspirations and the belief that European integration would ensure sustainable economic growth, and strengthen Poland politically. The EU membership was a strategic goal which, as we saw it, offered a chance to raise Poland's security, credibility and authority, and to co-decide – through participation in the work of EU institutions – about matters that affect us directly. Thanks to our geographical location, our country was to become an indispensable part of the future European architecture, and play a major role in making Europe economically and politically stronger. Yet, **we saw the EU as an opportunity, not as a guarantee. Success would depend on how Poland decided to conduct its policy after accession**[17]**.**

On the other hand, many fears and concerns about the integration persisted at the social level, among both the supporters and opponents of the process. Such sentiments stemmed from quite a realistic view of Poland as a poor country that would need many years to catch up with the economically developed EU countries. Whilst pro-integrationists hoped that Poland's economy and living standards would develop faster, the **opponents of integration feared a loss of sovereignty, a worse starting position, and discrimination**[18].

The first years of membership were spent "doing our homework" and learning the ropes of European cooperation. When joining the EU in 2004, Poland had to jump on a "fast-moving train" that was run by complex mechanisms and rules of play which took 50 years of integration to work out. Poland's priorities in the EU were determined by its status as a new Member State in the midst of systemic transformation, a country that was trying to catch up with Europe's leaders in terms of social and economic development. Thus, Poland's key priority at the time was to get into its stride as a member state, and to make the best of the opportunities and benefits offered by EU integration.

In the last 10 years, Poland has gained more political importance in the European Union, becoming an important part of the EU decision-making centre. We are ending our first decade in the EU as a strong and influential Member State that knows how to lobby for its interests in Brussels. We have used EU membership to **successfully implement our strategic national interests.** An important moment during the first 10 years of our EU membership was the negotiations of the multiannual EU budget. Their outcome was crucial for Poland's long-term

17 *Report on the Costs and Benefits of Poland's Integration with the European Union*, adopted by the Council of Ministers on 26 July 2000 to implement the Polish Sejm's resolution of 18 February 2000 on the state of preparations for Poland's EU membership, pp. 5–6.

18 *Costs and Benefits of Poland's Membership in the European Union. Study Results*, Natolin European Centre, for more details see pp. 246–250.

development prospects. Furthermore, **Poland has learned to impact and shape the "EU world" according to its interests and needs.** Poland has entered the European game in terms of both its positive and negative agendas. For example, Poland has successfully invested in the EU energy policy to enhance our energy security. On the other hand, our country was capable of pooling its resources to convince the European Commission that it should not table legislative initiatives that ran contrary to our interests (e.g. on shale gas). Moreover, **Poland has taken an active part in key EU debates**, taking the initiative and shouldering responsibility for the direction in which the EU develops. An example of such attitude is Poland's participation in the debate on reforming the eurozone. **Poland has used its EU membership to enhance its international standing, and shape its external environment through the EU,** a fact that is manifested in the leading role our country plays in formulating the EU's Eastern policy.

It is no coincidence that Poland has become a big political player in recent years. Several things have contributed to its advancement.

VERY GOOD ECONOMIC SITUATION DURING THE CRISIS. What made it easier to pursue an effective European policy was the fact that Poland was the only country to go through the crisis without a recession. Between 2007, i.e. the last year prior to the crisis, and 2012 the Polish economy grew by 20%. During the same time the GDP of the EU as a whole shrank by 0.9%. Slovakia, a eurozone country, was second-best, growing by 11%. Poland was seen as an economic phenomenon in crisis-ridden Europe.

POLITICAL STABILITY. Political stability and predictability during the crisis did much to enhance Poland's position in the EU. Whereas Poland has had a single cabinet in office since the autumn of 2007, other member states have seen over forty changes of government during that time. Some governments fell due to economic problems and the prospect of bankruptcy. Prime Minister Donald Tusk is now the fourth longest-serving Head of Government among the EU's 28 leaders (with Estonia's Andrus Ansip, Germany's Angela Merkel and Sweden's Fredrik Reinfeldt being the only Heads of Government with a longer term of office). Since the Polish Government was sworn into office in autumn of 2007, the European Council has seen 45 prime ministers[19].

ABILITY TO FORM COALITIONS AND TEAMWORK SKILLS. Poland has 27 votes in the Council of the EU, the Union's second legislative body alongside the EP. That is as many as Spain, and only two votes less than Germany, France, Italy and the UK. Such a pool of votes was a very good starting point for impacting the European Commission and building coalitions within the Council. Even as it gained experience and built trust among its partners, Poland was able to create many effective coalitions. The Visegrad Group (Poland, the Czech Republic, Slovakia, Hungary), whose total share of votes is equivalent to that of Germany's and France's, has proved a particularly useful leverage in pooling influence.

SHARE OF MEPs IN THE EUROPEAN PARLIAMENT'S STRONGEST POLITICAL GROUP. In the current European Parliament (2009–14 term), Poland has 54 parliamentarians, of whom 29 are members of the European People's Party (EPP), the strongest political group in the EP with 274 MEPs. This has allowed Poland

19 As at 15 March 2014.

to effectively shape the position of the entire group, and multiply its votes when important issues were being decided.

EXPERIENCE OF INSTITUTIONAL COOPERATION AND ENROOTING IN THE EUROPEAN PROCESS. Political stability and the growing experience with the EU have helped to win the trust of Member States and EU institutions, and create effective channels of communication. Poland's successful presidency in the second half of 2011 also contributed to this. Poland assumed responsibility for running the EU in difficult times. It has demonstrated leadership, activeness and professionalism. We passed the test, became a club member, and learned "how things are done in the EU." Cooperation with the European Commission and the European Parliament proved crucial – an experience that would pay off after the Presidency of the EU Council.

STRONG PUBLIC SUPPORT FOR INTEGRATION. Poland has been one of the few countries with high and relatively stable public support for the European Union (averaging 75%). This has been another Polish phenomenon at a time when Europe succumbed to growing Euro-scepticism and populism (with support for the EU declining by several dozen percentage points in such countries as Spain, Ireland or France). Poland has capitalised on its Euro-enthusiasm by conducting a successful and active European policy.

We are concluding Poland's first 10 years in the EU with a very good result. Yet, in some fields Poland **could have performed better**. For instance, we did not manage to prevent the unfavourable change in the EU Council voting system that was introduced by the Lisbon Treaty of 2007. Likewise, Poland underestimated the potential risks involved in the ambitious EU climate policy when it agreed to make the national targets for reduction of GHG emissions by 2020 legally binding at the European Council meeting in March 2007. Viewed from the perspective of 10 years, Poland has not made sufficient progress in filling key positions in EU institutions (in particular mid-level positions in the European Commission). This may weaken our potential to effectively influence the Commission from the inside. Our first decade in the EU has also taught us that we need to improve our social dialogue mechanisms to better present Poland's position in the EU, which we have failed to do in the case of Poland's initial position on ACTA. Once we do that we will be able to steer clear of situations that undermine Poland's image abroad, such as withdrawing our support for the European patent directive at the 11th hour.

There is no doubt that Poland's first decade in the EU was a success. But in the EU **success should not be taken for granted.** We should be wary of excessive optimism. Poland's accomplishments in the EU are not built on solid foundations or deeply rooted. We might no longer be able to maintain our strong position if we continue business as usual. One needs to work hard, be active, responsible and pro-European in order to secure the position of Europe's leader. The change in the EU Council's voting system introduced by the Lisbon Treaty and the fact that Poland will remain outside the eurozone for the next few years will not work to our advantage. A lot could change in the European Union itself. We cannot rule out the possibility that goals which are contrary to our interests and specific nature will become part of the EU agenda. We should learn from our past experience. Poland should keep investing in EU membership, gain experience and enroot itself in the European process.

Context and overall framework – 10 years in the EU

The years 2004–2014 changed Europe. During the last decade, the economic, political and institutional context in which the EU operates has changed abruptly and dramatically. Member States that joined the EU in 2004 and 2007 had to deal with more than just the natural process of adaptation. The bar was set very high– the first decade of the 21st century has surprised many people by the scale of challenges it has brought.

Economic crisis – faster integration in the eurozone

There is no doubt that the economic crisis was the most important factor of change during the first 10 years of Poland's EU membership. The crisis diminished the prospects of development and laid bare the structural weaknesses of many EU Member States' economies. In 2009, the GDP of the eurozone decreased by 4.4%. In 2008–2013, unemployment grew sharply from 7.6% to 12.1%, reaching alarming heights in the periphery countries (Greece 27.3%, Spain 26.4%). The integrity of the whole block was at stake. On the one hand, the crisis has clearly shown the need for change and has encouraged modernisation. It was an opportunity to carry out reforms which had not been possible in the last dozen or so years. It provided a strong impulse for a comprehensive reform of EU economic governance. On the other hand, tendencies to build a new EU based on the eurozone were revived in the face of destabilisation. This challenge was particularly evident during the Polish Presidency of the EU Council in the second half of 2011, when the eurozone crisis was at its peak and the risk of divisions was real. As a non-eurozone country, Poland had to invest large political capital to counter this tendency and to effectively influence the outcome of the reform. The drive to deepen integration around the eurozone will determine the future direction of integration.

Treaty reform – a never-ending story

During the last 10 years, the EU's legal framework relating to the treaty reform that lasted many years has changed. Poland acceded to the EU at a time of great political ambitions connected with the drafting of the Constitutional Treaty. Great expectations soon turned into one of the biggest political crises in the history of the process of integration, following the negative results of France's and the Netherlands' referendums in mid-2005. Eventually, the Lisbon Treaty was agreed on in 2007 and entered into force at the end of 2009. The treaty has introduced many changes, most of which involved the EU's internal sphere, including a change of the decision-making process that was unfavourable for Poland (deferred until 2014.). One of the most important changes during this 10-year period involved increasing the powers of the European Parliament and majority voting. This implied better cooperation with the European Parliament and a greater possibility for Polish MEPs to exert an influence. Coalition-building by Member States has gained importance. The role of Heads of State and Government has increased and now they shoulder greater responsibility. Concurrently, the economic crisis has shown that the changes introduced by the Lisbon Treaty do not necessarily respond to Europe's current needs and those of its citizens who are worried about losing their jobs. Hence, the past decade has been marked by internal tensions and institutional discussions, which for many has served as an argument to accuse the EU of being more involved with itself than with real problems knocking at its doors.

Big debates about big money

The first ten years of Poland's EU membership saw two debates that were strategically important for our interests: on the New Financial Perspective (NFP) 2007–2013 and the Multiannual Financial Framework (MFF) 2014–2020. The two debates were waged in very different contexts. The first (2003–2005) was held at the time of economic prosperity and EU budget expansion. The second (2010–2013) was accompanied by pressure to make cuts imposed by the austerity policy embraced by many EU countries in the wake of the financial crisis. Concurrently, as part of the debate spurred on by the crisis, some would blame EU enlargement in 2004 and 2007 for causing the crisis. The economic situation in the south of Europe raised doubts about the effectiveness of the cohesion policy that was one of the drivers of Poland's recent economic growth. What also changed was the determination of respective countries that were willing to defend the cohesion policy budget during negotiations. This time Poland, thinking about success in negotiations, had to play the leading role in the work of the Friends of Cohesion group. Ultimately, the outcome of the negotiations reflects on the political and economic atmosphere in Europe: for the first time in the EU's history, the Multiannual Financial Framework has been reduced, which many have interpreted as a political sign of the EU's waning integration ambitions. This makes all the greater Poland's success of negotiating more funds from the EU budget than in the 2007–2013 EU budget negotiations, which ended in 2005.

New divisions – a more diversified EU

The economic crisis has fundamentally and permanently reshaped relations between countries. The division into a more economically conservative and competitive north and a less effective south has gained importance. This came with a division, which became very evident during the crisis, of Member States into eurozone (EU-17 and since 2014 EU-18) and other EU Member States that have not adopted the common currency. This, in turn, has blurred the division between new and old Member States because of the gradual accession of "new" EU Member States to the euro area: Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009), Estonia (2011) and Latvia (2014). In addition, the crisis provided an opportunity and an additional legitimacy to those countries, including Poland, whose economies performed well to play an important role. No doubt, it has politically strengthened Germany, which became the biggest political beneficiary of the crisis because of its very good economic condition. In the opinion of many observers, the German-French leadership tandem has run out of steam, because of France's political and economic weaknesses. This was symbolically confirmed by France losing its AAA rating on 12 July 2013[20] and the widening French and German bond yield spreads. The United Kingdom did not aspire to be in the hub of the decision-making processes. It decided to go in a different direction than the rest of the EU. In January 2013, Prime Minister David Cameron announced that his country's exit from the EU would be put to a referendum in 2017 – 44 years after the UK joined the European Communites. New division axes have led to a reassessment of the existing policy of many countries and have also led to a revision of the existing positions, alliances and coalitions.

European institutions – did they pass the test?

Institutional reform and changing the rules of cooperation to comply with the Lisbon Treaty overlapped with challenges of managing the crisis. The crisis was an important fitness test for European leaders, who were sometimes criticised for their tendency to wobble. The criticism is not entirely well-founded because the sources of the crisis lay in national competencies, with Member States disagreeing about bearing its financial consequences. Nonetheless, the crisis has undermined citizens' trust in EU institutions and strengthened national egotisms. The lack of a basis in the treaties to take action limited the room for manoeuvre of European decision-makers. This, in turn, led to balancing on the verge of the treaties and to resorting to inter-governmental measures (e.g. the Fiscal Compact). The EU began operating on the basis of the new "EU" (instead of the Community) method of decision-making. Poland and other countries that had become used to the Community method looked at this with concern. The institution that passed the crisis test was the European Central Bank (ECB). The now famous words spoken by President Mario Draghi "we will do whatever it takes" in the summer of 2012 have made history as a symbolic end of the most important stage of the crisis.

Combating climate change – new ambitions for new times

After fifty years of the integration process, the prevailing feeling was that long-term goals which inspired the creation of the European Communities in the 1950s had been fulfilled. This stirred a debate about new ambitions that the organisation could embrace and formulate into its mission for future decades. The EU political agenda began to be increasingly shaped by external factors, including the process of globalisation. As a result, the fight against global warming has become a major political issue on the EU agenda during the last ten years. The foundations for this policy were laid before the EU enlargement: negotiations on the emissions trading scheme (EU ETS) were carried out in 2003. The climate policy

20 12 July 2013, the Fitch rating agency lowered France's rating from the highest AAA level to AA+ with a stable perspective.

further gained momentum in March 2007 when the European Council unanimously voted to accept ambitious and binding reduction goals (3x20%) by 2020. This provided a basis for negotiations of so-called energy and climate package in 2008. Poland found this debate very difficult on account of its energy mix, specifically the big share of coal in the generation of electricity (at that time it was over 90% while the EU average was approximately 30%) in comparison with other EU Member States. EU's leadership on global climate became a vital part of its narrative and ended in a fiasco during global negotiations in Copenhagen in 2009. These expensive ambitions of the EU were also restrained by by the economic crisis. However, the debate goes on and in the following years Europe will continue to feel the pressure to adopt ambitious goals by 2030.

Disillusionment and Euro-scepticism – challenges in years ahead

The European Union has witnessed an unprecedented surge of Euro-scepticism in connection with its poor economic situation and growing unemployment, which affect its citizens particularly badly. Europeans became increasingly populist because they were disillusioned with their elites both at home and in Brussels. Falling public support for the EU is especially worrisome in countries that so far have been the leaders of the process of integration, especially France. In 2012, 60% of the French declared their support for the EU, while just a year later as few as 41% were in favour. The biggest fall in the support for actions taken by EU leaders was recorded in Spain (a drop by 32 percentage points since 2008), Ireland (a drop by 23 percentage points), Sweden (a drop by 17 percentage points), Finland (a drop by 14 percentage points) and the Netherlands (a drop by 11 percentage points)[21]. This kind of atmosphere provides a breeding ground for national sentiments, xenophobic attitudes or a dislike of immigrants. Waning support for the EU in the Member States was often the reason behind a change of their respective positions presented at the EU forum. In Poland, the comparatively stable and high level of acceptance for the EU turned out to be relatively resistant to the changing business cycle and the influence of populism. High support for the EU represented an important political capital without which it would be difficult to carry out a positive agenda in European policy.

21 Based on a Gallup poll, http://www.gallup.com/poll/166757/leadership-approval-record-low-spain-greece.aspx (26.03.2014).

Our methods of changing Europe

Polish school of coalition-building

By acting alone, a Member State will not accomplish much in the European Union. The basic questions asked in the process of conducting day-to-day European policy are: Who shares our interests? Who can support us? Who could be interested in our initiative? And when left with no other choice, then: with whom can we jointly block a proposal that does not suit us? **Because European integration is team work.** Those whose interests coincide with European interests, who demonstrate flexibility and understanding toward postulates made by others, who are consistent in their argumentation, skilful in negotiations, keep their word and – when need be – know how to compromise are more likely to succeed.

This is because **the key to success in the European Union is the ability to build coalitions with Member States and to look for allies among EU institutions**, especially the European Commission and the European Parliament. Coalitions are most often built on an *ad hoc* basis, depending on the development of the European agenda and the specific nature of the themes and interests of Member States. They are the basic element of a political process. Their importance has been further enhanced by the Lisbon Treaty which, among other things, has multiplied areas where decisions do not require unanimous consent (i.e. MS do not have veto power) but can be taken by a qualified majority. The majority rule forces Member States to look for allies.

During the first years of membership Poland remained a passive coalition member, i.e. it would join alliances built around other states who were leaders. An example of such coalition was the Friends of Cohesion group during negotiations of the New Financial Perspective 2007–2013 (ended in 2005) which was led by Spain. Another is the coalition of the so-called liberal countries that grouped states interested in deepening the internal market (e.g. negotiations on the draft Services Directive in 2006) in which the UK played first fiddle.

As it became more skilled in the game of European negotiations, **Poland took on a leadership role by initiating coalitions** and effectively lobbying for its interests among other EU Member States. Looking back over the last decade, Poland has made significant progress in this area. We have built quite a lot of effective coalitions which helped us move the process of European integration forward in the direction that suited our expectations. Poland has achieved this thanks to:

- **A strong base at the outset** – **Poland's 27 votes in majority voting** (based on the so-called Nice system): as a big country with a large number of votes, Poland was a desired coalition partner and was itself comfortably positioned to initiate coalitions.
- **Specific nature and exceptionality of our interests**: Poland, being less socially and economically developed than other big EU Member States, had to rely on itself in pursuing many economic issues. Our specificity

mobilised us into action because we had only ourselves to look after our interests. This was the case during negotiations of the Climate Action and Renewable Energy Package in 2008, when we were left alone on the battlefield and had to build a coalition of states less willing to support the ambitious goals of EU climate policy.

- **Poland's high credibility and good reputation**: Poland's good economic condition during the crisis and its political stability in difficult times (the same government in power since 2007) did a lot to strengthen Poland's image in the EU. These features also enhanced Poland's credibility as a potential coalition leader and proved instrumental in the negotiations of the Multiannual Financial Framework 2014–2020, with Poland assuming the role of a leader of the Friends of Cohesion group.
- **Poland's successful EU Presidency:** presiding over the work of the EU Council in 2011 was a great lesson in managing European affairs and an investment in the quality of our membership afterwards. The Presidency taught us how to be responsible for the process of integration and allowed us to enter into "another circle of initiation." We learned how to build support for initiatives from working groups' expert level up to a political level. After the Presidency, we continued to engage in many initiatives, benefiting from the momentum they created. The Polish Presidency of the EU Council gave rise to many successful joint initiatives of the Visegrad Group in 2012 and 2013 (during Polish Presidency of the V4).

The Friends of Cohesion group during negotiations of the Multiannual Financial Framework 2014–2020 was the most important coalition from the point of view of Poland's interests and the responsibility resting with Poland. Its members, besides Poland, were: Bulgaria, Romania, Hungary, Slovakia, the Czech Republic, Lithuania, Latvia, Estonia, Slovenia, Cyprus, Malta, Greece, Portugal, Croatia and Spain (although Spain also cooperated with the so-called net-payers group). Poland played the role of an initiator and a credible leader of the group. Leaders of the states that made up this coalition accepted the argument that instead of competing against each other, the group should try to negotiate more funds. Poland also successfully lobbied to keep Spain in the group after its cabinet changed following the general election in 2012, despite the fact that it would have worked more to Spain's advantage if it had joined the net-payers group (advocating deep cuts in the cohesion policy, mostly protecting the existing *status quo* when it came to direct payments). The fact that the group remained intact until the last stage of the negotiations, a very difficult feat given the size of the group and the sensitivity of the subject of the negotiations, was a great success.

Examples of initiatives taken by the Friends of Cohesion group in the MFF negotiations:

- Common position of 13 members of the Friends of Cohesion group on the shape of the cohesion policy after 2013.
- Joint document of the Friends of Cohesion group dated June 2012 on the quality of investments financed under the Multiannual Financial Framework.

- Joint declaration of the Friends of Cohesion group on Multiannual Financial Framework 2014–2020 ahead of the European Council in June 2012 addressing the issue of better spending.
- Joint communiqué and position of the Friends of Cohesion group dated April 2012, defending the cohesion policy as an EU instrument that promotes growth and investments.
- Common position of the Friends of Cohesion group dated November 2012 on the terms of access to EU budget funds, including such parameters as co-financing rates, pre-financing and eligibility of VAT.
- Joint declaration of the Friends of Cohesion group made following the group's summit in Prague in October 2012, calling for an ambitious approach to the cohesion policy in 2014–2020 and for concluding the MFF negotiations by the end of 2012.

Meetings at Prime Ministerial level were also held in Bucharest (1 June 2012) and Bratislava (5 October 2012, attended by J.M. Barroso). The group's summit in Brussels (13 November 2012), attended by representatives of EU institutions, business organisations and trade unions, was an important event. Heads of State of members of the Friends of Cohesion group also met directly before the start of European Council summits devoted to the MFF 2014–2020 (22 November 2012 and 7 February 2013). It was a **very important and unusual manifestation of unity**. During earlier negotiations, the Friends of Cohesion group did not persevere until the end of negotiations.

Cooperation with countries of the Central and Eastern Europe region (specifically Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, and Slovakia) represented an important coalition on climate policy. These countries worked out a common approach to the energy and climate package, one that scaled down the package's original assumptions which worked to the disadvantage of the region's countries. In this context, Poland's important initiative was the organisation in December 2008 in Gdańsk of a meeting of the heads of government of the Central and Eastern European countries with France's President Nicolas Sarkozy, who presided over the work of the European Council during the French Presidency of the EU. A few days later at the European Council summit, Poland ultimately succeeded in winning additional greenhouse gas emission allowances for the period 2013–2020 and obtained derogation for the electricity generation sector (exception from the general rule of mandatory auctioning of emission allowances).

Maintaining a single alliance by Central and Eastern European countries also helped Poland avoid risks in preparation for the COP15 climate summit in Copenhagen in 2009. One such risk involved increasing EU's emissions reduction target to 30% by 2020, which was successfully avoided. The rules of EU climate assistance to developing countries were based on the "ability to pay" principle, instead of the "polluters pay" principle, which was another positive gain. This change helped to avoid a particularly negative scenario in which Poland and less prospering countries with higher CO_2 emissions levels would have been obligated to pay significantly more for climate assistance than richer EU countries.

Examples of successful Polish initiatives around which effective coalitions were built could be multiplied. The **Eastern Partnership** was an important political project initiated by Poland and Sweden whose launch was supported by other Member States and the European Commission. In 2012, as a response to the "Arab Spring", Poland initiated the **European Endowment for Democracy,** a new EU instrument to assist countries of the Southern and Eastern Neighbourhood in their democratisation processes and in building their civil societies. Poland was also engaged in the building of **coalitions promoting growth themes in the EU**. In 2011 and 2012, we signed 5 letters at the level of heads of state and government dealing with specific initiatives to spur economic growth in Europe[22].

Visegrad Group – good brand in Europe

One of the greatest causes for satisfaction after 10 years in the European Union is the very good outcome of cooperation between Poland, the Czech Republic, Slovakia and Hungary in the Visegrad Group. The Visegrad Group (V4) has become an unexpectedly effective forum for formulating and pursuing our interests in Europe. After an initial period of rivalry and a certain dose of mistrust left over from the pre-accession period, cooperation in the V4 gained momentum. Today no one doubts that the V4 can effectively maximise the influence of its respective members and that it can exert a constructive impact on the process of European integration.

The V4, sharing similar social and economic models, was bound together **by converging interests** in many issues that were addressed at the EU level. The fact that the V4 possessed **large voting power** in the EU Council was a very important factor allowing the Group to effectively impact the EU's decision-making process. **Poland, the Czech Republic, Slovakia, and Hungary together have the same number of votes as Germany and France**. Such large voting power was an excellent tool and leverage for jointly exerting influence on decisions taken in the European Union.

Table 1. Voting power of the Visegrad Group, and Germany and France in the EU Council

VISEGRAD GROUP	GERMANY AND FRANCE
58 VOTES PL – 27, CZ – 12, SK – 7, HU – 12	58 VOTES DE – 29, FR – 29

Source: Treaty on the Functioning of the European Union.

Cooperation in the V4 is based on regular contacts and consultations to agree common positions at different levels to be later presented at the EU forum. The most important V4 cooperation fora include:

22 Joint letter of heads of states: UK, NL, SE, DK, FI, EE, PL, LT and LV dated March 2011 to the President of the European Council and the President of the European Commission on promoting growth in the EU, joint letter of Heads of State: UK, NL, SE, DK, FI, EE, PL, LT i LV dated March 2011 to the President of the European Council and the President of the European Commission on generating growth in the EU and a joint letter by Heads of State of the V4 dated June 2012 addressed to heads of the European Commission, the European Parliament and the European Council with suggestions about themes for a debate on how to reinvigorate growth in the EU.

- regular consultations of **V4 prime ministers**, organised by the country currently holding the V4 presidency (approximately twice a year); prime ministers also meet in Brussels ahead of the European Council meetings (approximately four times a year).
- meetings or videoconferences of **foreign ministers or deputy foreign ministers** ahead of the Foreign Affairs Council meetings.
- consultations of **sector ministers** ahead of the EU Sector Councils.
- meetings or videoconferences of **deputy ministers responsible for European affairs** ahead of the General Affairs Council meetings (approximately 10 times a year).
- ongoing cooperation at **the level of V4 Permanent Representatives to the EU** in COREPER II and COREPER I, as well as at **expert level** in working groups.

Visegrad cooperation has focused on issues which are of strategic importance for all V4 countries. In the first place, there were **negotiations of the EU budget**, support from which guaranteed faster development of the V4. Poland thought it important to develop a common front in these negotiations with V4 countries. During negotiations of the NFP 2007–2013, V4 countries were engaged in vigorous cooperation. The Group's successes were the relatively small cuts in the cohesion policy envelope and the introduction of the rule that the less developed a country was, the smaller its cuts would be. Likewise, in the **MFF 2014–2020 negotiations, the V4 was the main forum where the position of the Friends of Cohesion group was effectively shaped**. It was a general forum – the idea was to ensure a large envelope for the cohesion policy in a large EU budget. Meanwhile, the V4 forum was effective in fighting for specific interests that were characteristic for similar countries in the region. Appropriate changes in the scope of access to EU funding, such as application of the "n+3" rule in relation to decommitments, or claiming non-recoverable VAT as eligible cost, are some of the examples of successful negotiations.

By joining the EU, we obtained a new tool of regional integration. The Visegrad Group has successfully raised the issue of guarantees of energy security at the EU forum. The energy crisis caused by Russia cutting off gas supplies to Central Europe in January 2009 drove home the need for strong European solidarity. V4 countries tried to identify such areas of energy cooperation that would diversify energy supplies. This discussion led to the adoption of an Energy Declaration at the Visegrad Group summit in Budapest in February 2010. A V4 High Level Group for Energy Security was also established. The group was instrumental in reaching an agreement on the need to draw up a **Road Map towards the regional gas market among Visegrad 4 countries.** The Road Map was one of the main goals of Poland's Presidency of the V4 (2nd half of 2012 – 1st half of 2013). The Road Map was accepted at the V4 countries summit in Warszawa on 16 June 2013. This was the crowning of the Polish V4 presidency's efforts to continue integrating national gas markets in the region. The Road Map provided for a continuation of coordinated support for the development of the necessary connections between V4 countries, as well as further work on the creation of the optimum model for the operation of the market in the region and the establishment of a V4 Forum for Gas Market Integration and basing an institutional framework of cooperation on it. In September 2013, the Hungarian presidency drafted a Memorandum of Understanding dealing with the Forum operations. The document was signed by ministers responsible for energy issues on the margins of the Council meeting in Brussels on 12 December, 2013.

Relations between our region and its neighbours, especially in the east, represent yet another area of V4 cooperation. Promotion of the eastern dimension of the EU neighbourhood resulted in the launch of the **Eastern Partnership** programme in Prague in May 2009 and the establishment of a special programme called **Visegrad for Eastern Partnership** (V4EaP) in the framework of the **International Visegrad Fund** in 2012. Much attention was devoted to promotion of the integration aspirations of the Western Balkans and of cooperation between the European Union and its eastern neighbours. The foreign minister of the country holding the V4 presidency represented the other V4 partners at selected meetings of international bodies, which was a manifestation of intense coordination and cooperation.

Consultations between V4 political leaders and respective ministers ahead of meetings of the European bodies have turned out to be particularly effective. This instrument was used to agree common positions on the most important issues and to support each other during EU negotiations. A manifestation of the deepening cohesion and increasingly improved coordination of positions in the V4 was **the presentation of the V4 common position to the European Council Conclusions in June 2013 for the first time ever** (during the Polish presidency of V4), which reaffirmed in practice that the Visegrad Group had grown into the most dynamic regional group in the EU.

During the ten years in the EU, the V4 has become recognisable and has gained a very good reputation thanks to its coordinated actions. The V4 was a force to be reckoned with by European leaders. In this context, the **summit of prime ministers of the Visegrad Group in Warszawa on 6 March, 2013 with the participation of France's President Hollande and Germany's Chancellor Merkel** was an important meeting. The meeting was devoted to a discussion about building European unity in connection with the reform of the Economic and Monetary Union, the competiveness of the economies of Member States and the strengthening of European defence capabilities.

Reinvigoration of the Weimar Triangle

Membership of the European Union has created potentially new areas of cooperation between Poland, Germany and France in the Weimar Triangle. The first years in the EU were devoted to finding an effective formula of cooperation. The Weimar Triangle was reinvigorated in 2010. After a break of more than five years, at the initiative of Poland's President Komorowski, the Weimar Triangle summit was held in Warszawa on 7 February, 2011 and was attended by France's President Sarkozy and Germany's Chancellor Merkel.

A decisive moment that enhanced the importance of the Weimar Triangle **was a change of France's position vis-à-vis this format**, following the election of President Francois Hollande in 2012. The change in France has significantly contributed to finding an agreement on opening the process of eurozone reforms to countries from outside the area and has reinvigorated this cooperation. Since then, the **Weimar Triangle has represented a very important forum for consultations and agreeing common positions on important European policy issues**. It is hard to overestimate the importance of this format. Germany and France remain the driving force behind European integration, especially with Great Britain tending to "voluntarily abdicate" from this role. The better Poland's relations with its partners in Central and Eastern Europe, the better it can represent the interests of the entire region, and the more effective it can be in this group. **The summit of the prime ministers of the Visegrad Group with the participation of France's President and Germany's Chancellor organised by Poland on 6 March, 2013** was an important event in this context. The summit was devoted to defence cooperation, the competiveness of the European economy and the future of the Economic and Monetary Union.

Regular dialogue in the Weimar Triangle is carried out primarily in the form of intensive contacts and meetings of ministers for European affairs and European advisors of the German Chancellor, the French President and the Polish Prime Minister. Very important was the joint declaration on the MFF issued by the European affairs ministers of the Weimar Triangle on 1 October, 2012, in which they agreed to the need to align the future financial framework with strategies that help the economy grow, increase employment and boost competitiveness.

Intensive dialogue has also been conducted by chiefs of diplomacy. **Within the Weimar Triangle special attention has been paid to developing the Common Security and Defence Policy (CSDP).** As part of the Weimar Triangle initiative, during the Polish presidency of the EU Council we put forward concrete proposals aimed at enhancing the effectiveness of EU actions in this field. The **Weimar+** format served as a tool for exerting pressure on other EU Member States and European institutions to further develop the CSDP. On 15 November 2012, Paris hosted a meeting of foreign and defence ministers of France, Spain, Germany, Poland and Italy. In a declaration issued after the meeting, the ministers expressed the aspiration to promote an ambitious European security and defence policy, and the need to assume part of the responsibility for European security. This was reflected at the European Council meetings in December 2012 and December 2013.

Other ministers, too, come together in the Weimar format, albeit with varying frequency. Some of the latest initiatives comprise a meeting of the Weimar Triangle's environment ministers in Warszawa on 15 July 2013, which saw the signing of a common position on the climate and energy policy, including the future global agreement on climate. On 24 July 2013, Krakow hosted a meeting of interior ministers, who adopted a joint statement on protecting the EU's borders, and the PNR system. The Weimar Triangle economy ministers, in turn, met also in Krakow during the "European Union Industrial Policy – Economic Weimar Triangle" conference that took place on 6–7 February, 2014.

Poland's successful EU presidency

Poland's presidency of the EU Council in the second half of 2011 was a major instrument through which our country influenced the EU over the past 10 years. This was both a chance and a challenge. This being our first presidency, we lacked the experience of other longstanding EU Member States. The task was made even more difficult by the Treaty of Lisbon provisions, which we "put to the test" as the first trio Presidency, together with Denmark and Cyprus. Also, we set ourselves ambitious objectives which we wanted to accomplish within a relatively short period. **Most importantly, we were implementing our plans at a time that proved especially difficult for the EU.** The crisis shifted the focus of the pan-European discussion to economic issues, putting many other issues on the back burner. **The EU's integrity was put in doubt. Divisions deepened among EU Member States.** Poland's actions were largely determined by the situation on global markets and the troubles of the common European currency. The fact that Poland was outside the eurozone represented another obstacle for the presidency.

Yet **the Presidency did achieve its priorities and objectives.** The work was very effective. In the course of negotiations conducted by the Polish Presidency we adopted **54** legislative acts, and **made great progress on 64 issues, which made it possible to bring legislative work to an important stage.** The list also comprises 48 conclusions and resolutions, and over a dozen declarations, reports and summaries that the EU Council adopted. During the Presidency Poland dealt with several hundred issues whose goals were attained.

While always bearing in mind the common good, we also safeguarded Poland's national interests:

- keeping as the basis for further negotiations the **EU budget** proposal for 2014–20 which was put forward by the European Commission and benefited Poland;
- keeping an open-door policy towards the **eastern neighbours**;
- shoring up the **single market** to ensure that Poland's economy continues to grow and new jobs are created;
- helping preserve **the EU's unity**. The Polish Presidency promoted a community approach and EU integrity (the "more Europe" idea).

Poland's Presidency of the EU Council – what was achieved:

- we effectively defended the community method, and the Union's cohesion and integrity; we prevented the EU from becoming divided due to the crisis,
- we introduced anti-crisis measures (the so-called six-pack) and initiated a debate on economic growth and ways to enhance the internal market,
- we successfully launched negotiations on the EU budget 2014–20 EU and we helped bring all Member States round to accepting the European Commission's proposal as a basis for further negotiations,
- the Eastern Partnership summit; the agreement with Russia on local border traffic in the Kaliningrad oblast; the conclusion of negotiations on a free trade agreement with Ukraine; the start of negotiations on trade agreements with Georgia and Moldova.

Importance of the Presidency to Poland

The Presidency was an **investment in a more effective pursuit of Poland's interest in the following years.** We gained valuable experience of how the EU operates. After the Presidency, this know-how allowed us to attain our goals in a better and more effective way when acting according to the logic of a Member State.

The EU Presidency helped **improve Poland's image.** The task of presiding over EU work was assigned to a young Polish administration, which proved, notably as chair of the many working groups, that it can manage the process just as well as the more experienced countries. Poland successfully accomplished this task on the merits and in terms of its organisation. This came as a surprise to many in the EU. What also left a good impression was Polish optimism, especially against the backdrop of crisis-ridden Europe.

During the Presidency **Poland proved it has what it takes to be a European leader.** At a time of crisis Poland took on responsibility for the EU. Prime Minister Donald Tusk's speech to the European Parliament in December 2011 and Minister Radosław Sikorski's Berlin address in November 2011 showed that we are not only effective, but we also think in terms of the whole of Europe.

Table 2. Polish Presidency in numbers

184 days	Duration of the Presidency
54	Legislative acts successfully negotiated
53	Sittings of formal sector councils (in Brussels and Luxembourg)
1439	Sittings of working groups
452	Meetings in Poland
Approx. 30,000	Delegates who took part in meetings in Poland
38	Debates at European Parliament plenary sessions attended by Presidency ministers
Approx. 1,200	Trained experts / officials

Source: own data.

Poles in EU institutions

European Commission

Poland has twice achieved its strategic objective of ensuring that a Polish commissioner holds a European Commission portfolio, which gives influence on decisions that help close the development and civilisation gap. Poland's first EU Commissioner **Danuta Hübner** (term of office 2004–2009) was responsible for regional policy. Above all, this allowed Poland to effectively tap into cohesion policy funds thanks to good cooperation with the EC at the levels of programming and implementation. **Janusz Lewandowski** (term of office 2009–14), in turn, took the portfolio of financial programming and budget. This was of strategic importance for the final outcome of MFF negotiations, which proved very beneficial to Poland[23].

Poles in the European Parliament

The European Parliament has played an increasingly important role as an EU institution in recent years. In force since 2009, the Treaty of Lisbon extended

23 For more information see the section *Priorities of Poland's European policy*.

the EP's legislative powers, essentially placing it on a par with the Council, which is made up of Member States' representatives. As a result, the Polish presence in this body took on special significance.

During the **2004–09 term**, Poland was represented by **54 MEPs, who were members of five European political groups (out of a total of seven groups).** The **2009–14 Parliament had 51 Polish MEPs, who belonged to four out of the seven groups.** Poles represent a significant force in the European Parliament, as Poland is part of the so-called big six (alongside Germany, France, Italy, the UK and Spain), which offers us many opportunities to present the Polish point of view. MEPs mostly vote according to their political affiliation, rather than nationality. Consequently, the presence of **Polish parliamentarians in the biggest and most influential groups is of key importance.**

In the current European Parliament (2009–14 term), the biggest number of Polish parliamentarians (29) are members of the European People's Party (EPP). With its 274 MEPs, the EPP is the strongest political group in the EP. Such a strong standing within the EP's largest group has allowed Poland to effectively shape the position of the entire group, and multiply its votes when important decisions were being made. A case in point is the voting on the environmental impact directive in October 2013. Thanks to efforts by Polish MEPs the EPP introduced a party discipline. This led to a situation where the **amendments that would ruin the prospects of shale gas extraction were opposed not only by Polish MEPs, but also by most members of the EP's largest political group.** This sent a clear message to the European Commission that the European Parliament comprises not only advocates of shale gas regulation, but also a strong group of dissenters. This was one of the key factors which dissuaded the Commission from tabling a bill on the issue.

A large representation of Poles in the EPP, the EP's biggest political group, has enabled Poland to successfully seek senior posts for Poles. Between 2009 and 2012, MEP **Jerzy Buzek served as European Parliament President** designated by the European People's Party.

Polish MEPs have kept a number of dossiers on interests important to Poland, with the principal projects being:

- directive on enforcing the Posting of Workers Directive No. 96/71/EC;
- regulation on online dispute resolution for consumers;
- fisheries acts on preserving fishing resources of the Baltic Sea and multiannual plans for fishing Baltic Sea cod and salmon;
- Council Regulation establishing a facility for providing financial assistance for Member States whose currency is not the Euro;
- regulation on specific provisions concerning the European Regional Development Fund.

A parliamentarian from Poland was also involved in drafting the European Council decision on the composition of the European Parliament following the 2014 election. Under the decision, Poland will be one of the countries to retain their number of seats in the next EP term, twelve countries will lose one seat each, and Germany will send three MEPs less pursuant to the Treaty of Lisbon.

Employment in institutions

When summing up 10 years of Poland's EU membership, it is worth noting the presence of Polish citizens in EU structures, something that extends beyond the formal and informal opportunities of impacting EU policies and the operations of a given institution. Awareness of the possibility of co-deciding about and influencing decision processes has continuously evolved ever since accession. Helping our fellow countrymen assume different posts of priority importance for Poland and at decision centres has key importance in this context. The number of employees has been growing since the very beginning of our membership. This growth has been caused by an ever more informed and consistent mechanism of preparing candidates for competitions, and the emphasis on lobbying and promoting careers in EU institutions and agencies.

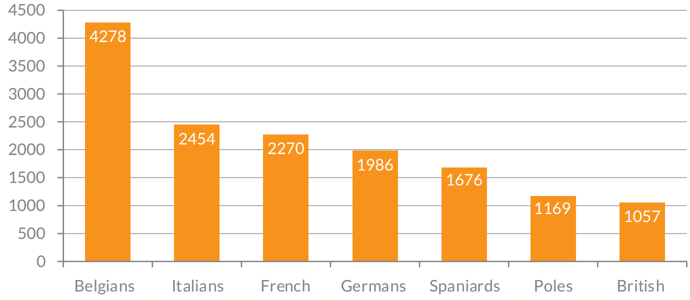
EU institutions and agencies employ a total of 2,679 Poles, with 2,352 working in EU institutions and 327 in agencies (as at December 2013).

As of December 2013, 1,440 Poles were working in the **European Commission,** which is the EU's largest and, as such, most representative institution. A total of 1,169 people (785 women and 384 men) fill the positions of administrators (AD) and assistants (AST), which represents 4.9% of employees from all EU Member States. Moreover, 243 Poles are contract agents at the EC, which is 4.0% of staff from all Member States. As a result, we rank high in terms of employment, taking sixth place after Belgium, Italy, France, Germany, Spain, and before the UK.

Yet Poland is still among the countries which are underrepresented relative to their demographic potential. Out of 731 Poles in the administrator (AD) category, only 113 occupy grades AD9-AD16 that entitle them to run for managerial positions. This is a small number compared not only with large Member States, where the difference can be tenfold or more, but also with some smaller countries of the "old" Union that often have several times more civil servants in this category (Germany – 928, France – 933, Italy – 883, Spain – 732, Belgium – 942, Austria – 203, the Netherlands – 327, Sweden – 278). The employment structure of Poles in EU institutions is characterised by a dearth of higher-grade civil servants, something this poses a major challenge to successful competition with EU-15 citizens for managerial positions.

The 7-year transition period, which lapsed on 31 December, 2010 and provided for extraordinary interim rules on recruiting EU civil servants from the new EU-10 Member States, did not end with filling all senior management employment quotas earmarked for Poles in the EC. Three years after the end of the transition period, **the employment of Poles in middle-management positions (heads of divisions) at the EC Directorates-General is far from satisfactory:** the target quota of 74 such positions to be taken by Poles was filled to the level of 45 at peak time, and now stands at 33. This disproportion becomes apparent in juxtaposition with smaller EU-10 countries, most of which met their quotas by the end of the transition period, with some even exceeding that target. Poland has also failed to fill its quota of 16 director posts at the EC Directorates-General, as only 11 Polish officials of that rank have been recruited.

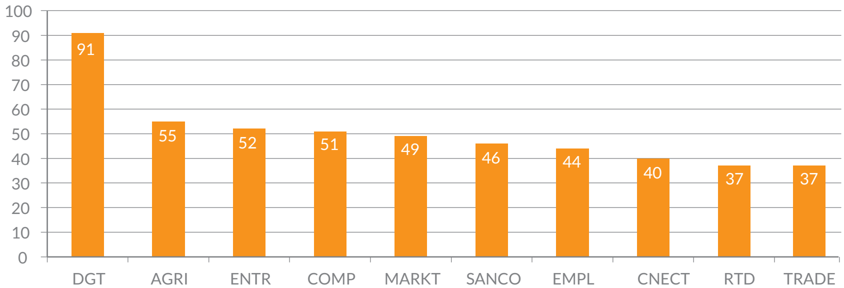
Chart 1. Poles at EC and citizens of some EU-15 countries in positions (AST 1 – AD 16)



Source: European Commission Statistical Bulletin 1/2014.

On the other hand, we are represented in high civil service positions: **2 Poles serve as directors general, and 9 Poles as directors.** We are also represented in the positions of advisors, heads of divisions (35 people), representatives at commissioners' cabinets (21 people), including the European Commission President, and the commissioner for financial programming and budget, which has a Polish head of cabinet. It is important that Poles should be placed not only in high-ranking positions, but also in the lower-ranking and administrative ones, where a decision process can be shaped by drafting analyses and documents, and taking initiatives. In a few years' time this group could rise to the level of middle-ranking civil servants.

Chart 2. Poles in selected Commission's DGs



Source: European Commission Statistical Bulletin 1/2014.

The **EU Council's General Secretariat** is staffed with 104 Poles, of whom 57 are officials, 45 assistants and 2 contract agents. A Pole occupies the position of Director General of the Directorate-General E – Environment, Education, Transport and Energy, **four Poles are heads of divisions and one is a member of the cabinet of European Council President H. van Rompuy.**

Many Poles also work at the European Parliament – 395 people in total, including 198 officials, 39 contract agents, 49 temporary agents and 106 MEP assistants.

Priorities of Poland's European policy

EU budget

Ever since Poland joined the EU, it has been seen as a strategic aim of Poland's European policy to negotiate beneficial solutions under the EU Multiannual Financial Framework. The outcome of EU budget talks was to play a decisive role in shaping the conditions of Poland's social and economic development during at least a dozen years following accession. A negotiation priority was to ensure the maximum funding under the cohesion policy, direct payments and the Rural Development Fund, and to achieve a flexible regime of fund allocation to different purposes, depending on what would be seen as best suited to the needs of Poles. It was also necessary to maintain a just system of EU budget contributions. Ten years after accession, it is fair to say that the policy which was designed years ago and consistently implemented **produced the best results Poland could have hoped for.**

In the 2007–13 budget, Poland negotiated PLN 422 billion, and for the years 2013–20 it has secured as much as PLN 441 billion[24]**.** This means that PLN 18.8 billion more will be allocated to the next decade[25], despite the MFF itself being scaled down after 2014. In the coming seven years, Poland will be the major EU budget beneficiary (in 2007–2013 Poland was second only to France).

Although the negotiation environment was unfavourable to Poland (weaker bargaining position of new countries in the 2007–13 perspective and net payers pushing to cut the EU budget in 2014–20), the outcome represents a great achievement, which we owe to a carefully planned and consistently implemented strategy that was launched well in advance. Even though the EU budget for 2014–20 will shrink by nearly EUR 40 billion relative to 2007–13, fund allocation for Poland has increased.

Such a good outcome of negotiations over the 2014–20 perspective was made possible by a plan that had been consistently implemented since 2010. A key role was played by Janusz Lewandowski, a Pole who was appointed Commissioner for EU budget in 2010. The Commission's initial budget proposal was very well-balanced and based on principles beneficial for Poland. Among other things, this allowed the cohesion policy to be kept in its existing uniform shape, despite plans to dismantle it and shore up sector instruments. The EC proposal also put an end to a discussion on separating the European Social Fund, whose allocations were then to be based on the unemployment rate, a solution favoured by Southern European countries, which are especially hard hit by this problem. Moreover, Commissioner Lewandowski blocked the suggestion that

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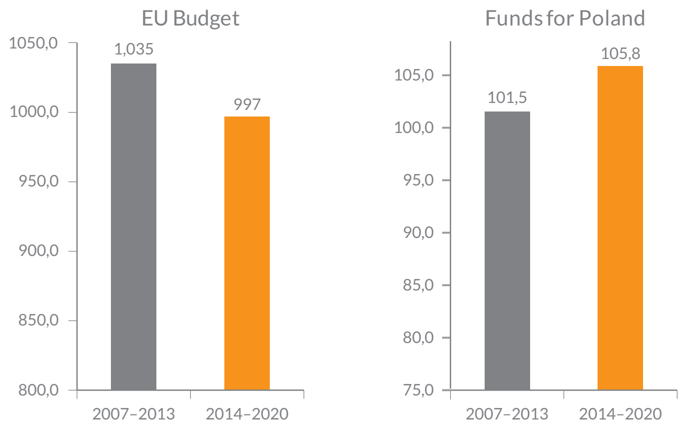
24 The data herein are expressed in fixed prices from 2011, unless otherwise indicated. Conversion according to NBP rate of 8 February 2013 (EUR 1 = PLN 4.1670), i.e. as of the date of the MFF 2014–20 agreement in the Council.

25 Poland negotiated PLN 415 billion for 2007–13 and PLN 498 billion for 2014–20 (in current prices). PLN 83 billion more will be allocated to Poland.

Chart 3. EU budgets in 2007–13 and 2014–20 and funds allocated to Poland in 2011 prices (in bn EUR)



Source: Own calculation based on European Commission data.

the proceeds from CO_2 emissions trade be transferred from national budgets to the EU budget, a move that would have considerably increased Poland's contribution to the EU budget.

Poland used the asset of the Polish Presidency of the EU Council in the second half of 2011. Among other things, Poland presided over the work of most sector councils. As a result, the beneficial for Poland draft budget that was put forward by the EC was taken as a basis for further negotiations.

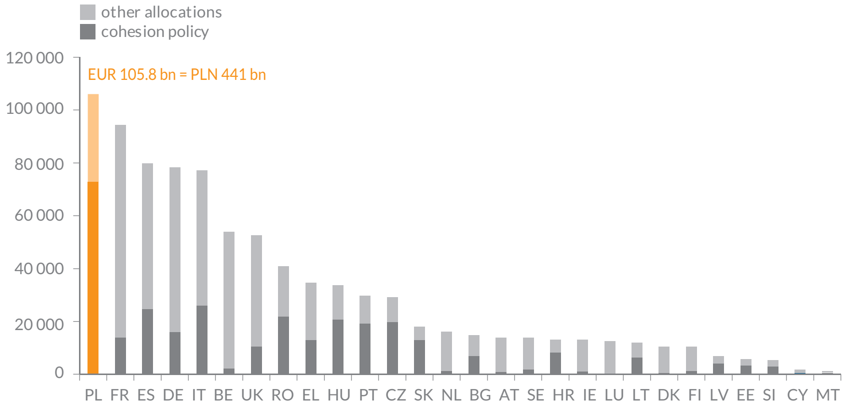
At the outset of negotiations, the three biggest net payers (Germany, France and the UK) advocated a vision of the EU budget that was different from Poland's (in December 2013, the three major EU countries addressed a letter to the Commission, asking that the future budget be frozen at the nominal level of 2011). In time, though, we managed to win them around to the idea of a more flexible and ambitious budget. In November 2012, i.e. shortly before Council negotiations were concluded, President Hollande reassured Prime Minister Tusk that France would not demand cuts in the cohesion policy budget. In exchange Poland declared that it would refrain from postulating reductions in direct payments in the countries where such payments were biggest.

A key to successful budget negotiations was bringing together a **coalition of Friends of Cohesion group**[26] **and developing a common line with the Visegrad Group countries,** which gave us a say in the Friends of Cohesion group.

We would present the cohesion policy as a major instrument for stimulating growth in all Member States. Not a relic of the past, as some net payers would claim, but a solution for the future. Thanks to our efforts, in 2011 (a year after Poland's Presidency) cohesion was officially recognised as a key means of ensuring EU economic growth. The outcome was a win-win situation, both for us and the cohesion policy at large.

26 For more about Poland's cooperation with the friends of cohesion group and the Visegrad Group see the section *Methods we used to change Europe.*

Chart 4 EU budget funds for Poland in 2014–20 relative to allocations to other Member States, in fixed prices for 2011 (in bn EUR)



Source: Own calculation based on European Commission data.

Poland's cohesion policy envelope will increase from EUR 69 billion in 2007–13 to EUR 72.9 billion in 2014–20. Converted into Polish zloty, this amounts to PLN 303.6 billion. Poland will receive by far the biggest allocation from this fund. This represents one of Poland's finest negotiation achievements in light of demands to sacrifice this fund for the sake of a leaner EU budget.

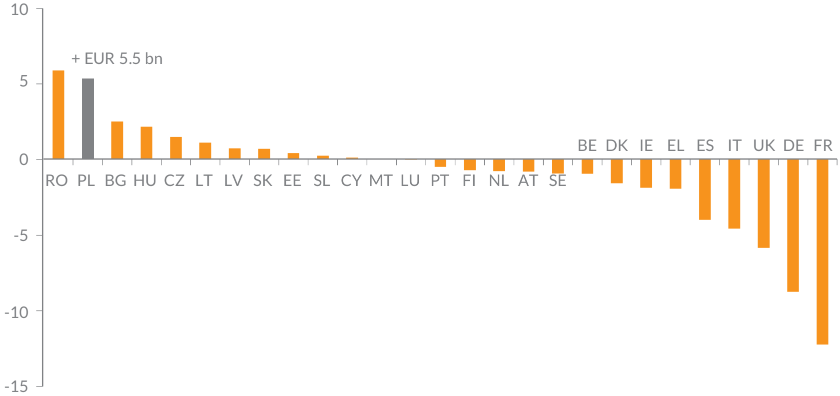
Yet it was far from obvious what shape the agreement would take in the end and where the negotiations would lead. **Poland successfully eliminated one of the major threats in the MFF 2014–20 negotiations,** namely the proposed introduction of a reversed safety net. Under this mechanism, cohesion policy funds for individual countries could not exceed the threshold set in the 2007–13 perspective. As a result, Poland would have received less, and the principles Poland stood for from day one would have changed. To block this harmful proposal a large-scale diplomatic operation was mounted, in coordination with institutional partners and allies from the Friends of Cohesion group. The efforts paid off, and Poland's allocations were not reduced by the mechanism.

Polish farmers, in turn, benefited from a change in the nominal amount of direct payments. After they had reached the full amount and thanks to convergence, Poland received EUR 5.5 billion more for payments in 2014–20 than in the 2007–13 perspective.

With Poland now being able to transfer up to 25% of funds from pillar II to pillar I of the agricultural policy, direct payments will not be lower than in 2013.

Although attempts were made at the final stage of negotiations to concentrate cuts on the Rural Development Fund, **in 2014–20 Poland will get more funds under the Common Agricultural Policy (an increase from EUR 26.9 billion to EUR 28.5 billion).** This means that Poland will be the fund's fifth largest beneficiary, with a total 2014–20 allocation of PLN 118.8 billion. It should be emphasised that rural areas will benefit not only from the Rural Development Fund's support, but also from the cohesion policy, which, among other things, aims to ensure cohesion between rural areas and other EU regions.

Chart 5. Nominal change in direct payments in 2014–20 relative to the 2007–13 NFP, in 2011 prices

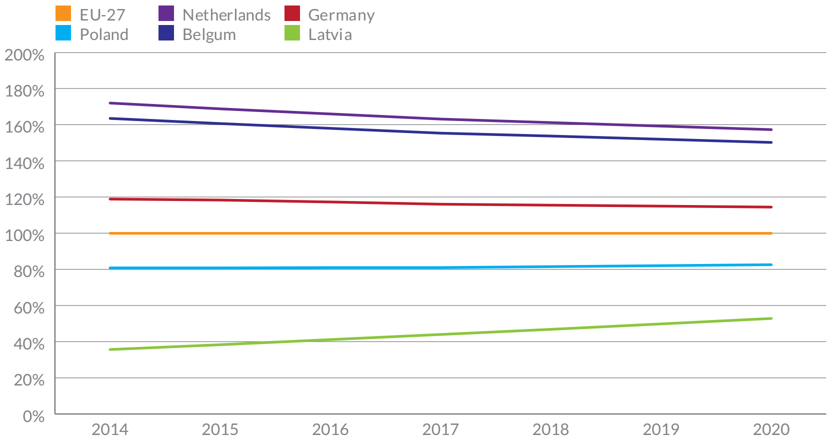


Source: own calculation based on European Commission data.

An objective Poland set itself during the 2014–20 MFF negotiations was also to ensure that specific solutions concerning access to funds are not worse than in the 2007–13 perspective. Poland managed to maintain the existing rates of EU co-financing, i.e. 85% (and 80% for the province of Mazovia, classified as a more highly developed region). Thanks to this Poland's national budget could save as much as EUR 11 billion.

Furthermore, VAT became an eligible cost, which will allow Polish beneficiaries (primarily self-governments and state budget units, but also NGOs) to reduce their actual contribution to European projects by as much as EUR 7 billion.

Chart 6. Progress of direct payments convergence per hectare in 2014–20 (% of EU-27 average) – projection before transfers between CAP pillars



Source: Own calculation based on European Commission data.

Above all, budget negotiations are a great game of national interests. Yet, despite the nature of this process and Poland's achievements, we left no scorched earth behind. On the contrary, we convinced other Member States that Poland and Europe alike stand to gain from an ambitious EU budget. Poland proved to be a credible European partner in both carrying out Community objectives and spending money from the common budget.

Internal market

Prior to joining the EU, there was widespread concern about our companies' ability to compete with EU firms. Ten years on, we are increasingly successful in the world's biggest market of 500 million consumers, an achievement we owe to the competitive edge of our companies and workforce. Little wonder then that **expanding the EU market's four fundamental freedoms and their defence, if threatened, have been of fundamental importance to Poland.** This also explains why Poland has sought to broaden the EU internal market from day one of its membership.

Liberalising services

The services directive posed the first and major challenge. At the time, Poland was leading a coalition calling for liberalisation of the EU services market (accounting for 70% of the EU's GDP). Despite massive public opposition in the so-called old Union, a sentiment that manifested itself in the 2005 French and Dutch referenda defeats, Poland came out victorious and managed to have the services directive adopted, albeit after modifications of the initial draft. In the meantime, Polish plumbers and nurses have come to symbolise reliable workers throughout Europe.

Along with the UK, the Nordic countries and other Member States, Poland formed a market-oriented coalition which set out to reinvigorate the four freedoms and liberalisation tendencies. This involved a great deal of tension, which was attributable not so much to the growing competition between the market-oriented economies and the rest, but rather to the mounting global pressure, chiefly coming from Asian countries. The relocation of companies and whole industrial sectors from so-called old Europe to Asia led to frustration. Blame for this situation was laid on new Member States.

Agenda for growth – Polish Presidency's priority

During its Presidency of the EU Council (which coincided with the crisis), Poland spoke for the entire EU when it was talking about the need to develop the internal market, seeing it as the main driving force behind economic growth. This was the top priority of the Polish Presidency. That this priority had been well chosen was affirmed by the World Bank, which the Polish Presidency commissioned to dissect Europe's model of economic growth.

Poland headed a liberal coalition of North European and new Member States. The coalition would sometimes be joined by such countries as Italy or Spain, which in 2012 called for a pan-European growth plan. Within the coalition of countries we acted as one of the leaders, urging a deepening of the internal market.

Digital agenda

In recent years Poland's political initiative has been focused on the digital market, as this issue has been given more priority in the European economic agenda. There is a widespread belief that a dynamically expanding digital market could give the EU's economy a boost of over 4% GDP by 2020. This is especially important to Poland, with our digital sector growing at a rate of 14% annually and expected to grow further still. For European partners, Poland's experience gained during negotiations of ACTA could be a valuable contribution to the public dialogue on regulating the internet market.

Defence of free movement of persons

The crisis and growing public dissatisfaction have led to a resurgence of protectionist sentiments, even in such countries as the traditionally liberal UK. Having braved the controversy surrounding "the Polish plumber" in the first years of membership, we are now witnessing a return of the debate on the free movement of persons in the context of hundreds of thousands of Polish workers employed in the EU. Consequently, Poland will need to focus more on defending what has been achieved so far, rather than only on acting to help the market develop. Also, it should be expected that nationalisms will return under the mantle of industrial policy, with wealthier countries attempting to massively subsidise their industries.

Eastern policy

The time of the EU's largest ever enlargement coincided with new challenges arising in Poland's eastern neighbourhood. The so-called colour revolutions in Georgia in 2003 (the rose revolution) and in Ukraine at the turn of 2004 and 2005 (the orange revolution) created political space for the EU to become more involved. Besides a change for the better, we also saw events that made it harder to pursue policies. In 2008, Georgia fell victim to Russian aggression that wrested part of its territory from under its control. In 2010, there was a brutal crackdown on the opposition in Belarus and a consolidation of its authoritarian rule. The situation in the east was further exacerbated by so-called frozen conflicts in Transnistria and Nagorno-Karabakh.

The quick pace of events was also evident during the Ukraine crisis; the Maidan uprising and the toppling of President V. Yanukovych's regime have opened the door to authentic political and economic reforms in Ukraine. Russia's military aggression in Ukrainian territory in response to the Maidan victory has once again thrown into sharp relief the scale of the challenge the eastern policy poses to the EU.

In this context, **the biggest institutional success of the past decade was the launch of the Eastern Partnership (EaP) in 2009.** The Poland-Sweden initiative has won broad support within the EU. On balance, nearly 5 years of the Partnership's operation and overall EU policy towards the post-Soviet area seem on the whole positive, yet real change in eastern partners is still in the offing. The Eastern Partnership has been an instrument for building support inside the EU for a European perspective for Ukraine, Moldova and Georgia. How important the EU offer has been is evident from the fact that the Ukrainian president's refusal to sign the Association Agreement was a direct cause of protests that led to a revolution in Ukraine.

It was largely thanks to the Eastern Partnership that Georgia, Moldova and Ukraine were offered the opportunity to sign a number of agreements, including those on association and free trade area with the EU, as well as liberalising and later abolishing the visa regime. The rather modest results of the third Eastern Partnership summit in Vilnius have not changed that state of affairs. Today the prospect of such far-reaching legal integration with the EU of countries which were part of the Soviet Union for several decades can be seen as a success.

Local border traffic (LBT) agreements between Poland and Ukraine, and Poland and Russia came into force in 2009 and 2012, respectively, thanks to intensive efforts by Polish diplomats, MEPs and other institutions. Permits issued under the LBT agreements allow for multiple entry, exit and stay in the border area of both countries. Persons with a permanent residence in the border area for at least three years are eligible for the permit. So far close to 450,000 permits have been issued under the LBT deals, including 210,000 on the Ukrainian side, 184,000 on the Russian side, and 46,000 on the Polish side of the border with the Kaliningrad Oblast.

LBT has boosted cross-border trade, stimulated economic activity in the region, and improved the standard of living of households. This, in turn, has impacted the volume of border traffic and spending by foreigners in border areas. LBT traffic grew each year as did its share in the number of foreigners crossing the Poland-Ukraine border. In 2013, LBT with respect to foreigners stood at 7.5 million, i.e. 1.5 million more than in 2012, 2.4 million more than 2011 and 3.9 million more than in 2010. It also became more dynamic: in 2010–2013 the share of foreigners crossing the Poland-Ukraine border on local border traffic permits in the total border traffic of foreigners at the Poland-Ukraine border rose from 40.6% in 2010 to 51.7% in 2013. **Between 2009 and 2013, foreign nationals crossed the Poland-Ukraine border 22.4 million times under LBT, spending in Poland PLN 5.8 billion.** The measurable benefits of the agreement are the growing number of aliens crossing the border, the flourishing of cross-border trade, and more intensive people-to-people contacts.

Even so, the past decade has also seen some negative phenomena and trends develop in the post-Soviet area. Their roots reach deep into the problems inherited by the young, independent post-Soviet states, difficulties that were overlaid by later events and processes. Try as it might to assist through bilateral measures and EU channels, Poland had very limited capabilities for alleviating these problems.

Central Asian countries are still far from stable. The ongoing pull-out of stability forces from Afghanistan poses a challenge to these countries' security and territorial integrity. Despite considerable difficulties and challenges, the level of EU activity in the region is continually rising. Through efforts by Poland and other Member States, it was possible to draft and adopt an EU-Central Asia Strategy for a New Partnership in 2007. The strategy defines EU goals and means of attaining them in a region that is gaining more geostrategic weight.

The EU eastern policy also encompasses relations with Russia. Hopes attached to the Partnership for Modernisation and Russia's gradual democratisation, especially during Dmitry Medvedev's presidential term of office, were dashed. Instead, the authorities took a tougher stance on opposition activists at the turn of 2011 and 2012. Events surrounding the Vilnius Summit left no doubt that Russia sees the post-Soviet area, in geopolitical terms, as its exclusive sphere of influence. For this reason, the EU's presence in Ukraine or Moldova was not welcomed by the Kremlin.

Throughout the decade Poland has been one of the most active EU Member States in the field of Eastern affairs. Despite many critical voices about Poland's scepticism towards Russia, Polish diplomats would often succeed in convincing European capitals that Poland's reservations were warranted. At the same time, Poland's Russia policy has consistently grown more pragmatic. A testament to this is the booming trade and the already mentioned local border traffic deals with the Kaliningrad Oblast and Ukraine.

Failures of the EU's eastern policy notwithstanding (many of which were caused by objective obstacles difficult to surmount), Poland has been playing a growing and increasingly appreciated role in this policy during the whole decade. This is confirmed by the prominence of the eastern component of the European Neighbourhood Policy, a growing interest among many European capitals in developments occurring in the post-Soviet area, and such facts as the number of visas Polish consular services issue to Ukrainians or Belarusians.

Many European politicians and officials view Poland as an expert on Eastern affairs. This is great capital, but also a big responsibility. In the coming years, the activity of Poland and the EU in the East should be based on a thought-through strategy(,) and close cooperation with European partners, both large countries and Poland's neighbours in the region. Such a scenario is much needed not only given Poland's position within the EU, but also with a view to challenges lying ahead of the post-Soviet area, which directly affect the stability and security of Poland's immediate geographical neighbourhood.

Energy policy

Poland and the region's other 11 countries that joined the EU in 2004 and 2007 have significantly changed the way the EU views and shapes its energy policy. From the very beginning, Poland has been an effective champion of Central and Eastern European countries that need to grapple with unfavourable geographic and market conditions in the energy field. It is thanks to Poland that the enlarged EU is now facing up to these challenges. By mentioning the security of EU energy supplies among EU energy policy goals, the Lisbon Treaty of 2009 reinvigorated this policy, an issue of paramount importance to our region. Poland supported the idea of strengthening this section of the Treaty, and after 2009 was busy translating these provisions into European practice in the EU. However, it was only the Ukraine-Russia crisis of 2014 that drove home the need to take concrete steps and ensure the EU's energy security. Poland seized this opportunity to promote the idea of the "Energy Union" as a priority European policy project.

When joining the EU, we were given a new instrument of regional integration. Along with other countries of the region, Poland was a **catalyst for building a common energy market and eliminating the so-called energy islands**, which is to say countries or regions within the EU that are isolated from other

Member States' energy grids. Without EU membership, gas interconnectors between countries of the region would no doubt have taken much longer to build.

Poland played an active role in drafting **modern regulations on energy market liberalisation** (the so-called third energy package, adopted in 2009). Under enhanced competition rules, the energy market has opened up to new energy suppliers, which vie for the end consumer. As a result, energy consumers can now pick and choose among the suppliers and look forward to attractive offers.

Poland successfully campaigned to **develop mechanisms of response and solidarity in the event of a gas crisis as part of the EU security of supply legislation** adopted in 2010. Formulated with Poland's active participation, these provisions provide a safety net in the event of a disruption in gas deliveries, as was the case in Central and Eastern Europe in 2006 and 2009. Poland and the Visegrad Group countries have successfully tabled a grassroots initiative to expand the region's energy infrastructure at the EU level. The list of projects eligible for co-funding of up to 75% under the Connecting Europe Facility now includes all key infrastructure projects in Poland and the V4 region. These comprise installations for gas transmission not only from east to west but also on the north-south axis, as well as power interconnection projects that will make trading in electric energy possible across borders.

A natural consequence of EU enlargement was an invitation to apply EU energy market rules that foster competition among energy suppliers and help diversify energy sources. This was also possible thanks to the establishment of the Energy Community in 2006, with such countries as Albania, Montenegro and Ukraine.

Moreover, Poland has successfully introduced such topics as the impact of high energy prices on the EU's global competitiveness into the European debate. Thanks to our efforts, the issue of providing consumers in the EU with affordable energy features high on the European Commission's agenda.

Today, Polish arguments and suggestions about intensifying efforts to build a common energy market and bolstering the energy security of the EU, its regions and Member States are reflected both in EU energy market legislative initiatives, and the enforcement by the European Commission of established rules with respect to entities that fail to comply by abusing their dominant market position.

Today the European Commission adheres to the same principles both in bilateral relations with third countries and in its relations with international organisations dealing with energy. Also, the EC is involved in negotiations of agreements between Member States and countries supplying energy. This raises the bargaining power of Member States and ensures that bilateral arrangements are consistent with EU legislation.

In addition to persuading its EU partners to become more involved in energy issues, Poland has also been able to dissuade them from imposing legislative restrictions on the shale gas sector, arguing that there were no grounds for it, which is something many participants of the European debate have demanded. Poland's success in soliciting support for our strong position on this issue from the UK, Central and Eastern European countries, including the V4, has **made it possible to limit the EU's actions to non-binding recommendations on safe shale gas extraction in the EU, which were put forward in January 2014. As a result, the European Commission has dropped its earlier legislative initiatives in this field**, which would have resulted in legal uncertainty and would have placed an additional burden on this promising sector.

The table below presents actions that Poland's representatives have taken in different EU institutions, and the engagement of citizens.

Table 3. Selected actions on EC's shale gas initiative that Poland's representatives have taken in EU institutions.

ACTION	RESULT
POLISH PUBLIC OPINION	
Mobilizing citizens to take part in EC public consultation on shale gas (Dec.2012–Mar.2013).	53% of replies are from Poland, most in favour. Poles are the most active group of respondents.
"Let's talk about shale" info campaign; shale-themed website.	Over two-thirds of votes in favour of shale gas, the highest approval rating in the EU, according to public opinion polls.
EUROPEAN COMMISSION	
Intensive informal consultations with EC officials	Polish arguments accepted at the stage of work in the EC.
EUROPEAN PARLIAMENT	
Supporting Polish MEPs during the drafting of shale gas reports and resolutions.	• EPP's party discipline against amendments to the environmental impact assessment (EIA) directive running counter to shale gas exploration → new balance of power: not the whole of the EP sceptical about shale gas, but only the left and greens; • Mandate to negotiate with EP passes by slim majority → weakened position of rapporteur endorsing stricter shale gas regulation → all unfavourable amendments rejected at a later stage.
EUROPEAN COUNCIL	
Convincing prime ministers of V4, RO and EE to join PL and UK in blocking solutions running counter to shale gas exploration.	Formation of a blocking minority in the Council, which resulted in dismissing strict shale gas proposals in draft EIA directive.

Source: Own data.

Climate policy

One of the principal political challenges during Poland's 10-year presence in the EU was to reconcile Polish interests, which are shaped by the nature of our economic model, with the ambitious goals of EU's climate policy. This policy was given a green light in March 2007, when heads of state and government agreed on three climate and energy objectives (3x20%), which were to be binding for the whole EU. In the following years Poland's European policy focused on limiting the negative effects this decision had on our country. What made negotiations difficult was Poland's unique place among other EU Member States – whereas 84% of electricity is produced in Poland from coal, in most other Member States this figure does not exceed 30%. Poland expended much of its political capital on climate negotiations, and its image suffered a setback (becoming a symbol of EU's environmentally unfriendly blocker). All in all, much has been achieved given the starting point in 2007.

Poland negotiated an extension of the transition period necessary to modernise its electricity generation sector. Also, we were granted more greenhouse gas emission allowances as part of the energy and climate package in 2008. Poland's chief aim to try to reverse the provisions of the energy and climate package, and minimise the risks posed by its entry into force has been achieved. The final outcome was greatly influenced by an alliance Poland had built with Central and Eastern European countries to change at least some of the unfavourable parts of the package.

Ahead of the climate summit (COP15) in Copenhagen, Poland managed to eliminate the risk that Member States' financial contribution to EU assistance for developing countries woulddepend on the emissions level. If approved, this would force Poland to pay much more than some wealthier Member States. In view of Polish reservations, it was ultimately decided in the EU that the burden of any EU financial assistance provided for developing countries to fight climate change would be shared among Member States in proportion to their affluence.

Successful chairmanship (together with the Commission) on behalf of the EU of COP17 in Durban during the Polish Presidency of the Council of the European Union in 2011. The conference agreed to set a goal of reaching a global climate change agreement by the end of 2015, so that it could come into force after 2020 and replace the Kyoto Protocol.

Successful hosting of climate change summits in Poznań (COP 14 in 2009) and Warsaw (COP 19 in 2013). One of the COP19 achievements was to design an agenda for a global climate change agreement, which under a COP17 decision is to be concluded at COP21 in Paris in 2015. The summit's good organisation in terms of substance and logistics is evidence of Poland's strong involvement in global climate negotiations. This challenges the stereotype, persisting in the EU about Poland being a country that only blocks EU's climate actions.

Difficult attempt at redefining the EU climate policy so that it pays more attention to the economic aspect, i.e. consequences of the economic and financial crisis, the need to keep EU Member States' economies competitive, and their different economic, geographic and geological backgrounds.

In the EU, Poland succeeded in preserving the so-called conditionality of increasing the emissions target from 20% to 30% by 2020. This means that any switch to a higher reduction target prior to 2020 depends on comparable efforts by the world's other major economic powers.

Contrary to the – oftentimes unfair – cliché about Poland as a polluter of the environment, **in the course of more than 20 years (1988–2011) our country succeeded in decreasing emissions by nearly 30%, while simultaneously multiplying its GDP 2.5 times. In this respect, Poland has achieved much more than the EU-15 countries.** Such a dramatic reduction in emissions was largely due to the fact that in the 1990s and in 2000–09 Poland kept reducing the energy intensity of a number of major industries: paper (by 59%), steel (by 40%) or cement (by 39%)[27].

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27 National Centre for Emission Balancing and Management (KOBIZE), *A Success Story of Effective Decoupling. Costs and benefits of the Polish Transformation*, Warsaw 2013, http://www.cop19.gov.pl/poland-a-success-story-of-effective-decoupling, pp. 8–9 (26.03.2014).

Economic crisis and eurozone reform

The economic and financial crisis has laid bare the eurozone's weakness, and created a political will to carry out reforms. This process is of strategic importance. It charts the future course of European integration. It determines the division of powers among countries and EU institutions alike. It redefines the eurozone's shape, and the framework of the EU's social and economic model. Though not a eurozone member, Poland has played an active and effective part in this process. In order for Poland's strategic objective of joining the eurozone to be fulfilled, the zone must reform itself to minimise any risks and maximise possible benefits once the common currency is adopted.

Poland has gained much political weight thanks to its healthy economy and a successful EU Presidency. We have become one of the leading actors in the debate on eurozone reform; we have left our mark on new solutions and the directions in which they will evolve.

We have inspired European solutions: the Fiscal Compact is modelled on **Poland's financial safety ceiling** laid down in the Constitution. A system of deposit guarantees now being created draws on the Polish **Bank Guarantee Fund,** an institution with a well-established position, 20 years of experience, and considerable financial reserves.

Poland has successfully attracted Europe's interest to **our experience of cooperating with the World Bank on implementing structural reform contracts.** They can serve as a blueprint when designing an EU convergence and competitiveness facility for supporting the implementation of EMU structural reforms.

We have made a significant contribution to reforming the Stability and Growth Pact. **During Poland's presidency the so-called six-pack was agreed, which strengthened fiscal discipline, provided for more severe sanctions for breaching it, and created an early warning and correction mechanism for macroeconomic imbalances.**

Poland has consistently advocated a more effective economic governance and better safeguards against future crises of the eurozone. This lies in our interest, as close to 50% of Polish trade is with the eurozone, and approximately 60% of assets of Polish banks are controlled by eurozone banks.

Our efforts have made it possible to keep the eurozone reform open-ended, and prevent divisions within Europe from becoming deeper. The **Fiscal Compact**[28] **has been opened up to non-eurozone countries;** today we can attend euro summits to discuss the eurozone's architecture and competitiveness. We have confirmed that the eurozone reform need not narrow down the hard core of integration to eurozone countries. This way Poland has retained its influence over decision-making in the Union, and manifested that despite being outside the Eurozone, it wants to cooperate within the EU.

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28 Compared with the Stability and Growth Pact, the Fiscal Compact has first and foremost imposed stricter rules on eurozone countries' budgetary equilibrium. The states – signatories who share a common currency are obligated to keep their budgets structurally (i.e. regardless of the economic cycle) balanced. Some member states would only accept the creation of a permanent assistance facility (European Stability Mechanism) on condition that the Fiscal Compact was agreed.

On Poland's initiative, non-eurozone countries have been allowed to engage in close cooperation at stage one of the banking union, which is oversight of the banking sector. The conditions of our possible involvement are very good; we have the right not to apply decisions that have fiscal consequences. Today no one is calling into question the openness of subsequent stages of the banking union to non-eurozone countries.

In line with our proposals, **the subsequent comprehensive EMU reform, covering the banking, fiscal and economic union, will be inscribed in the European Union's institutional and legal framework**[29]. Another Polish achievement was a **confirmation of the openness principle for non-eurozone countries** when setting directions for future EU development.

We have initiated actions to maintain the cohesion and integrity of non-eurozone countries, and prevent their potential marginalisation. The Polish presidency has put forward rules guaranteeing that decision-making within the eurozone would remain open to the entire EU[30].

Poland has **ensured that new solutions are open to non-eurozone countries.** At the initial stage of reforms Poland focused on preventing divisions and adopting solutions that would include all EU countries. Even as reforms became more ambitious and some non-eurozone countries showed no interest, the emphasis shifted to retaining the openness principle. **Poland has successfully introduced the euro+ format, which enables the non-eurozone countries that show interest to become involved in new measures as full members.**

Also, Poland suggested shoring up the Community method and inscribing the new solutions in the EU's institutional and legal framework. This method is better at taking into account the interests of all Member States (rather than only the most powerful Member States), and enhances the EU's integrity.

Debating the EU's future

A major political incentive that spurred Poland into action during accession was the ability to co-determine the future of a united Europe. Since 2004, our strategic objective has been to become part of the decision centre that sets the future direction of European integration. What added political weight to Poland's voice in the EU was our immunity to the economic crisis in the EU and our stable government after 2007. Poland's standing was further improved by our first Presidency of the EU Council in the second half of 2011, something that has been generally acclaimed. Poland is increasingly being perceived in its triple role: a regional leader, a member of the Big Six comprising the EU's biggest and most influential countries, and a country that fosters cooperation along the North-South axis among Baltic and Nordic countries.

During the 10 years of its presence in the EU, Poland has consistently advocated enhancing the Community method. Unlike the intergovernmental method, where Member States play a leading role, this principle of EU operation

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29 Unlike the first phase of anti-crisis measures, which were based on intergovernmental treaties (Treaty Establishing the ESM, Fiscal Treaty).

30 Non-paper of the presidency on EU integrity *Preserving the integrity of the European Union while strengthening euro area governance. Polish presidency 'food for thought*, December 2011.

is based on strong European institutions, especially the European Commission. Poland continues to view the European Commission as an ally that represents the interests of the EU at large, and is capable of counterbalancing the weight of the largest EU countries.

In the debate on the EU's future, Poland has been highlighting the importance of **maintaining the EU's integrity as a project, and of promoting open and inclusive solutions.** We have reacted nervously to all "smaller circle" initiatives, fearing they could lead to new divisions. This was the initial thrust of Poland's position on solutions to reform the crisis-hit eurozone. Poland successfully sought to scale down the eurozone's institutional scale.

Negotiations of the Treaty of Lisbon. It was the first treaty that Poland negotiated as a full EU Member State, if not one fully versed in the mechanics of EU decision making. The outcome of negotiations was the best for Poland. **Poland's political standing within the EU and our considerable ability to form coalitions have suffered since the Council's voting system was changed from weighted votes to double majority voting.** A welcome development is postponing the application of this rule until 2014, with an option to return to the Nice system by the end of March 2017. In addition, Poland successfully negotiated a provision whereby a **permanent Polish Advocate-General is appointed at the EU Court of Justice** – alongside Germany, France, Italy, Spain and the UK.

During Poland's presidency of the Council, we also brokered several agreements between the Council, the European Commission and the European Parliament: the compromise on correlation tables unblocked legislative work, made decision-making more transparent, and resulted in more effective checks on EU law application, without imposing excessive administrative burdens on Member States. The agreement on EU statements delivered in international organisations, brokered by Poland in consultation with the European Commission and the EEAS, has helped resolve a standoff that used to weaken the EU's position and prevent it from speaking with one voice in such international organisations as the UN or OSCE.

Minister Radosław Sikorski's address "Poland and the Future of the European Union," delivered in Berlin in November 2011, has attracted much attention in the EU. Partners from other EU Member States commented at length on the Polish voice in the debate about the direction the EU should take as an institution and a political force to be able to embrace the challenges brought by the economic and financial crisis. It confirmed Poland's ambition to play the role of an EU leader.

Looking ahead

The tenth anniversary of EU membership is Poland's day of success. We are concluding the ten first years in the EU with a very good result, given that circumstances have not always played to our advantage. In view of the positive outcome, it seems fair to say that **what Poland's European policy needs is a continuation.** We should build our future position on the capital of experience we have gained in recent years. Poland must put down even deeper roots in the European process, which should lead to close cooperation with European institutions. **Maintaining credibility and a good reputation** will be key; in Europe, they represent a very valuable capital that yields a high interest.

In the short run, the chief tasks for 2014 are to ensure that the presence of Poland and Poles in the EU's new institutional composition corresponds to its potential and needs. Poland should get ready for new ways of making decisions by **increasing its presence in the European Commission.** Poland's strategic objective should remain to have an effective bearing on legislative initiatives that are being drafted by the European Commission. We should redouble our efforts to increase Polish representation in this institution, both in middle-ranking positions and in directorates that are important to Poland. Poland's shaping of EU law through the European Parliament will come to play an ever more prominent role. Hence, it will be of strategic importance that **as many Polish MEPs as possible sit in the European Parliament's leading and strongest political groups.** More capital should be invested in cooperation with Polish MEPs to impact decision-making inside the Parliament. In particular, it will be important to reflect on how to best place Polish MEPs in key legislative committees.

Poland's overriding strategic goal in the EU for the forthcoming years will be to **remain in the mainstream of integration,** and to **actively shape EU policies so that they dovetail with Poland's needs and development model.** From this perspective it will be vital to ponder what consequences the Ukraine crisis and the conflict with Russia will have for the EU energy policy. **Poland should advocate building the "Energy Union" as a new strategic EU project** that will aim to shore up the energy security of EU countries.

Staying in the mainstream of integration while being outside the eurozone during the next few years is an enormous challenge. The deepening of integration around the eurozone, a tendency we have clearly seen for several years now, is expected to continue. As this direction has strong supporters among Member States, we can assume it will become more pronounced, also institutionally. As a result, Community institutions, especially the European Commission, could become weaker, while the intergovernmental thrust of EU development is likely to become even stronger. The process of integration could suddenly "take off" and leave Poland stranded on the periphery (again). In addition, we are in for a discussion on **the eurozone budget.** If created, it will contribute to restricting the EU's general budget, a fact that Poland should reckon with.

Poland should rise to this challenge, **first through activity and engagement in the process of eurozone integration, which is a matter of importance to**

Poland as a future eurozone member. We must sustain our efforts to make sure **eurozone initiatives are open** to Member States who are interested in cooperation. When reforming the eurozone, we should aim to strengthen the European Commission. We should seek to create favourable conditions for Poland to participate in integration projects under the Economic and Monetary Union, including the banking union, and in structural reform contracts, no matter what the final decision about possible participation in these initiatives is. Second, even as the eurozone is integrating, **Poland's economy needs to prepare for the adoption of a common currency in a consistent way.** Competitiveness needs to be boosted, not only with a view to long-term growth prospects of the Polish economy, but also to avoid marginalising Poland. The umbrella of the European Central Bank could serve as an additional guarantee in case of any regional volatilities. The experience of the crisis in Ukraine shows that such a scenario needs to be reckoned with.

A common market based on the free movement of goods, services, persons and capital is the foundation of Poland's presence and success in the EU. The strategic question of how to **protect the common market**, which for Poland is a source of prosperity, will continue to accompany us in our day-to-day debate on EU membership. For this reason, Poland will be sensitive to EU initiatives that only try to address the post-crisis populism and protectionism. **Poland will be aggressively pursuing its interests in the fields of the internal market and the four freedoms,** in particular regarding the free movement of persons and services, by pointing to their fundamental nature defined in the Treaty and countering adverse changes to EU legislation. Poland will strongly **oppose any solutions that could discriminate against migrant workers.**

For many years to come, Poland will rank close to other countries of the region in terms of social and economic development. Therefore, Poland should **continue its close cooperation with the Visegrad Group countries**, all the while seeking and building other stable alliances in the EU (e.g. with the Baltic countries or Romania).

Poland's great capital during the 10-year EU membership has been broad public support for an integrating Europe. This capital needs to be protected and reinforced. Poland should campaign for an EU that produces less regulations and refrains from taking legislative initiatives that are difficult for citizens to understand, especially in areas where decisions could just as well be taken at the national level. The principle of subsidiarity should always guide EU actions. The Union cannot try to deal with everything.

During the last 10 years, Poland has considerably improved its political standing in the EU. After a period of maximising membership opportunities, Poland has entered a phase of increased activeness, aspiring to be one of the leaders of the integration process. This evolution will necessarily result in **assuming more responsibility for the direction of EU development.** Poland should not view Europe solely as a source of additional funding, but rather as a project that calls for political capital, setting an agenda, and engaging in problem-solving, even if the problems have no immediate impact on us. The issue of shouldering a greater financial burden of EU membership will crop up sooner or later. Poland should be politically prepared for such discussion.

Economic dimension of Poland's membership in the EU: how Europe changed Poland

3

Economy: 10 years of growth

Macroeconomic conditions for success

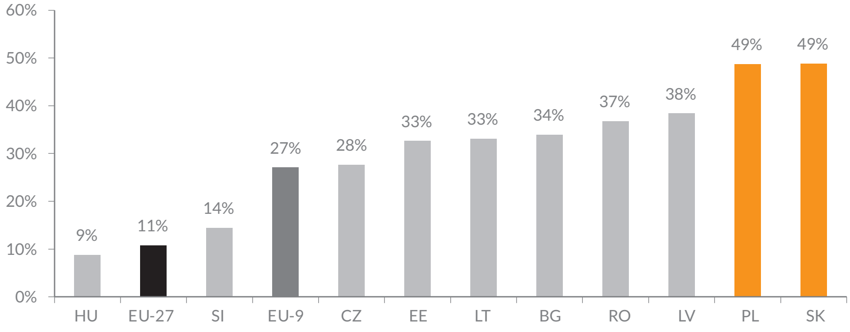
Since Poland's accession to the European Union, the Polish economy has made a 'civilisational leap forward'. Progress of this magnitude was not easily foreseeable, especially that prior to integration with the EU, projections as to the anticipated prospective benefits were rather cautious, while specific advantages for the economy and for the country were expected to appear in the long term. The last decade clearly shows that Poland has taken very good advantage of EU membership. Our most important successes comprise: significant economic progress and increased wealth of our society, as well as enhanced competitiveness of Polish companies, which today are capable of effectively marketing their products and services in foreign countries.

Leader in economic growth

Experience of the region's other countries shows that the adoption of the *acquis communautaire* and access to the internal market or to EU funds do not guarantee sustainable development. The Polish experience proves that the basis for success in the EU is not only a reasonable economic policy, but also political stability.

A simple analysis of economic indicators shows how much Poland has changed since EU accession and how it has benefited from EU integration. An assessment of our 10 years of membership is also a good opportunity to make comparisons with other countries that acceded to the EU at the same time (EU-9).

Chart 7. Cumulative GDP growth in the region in the period 2004–2013 (2003 = 100)



Source: Eurostat, GDP and main components (as at 24.03.2014).

In the years 2004–2013, Poland's GDP, like Slovakia's, saw the highest growth of all the Member States in the region and in the whole EU. During the decade both economies grew by almost a half (Poland by 48.7% to be exact). The other countries of Central and Eastern Europe developed at a slower pace – with average cumulative economic growth equal to 27%. It should also be emphasised that all new EU Member States (with the exception of Hungary) enjoyed a higher economic growth than average old EU members, which amounted to 11% during this period.

Chart 8. Change in GDP in the years 2004–2013 (preceding year = 100)

Source: Eurostat, GDP and main components; percentage change on previous period (as at 24.03.2014).

The analysis of Poland's economic growth in the years 2004–2013 should be made separately for two periods to reflect the changing global situation: the first period being 2004–2008, and the second 2009 and later. The beginning of the global financial crisis in 2008, which in 2010 turned into a public debt crisis in Europe, still remains the cut-off date. The consequences of the second crisis are still being felt in the EU.

Poland in the years 2004–2008

The macroeconomic effects of Poland's accession to the EU were most visible in the years 2004–2008. During that period the risk of doing business in Poland was reduced, while its investment attractiveness and financial credibility improved substantially; barriers to capital flows were eliminated and business transactions became more secure.

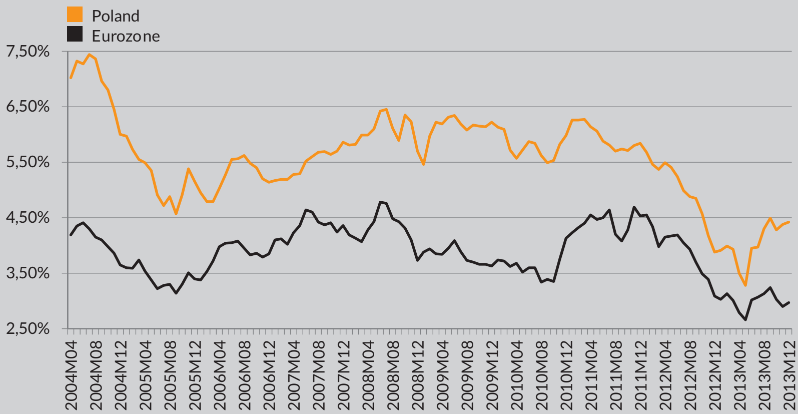
The years 2004–2008 were very good for Poland. Poland began to modernise its economic processes, invested in better quality education of its workforce, enhanced the quality and stability of the economic environment, and reduced investment costs and risks. This good investment climate was also generated by other favourable trends, such as a low inflation and Poland's good fiscal situation. The first years of Poland's EU membership have established and consolidated Poland's position as an attractive foreign investment location. This, plus the inflow of European funds, strengthened the foundations of economic growth. Thanks to them the Polish economy was in very good condition even during the crisis[31].

31 W. Orłowski, *Czy poza Unią łatwiej byłoby znieść kryzys?*, [in:] *5 lat Polski w UE [5 years of Poland in the EU]*, red. M. Kałużyńska, K. Smyk, J. Wiśniewski, UKIE, Warszawa 2009, pp. 557–559.

The Polish capital market after accession to the EU – treasury bonds

Accession to the European Union had a direct impact on the yield of Polish 10-year bonds, which dropped from 7% to a historically low level of 4.5% from April 2004 to September 2005. The second decrease in the price of Polish bonds took place in May 2013, when it fell to a record low of 3.3%, and approached bond yields of eurozone countries. Polish Treasury bonds recorded the biggest fall in their yields of all the Central and Eastern European countries. This had a positive effect on the costs of credit and allowed Poland to reduce the costs of its debt servicing.

Polish 10-year bond yields and eurozone bond yields from April 2004 until December 2013



Source: Eurostat (as at 24.01.2014).

Polish bond yields dropped for the first time when Poland acceded to the European Union and signalled the financial markets' increased confidence in our country. The second time bond yields dropped was the result of Poland's good economic situation, further aided by our country's monetary policy and political stability.

The country's increased credibility resulting from Poland's accession to the EU led to a fall in the value of treasury bonds by 0.2–0.5 percentage points, while the estimated savings from lower annual debt servicing in 2004–2013 totalled PLN 8.5 billion, i.e. by 0.64–1.60% GDP.

Crisis period: 2009–2013

The financial crisis, which started in August 2008, had significantly contributed to a global economic downturn whose effects were also felt by Poland. Foreign trade and, indirectly, financial markets were the hardest hit, causing the banking system to limit lending. Moreover, the resulting recession in the eurozone in 2009 slowed down investments by Polish entrepreneurs, and over time also limited private consumption in Poland[32].

32 *Polska wobec światowego kryzysu gospodarczego– report*, NBP, September 2009, p. 20.

In contrast to many EU-9 countries, the relatively quick pace of economic growth in Poland did not lead to an imbalance – either internal or external. Thanks to the balanced foundations of economic activity, the worst period of the crisis took a mild form in Poland and did not lead to a recession.

GDP growth naturally slowed down in the years 2009–2013, but the **process of catching up with the EU average has not lost its momentum. During the whole decade following Poland's accession, its economic growth continued to be above the EU average and in 2008–2012 it even exceeded the average of EU-9 Member States.** The relatively higher economic growth worked to our advantage and helped to further close the development gap. Recession in the eurozone countries also worked to Poland's advantage.

From among all the countries of Central and Eastern Europe, Poland was the least affected by the global economic crisis[33]. **We were the only EU Member State that managed to avoid a recession**. The fact that Poland used the first years of its EU membership to its advantage contributed to this success.

Poland was also able to utilise EU structural funds appropriations. Poland applied these funds to develop its infrastructure, introduce institutional reforms, and improve human capital, i.e. the potential and knowledge of Poles.

EU budget funds, supplemented by public resources, brought Poland more investments, which had a positive impact on maintaining economic growth during the crisis. Other favourable factors that helped avert the crisis were a floating exchange rate and a relatively stable situation on the labour market, among others, a falling wage dynamics that resulted from higher unemployment[34].

External causes, which made the consequences and the crisis in Poland less severe, include the Polish economy being less open than other countries in the region[35] and Poland's success in attracting foreign investments, especially to the industry sector. The other countries tended to focus much more on investments in the service sector[36].

A sound banking sector, a relatively low level of debt of the public sector, enterprises and households, as well as of Poland's foreign debt were equally important factors that helped Poland avert the crisis[37]; Polish banks followed a conservative policy and did not engage in global trading in derivative instruments. What is more, Poland's responsible financial oversight authorities effectively stopped the private sector from excessive borrowing.

Strategic decisions taken prior to the crisis prepared Poland for the post-2008 downturn. Poland also benefited from a flexible currency exchange rate that made it easier to adapt its economy[38] and adjust wage levels. At the same

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33 *Ibidem*, p. 35.

34 *Ibidem*, p. 21.

35 *Ibidem*, p. 35.

36 Z. Darvas, J. Pisani-Ferry, A. Sapir, T. Becker, D. Daianu, V. Gligorov, M.A. Landesmann, P. Petrovic, D.K. Rosati, B. Weder di Mauro, *Whither growth in central and eastern Europe? Policy lessons for an integrated Europe*, Bruegel Blueprint Series, Volume 11, Brussels 2010, p. 49.

37 *Ibidem*.

38 According to the NBP report, the depreciation of currencies in countries with a floating exchange rate (Poland, the Czech Republic, Hungary, and Romania) has temporarily enhanced the price competitiveness of export from those countries, yet in the majority of cases it did not have a major impact on export dynamics in those countries. *Polska wobec…*, *op.cit.* p. 17.

Warszawa Stock Exchange – young leader in Central and Eastern Europe

Membership in the European Union has had a very positive impact on the position and importance of the Polish stock market. European integration made it easier for the Warszawa Stock Exchange to become the biggest stock exchange in Central and Eastern Europe (in terms of market capitalisation, listings and IPO's). Within a short time the WSE has become one of the most dynamically developing capital markets in Europe, and in 2008 it overtook the Vienna stock exchange, becoming the leader of Central and Eastern Europe with respect to capitalisation of stock exchange companies.

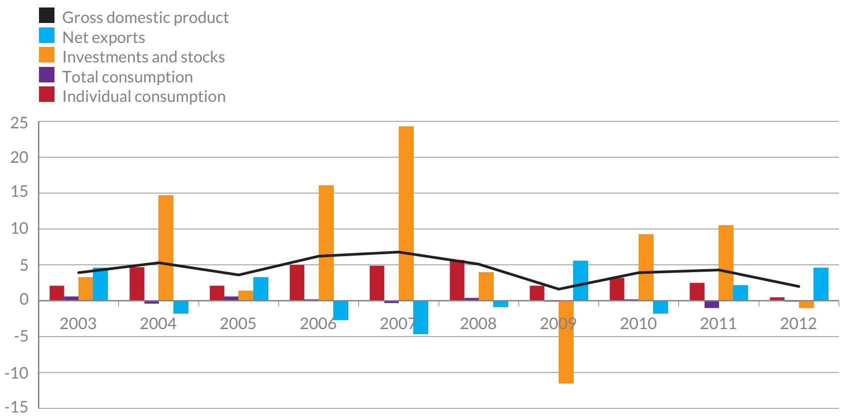
Table. Basic indicators of the Warszawa Stock Exchange in the years 2003–2013

	2003	2013	increase in %
WIG	14 367	51 284	357%
WIG20	1 176	2 401	204%
Total number of companies	203	450	222%
Number of foreign companies	1	47	4 700%
Capitalisation of Polish companies in PLN million	140 001	593 464	424%
Capitalisation of foreign companies in PLN million	27 715	247 316	892%
Total turnover value of shares in PLN million	40 118	256 147	638%

Source: WSE (as at 31.12.2013).

After Poland joined the European Union, the Warszawa Stock Exchange recorded a big increase in the number of foreign company listings – from one to 47 (10% of all companies listed there). This result also represents a six-fold increase in the total capitalisation of companies, including an almost nine-fold increase in the capitalisation of foreign companies. It should be noted that **the Polish Stock Exchange's success in the region was made possible thanks to the free movement of capital, guaranteed by European treaties.**

Chart 9. Real dynamics of GDP in Poland in 2004–2012 in % (preceding year =100)



Source: CSO (as at 31.12.2013).

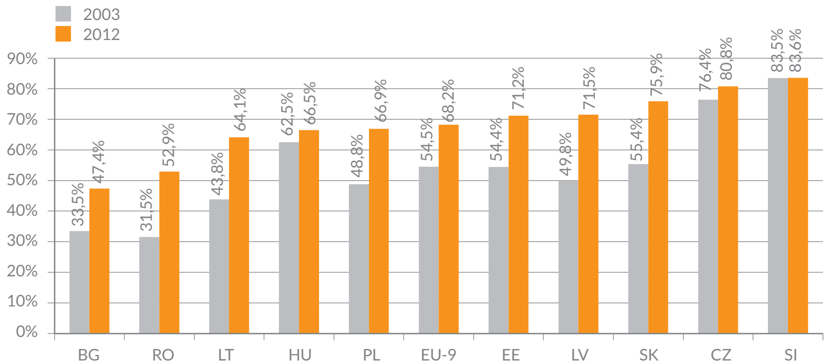
time, still during economic downturn, Poland focused on a systematic implementation of structural reforms.

Seizing the opportunity

After joining the EU, Poland was perceived by foreign investors as a more attractive and reliable country. In the years 2004–2008 investments reached a high level and their share in GDP growth was significant, exceeding 17% in 2007[39]. Growing public investments – the effect of implementing the EU cohesion policy – also contributed to a higher investment rate[40]. According to estimates, EU funds were responsible for 1% of the growth rate in Poland's GDP[41].

Foreign trade has played a significant role in the generation of GDP growth since 2003. The Polish economy greatly benefited from its participation in the internal market and from preferential customs duties. Immediately after EU enlargement, the dynamics of export exceeded 10%[42]. The slowdown in the eurozone checked this trend, but at the same time resulted in higher exports to countries of Central and Eastern Europe and third countries (especially in Eastern Europe).

Chart 10. Per capita GDP compared to the EU-27 average in 2003 and 2012



Source: Eurostat, GDP and main components; Purchasing Power Standard per inhabitant (as at 24.03.2014).

Accession to the EU accelerated the closing by Poland of its development gap vis-à-vis 'old' EU Member States. Thanks to Poland's economic development in 2004–2013, the country soon began to catch up with Western European countries, a process that was particularly evident at the time when other EU Member States were in recession[43].

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39 Own study based on CSE data.
40 P. Żuber, S. Sudak, *Raport Polska 2011. Gospodarka-Społeczeństwo-Regiony*, Ministry of Regional Development, 2011, p. 8.
41 *Wpływ polityki spójności na rozwój społeczno-gospodarczy Polski w latach 2004–2015 w świetle wyników badań makroekonomicznych*, Ministry of Regional Development, Warszawa 2013, p. 3.
42 Own study based on CSE data.
43 I.S. Gill, M. Raiser, *Golden Growth, Restoring the lustre of the European economic model*, World Bank, 2012, p. 79–82.

In 2012 Poland's gross domestic product, measured by purchasing power parity, was 66.9% of the EU average. This represented a growth of 18.1 percentage points relative to 2003. We have outperformed Hungary, which in 2004, at the time of EU enlargement, was much wealthier than Poland. Its GDP was 62.5% of the EU average (now it is 66.5%)[44]. We were fifth in Central and Eastern Europe – behind Lithuania, Slovakia, Latvia and Romania – in terms of the speed with which we were catching up with the EU's economy, and our rate of catching up was 4.4 percentage points higher than the average rate for EU-9 Member States[45].

The past decade clearly shows that the countries of our region have benefited differently from EU membership. Although in 2012 most of them succeeded in reaching over two-thirds of the EU's average GDP per capita, their gains from economic integration did not always match Poland's. The Czech Republic, Slovenia or Hungary, which in the initial period were the leaders of EU-inspired transformation, failed to make full use of integration with the EU to sufficiently improve their economies (measured by their real convergence towards the EU), and developed at a pace close to the EU average. This shows that it is very difficult to support the thesis that the rate of economic catching up with Western European countries depended on the development stage in which a country initially found itself. On the contrary, it could be argued that closing the development gap between the "new" and the "old" European Union depended on the effective use of all the opportunities offered by EU integration.

Higher labour productivity

In addition to the above factors, **higher labour productivity had a major impact on the high rate of economic growth in Poland**. **In 2012 it was the highest in the entire EU – and amounted to almost 5%**[46]. Poland is one of the regional leaders in labour effectiveness. Since it joined the EU, Poland has managed to catch up with the then leaders: the Czech Republic, Hungary and Slovenia. Now Poland's labour productivity is estimated to be approximately 72% of the EU average, which – in combination with a relatively lower growth in wages – has enhanced the competitiveness of the Polish economy and allowed Polish export to become more robust.

A highly positive trend is the gradually decreasing difference between labour productivity in enterprises with only Polish capital, and those with foreign capital – from 100% in the years 1997–2004 to 64% in 2008[47]. Those changes in productivity indicate that the Polish economy has moved from the traditional to the modern phase, one that is more capital intensive, but also more efficient. Thanks to higher efficiency of production factors and – to a lesser extent – increased capital resources from foreign direct investments, the process of real convergence toward the EU was quicker.

Despite successfully raising labour productivity, Poland continues to face many challenges. Poland's low robotisation index is a source of concern. The International Federation of Robotics (IFR) has estimated that Poland remains one of

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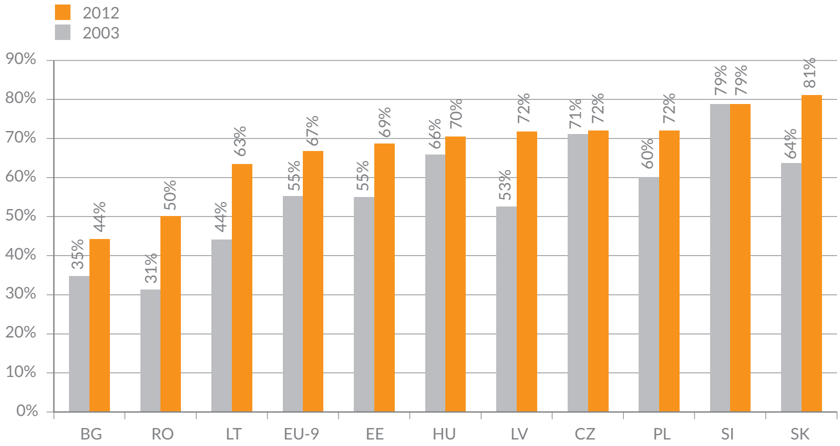
44 Own study on the basis of Eurostat data (as at 24.03.2014).
45 *Ibidem*.
46 Own study on the basis of Eurostat data.
47 P. Żuber, S. Sudak, *Raport …*, *op.cit.* p. 36.

Chart 11. Labour force productivity in countries of Central and Eastern Europe to the EU-27 average in 2003 and 2012



Source: Eurostat, Labour productivity – annual data (as at 24.03.2014).

the least robotised countries in the world. Poland has only 6,500 robots, and our robotisation index equals 14 robots per 10,000 industrial employees, while the European average is 77, and the global average is 55. Germany and Japan score the highest in this respect – 261 and 339, respectively. In Central and Eastern Europe top positions are occupied by the Czech Republic and Slovakia, whose robotisation index is 48. In this respect only Romania and Bulgaria rank lower than Poland.

Wages of the Poles

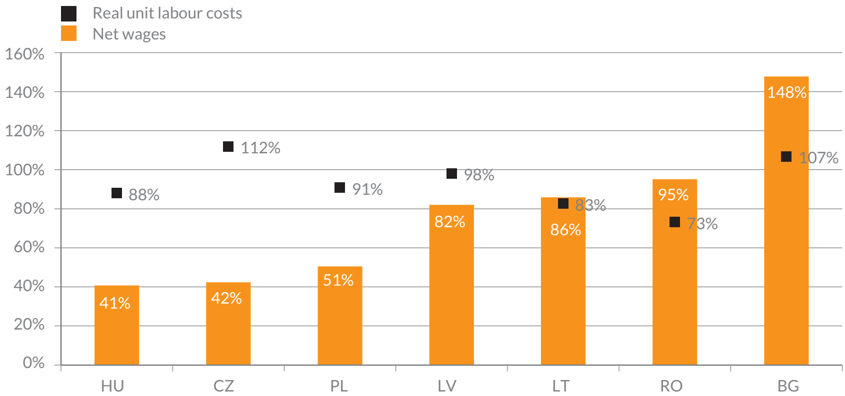
An analysis of the impact of membership on remuneration proves that fears expressed before Poland's EU accession were unfounded. **In the past decade Polish incomes increased instead of decreasing. At the same time the number of people at risk of poverty went down.**

Accession to the EU affected the level of earnings in countries situated in our region (calculated on the basis of purchasing power parity) in different ways depending on the country. In the years 2004–2012 wages grew in inverse proportion to initial levels recorded in 2003. This means that in countries, which prior to the integration had a relatively high purchasing power, i.e. in Poland, the Czech Republic and Hungary, net wages grew somewhat slower than in the other countries of the region[48]. In Poland, net wages grew 51%, which means that in 2012 the statistical Pole could buy 50% more products with his or her wage than in 2003.

In the years 2004–2013 the minimum wage in Poland doubled – from PLN 800 in 2003 to PLN 1600 in 2013[49]. This is more than the average increase in wages in the Polish economy, which the Central Statistical Office measured to have grown by two thirds. **The average wage increased from PLN 2201.47 in 2003 to as high as PLN 3667.47 in 2013**[50]. The nominal wage increase in the economy amounted to 66% (27% after adjusting for inflation). The situation was similar in

48 The analysis does not include Slovakia, Slovenia or Estonia.
49 Based on CSO data.
50 Based on CSO data for 03Q2013. Average remuneration in the national economy.

Chart 12. Dynamics of net salaries and real unit labour costs in countries of Central and Eastern Europe in 2004–2012* (2003 = 100)



*no data available for Slovakia, Slovenia or Estonia. Real unit labour costs for Poland as of 2005.

Source: Eurostat, Annual net earnings – Net earnings – Single person without children, 100% of average wage earner and own calculations on the basis of Eurostat, Real unit labour cost growth (as at 24.03.2014).

the enterprise sector – in the period from August 2004 to November 2013 wages in this sector grew by 62.5% (over 23% after adjusting for inflation)[51].

During that period, i.e. in 2003–2012, the total gross remuneration earned by half of the working population in Poland amounted to PLN 2059 and PLN 3115, respectively. This means that the median of wages grew by as little as 14.6%, i.e. by 1.62% annually. Labour costs in the Polish economy remained low, mostly due to the economic and financial crisis. This allowed the Polish economy to better adapt wages to the changes in the quantity of jobs offered. In other words, the growing unemployment after 2009 froze the pressure on wage increases in the economy[52].

A change in real unit labour costs indicates that the higher purchasing power of the Polish population was not due to higher wages (wage increases remained below the GDP growth level), but to a smaller rise in product prices as compared to other countries. This enabled the Polish economy to maintain its high competitiveness.

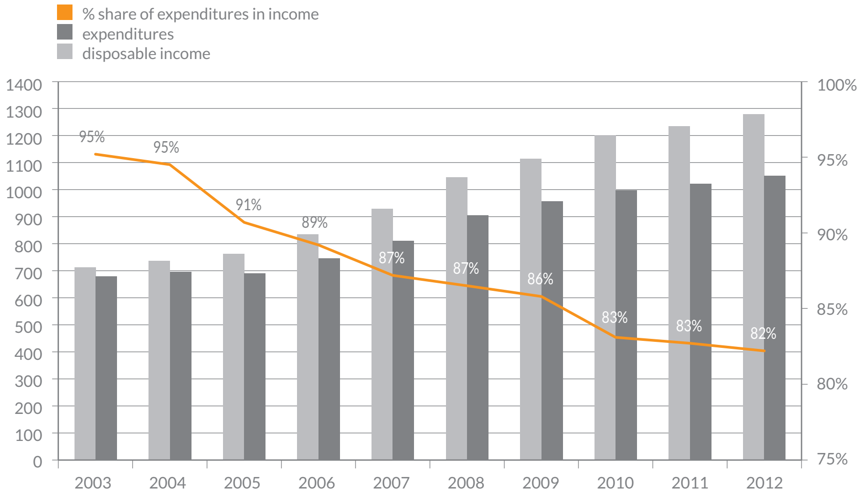
The assumption that the Polish population became wealthier is corroborated by an analysis of the level of income and expenditures per capita in 2003–2012. The above diagram shows that the **disposable income per capita in Poland has grown almost doubled: from PLN 700 to almost PLN 1300**.

A comparison of Poland and other EU countries shows that Polish households have recorded one of the highest increases in prosperity – over 50% as compared to 2005 – second only to Slovenia and Bulgaria[53]. The level of expenditures *per capita* kept growing at a slower pace than the level of income. This shows that

51 Own calculations on the basis of CSO data.
52 *Polska wobec światowego kryzysu gospodarczego – raport*, NBP, September 2009, p. 21.
53 Pursuant to data of Eurostat, Median equivalised net income, Purchasing Power Standard (PPS).

before EU accession, an average Pole had used his or her entire income to cover living expenses. After 2012 almost 20% of wages remained available as disposable income. Consequently the **level of income in Poland increased higher than living costs, which implies a real increase in the wealth of Poles.**

Chart 13. Level of average monthly income and expenditures per capita and the share of expenditures in income in 2003–2012



Source: Budżety gospodarstw domowych w 2012 r., CSO, Warszawa 2013, p. 47.

Furthermore, the greater prosperity of Polish citizens is also visible in the level of their savings[54]. Over the decade these grew two-fold – from PLN 15,700 per capita in 2003 to PLN 37,000 in 2013[55]. Despite this actual change, Poles still do not demonstrate great propensity to save. Their savings still represent only 88% of GDP, while the EU average amounts to 217% of GDP[56].

Positive social changes

When analysing the wealth of a society, it is also worth taking into consideration the Gini coefficient[57], which measures income inequality. After accession to the EU, income inequalities between Poles have decreased[58] – the Gini coefficient dropped from the level of 35.6 in 2005 to 30.9. Falling income inequality in Poland was due to faster economic growth and the decrease in unemployment. Both of these factors have had a positive impact on the wealth level of the poorest

54 They consist of the following: 10% cash, 49% deposits, 4% insurance capital funds, 25% money accumulated in open pension funds, 3% shares of public companies, 8%, investment funds and 1% bonds.
55 Based on BGŻOptima's report "Polak Oszczędny 2013 – w poszukiwaniu zysku".
56 *Ibidem.*
57 The Gini coefficient is a measure of income inequality; it has a value between "0" and "1". The higher the value of the coefficient, the higher the concentration of income and the higher its differentiation.
58 European study of income and living conditions (EU-SILC) in 2011, CSO, materials for press conference on 21 December 2012, p. 3.

social groups[59]. Another factor that helped reduce income inequality was emigration (many young employable Poles earning lower wages emigrated from Poland) and the related money transfers of migrants to Poland. What is more, another factor benefiting the entire society was to make farmers, the most diversified social group in Poland, eligible for direct subsidies[60].

As regards social and economic equality, in the past decade Poland has approached the average EU level, which in 2012 amounted to 30.5[61]. Since 2009 the decrease rate of the Gini coefficient in Poland has weakened, but has not been reversed.

Poland and Latvia are the only countries in the region that have managed to significantly reduce the disproportion between the wealthiest and the poorest social groups (a fall by more than 4 units)[62]. In other EU-9 Member States, income inequality not only did not decrease, but increased, as in Bulgaria and Romania.

Fears that Poland's EU accession would result in greater poverty of its population turned out to be unfounded. On the contrary, all available indicators confirm that since 1 May, 2004 the poverty level in Poland has significantly decreased. Of particular importance in this respect was the flexibility of the Polish labour market, increase in employment and gradual transfer of the labour force to more productive sectors of the economy.

Poland belongs to the group of countries in which the number of people living below the poverty line[63] is the same as the EU average. Since integration with the EU, the poverty line in Poland has noticeably fallen[64] – from 20.5% in 2005 to 17.1% in 2012[65]. This means that **compared with 2005, seven years later, almost 1.3 million less people were living below the poverty line in Poland.**

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59 *Employment and Social Developments in Europe 2013*, Directorate-General for Employment, Social Affairs and Inclusion, European Commission, December 2014, p. 160; E. Korczyc, M. Laco, T. Thomas; S. Madzarevic-Sujster, S. Ilieva, C. Pauna, P. Holda, E. Skrok, K. Simler, L. Ceriani, N. Sinha, C. Sanchez, *EU11 regular economic report: promoting shared prosperity during a weak recovery in Central and Eastern Europe. EU11 regular economic report*, No. 28. Washington DC, World Bank Group 2013, p. 50.

60 *Budżety gospodarstw domowych w 2012*, CSO, Warszawa 2013, p. 41.

61 European study of revenues and living conditions (EU-SILC) in 2012, Results of CSO surveys, p. 1, 4.

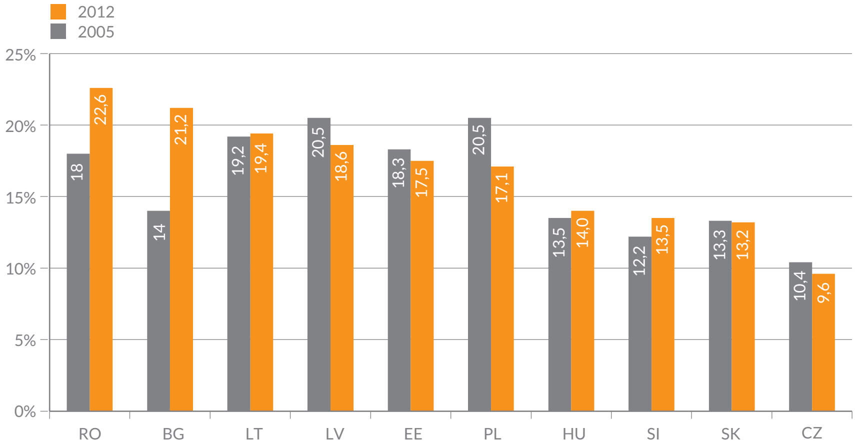
62 Based on data of Eurostat, Gini coefficient of equivalised disposable income (source: SILC) for the years 2005–2012.

63 "The statistical measurement of poverty (…) is nowadays performed on the basis of three criteria (adopted for the Europe 2020 strategy in the EU). A family (a household) is considered to be at risk of poverty if its income is lower than 60% of the median income in that country. (…) If a family declares that it is financially unable to meet at least four out of nine basic needs, then it is considered to be in a situation of severe material deprivation. The last criterion concerns the working time of family members in the year that precedes the study. If the working time of family members was lower than 20% of full annual working time, then those families experience a situation of very low work intensity. Three criteria are generally applied to jointly measure these situations. To avoid double counting of individuals who are, for example, concurrently at risk of poverty and subject to severe deprivation, only the fulfilment of one of such criteria is accounted for. In this way we obtain the number of persons at risk of poverty or social exclusion." – according to the Ministry of Labour and Social Policy, National Programme For Combating Poverty And Social Exclusion 2020. New dimension of active integration, Warszawa 2013.

64 *Europejskie badanie …*, *op.cit.* p. 6.

65 Own study based on Eurostat data.

Chart 14. Percentage of the population at risk of poverty in 2005 and 2012 in %



Source: Eurostat, At-risk-of-poverty rate (cut-off point: 60% of median equivalised income after social transfers) (as at 24.03.2014).

The number of Poles living in extreme poverty (below the existential minimum) fell from 10.9% in 2005 to 6.7% in 2012[66]**. The improvement of equal opportunities and of the living standards of Poles** was made possible thanks to faster growth of **the minimum wage**, which **in 2013 was the highest in the region** (exception for Slovenia)[67].

The number of people at risk of poverty and social exclusion decreased by 7 million[68]. In 2005 there were 17 million such people or 45.3% of the entire population. In 2012 this number fell to ca. 10 million, i.e. 26.7% of the whole society[69]. The most noticeable changes for the better were experienced by the poorest people, i.e. those living below poverty level.

Poland has become a leader in the entire region because of the pace of improvement in the living standard of people at risk of poverty – it grew by 3.4 percentage points. In other Central and Eastern European countries, the standard of living improved by 1 percentage point (with the exception of Latvia, which recorded 1.9 percentage points), or worsened for the lowest income social groups.

66 A change applied to the methodology of calculating the minimum subsistence amount in 2006 allowed lower estimations of extreme poverty by ca. 2 percentage points. R. Szarfenberg, *Ubóstwo i wykluczenie społeczne w Polsce – pomiar, wyjaśnienie, strategie przeciwdziałania"*, Paper prepared for the sixth seminar under the Warszawa discussions on social policy organised by the Friedrich Ebert Foundation in cooperation with the ICRA foundation, http://www.feswar.org.pl/fes2009/pdf_doc/debaty6.pdf (24.03.2014), p. 14.

67 Based on data of Eurostat, Monthly minimum wages – bi-annual data.

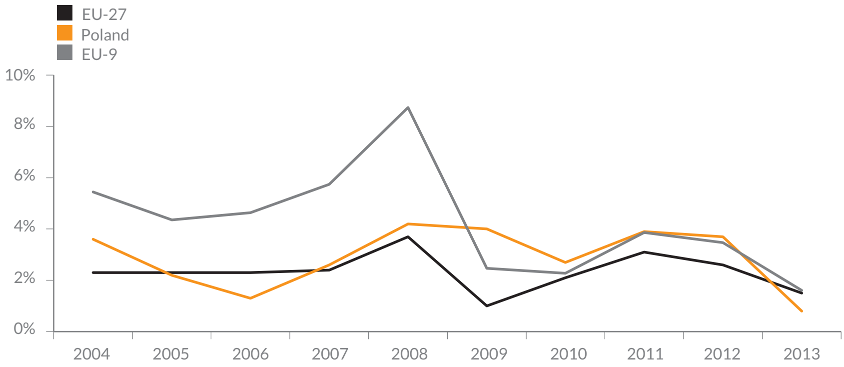
68 People at risk of poverty or social exclusion meet at least one of the following three conditions: they live close to the poverty line, their material situation is very difficult, or they live in households with so-called very low work intensity. Based on Eurostat data, *People at risk of poverty or social exclusion*.

69 Own study on the basis of Eurostat data and R. Szarfenberg, *Ubóstwo i wykluczenie społeczne w Polsce – pomiar, wyjaśnianie, strategie przeciwdziałania*, University of Warsaw, 20.11.12, p. 7.

Shattered myth about rising prices

Poland's accession to the European Union was accompanied by serious concerns that prices of goods and services would increase. This black post-accession scenario did not materialise, even though in the first months of 2004 inflation temporarily increased, partially as a result of higher food prices caused by greater external demand, as well as changes to regulatory mechanisms, and particularly VAT rates and excise duties[70].

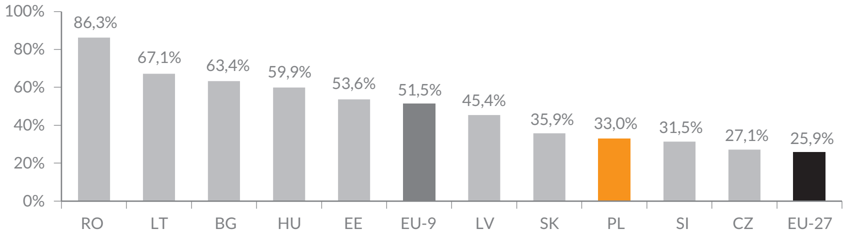
Chart 15. Inflation in the years 2004–2013 (preceding year = 100)



Source: Eurostat, Inflation rate, Annual average rate of change (as at 24.03.2014).

Until 2007 the prices of goods and services grew at a relatively slow pace, and in the years 2005–2006 they even fell below the EU average. After 2007, the global economic crisis led to higher inflation and consequently higher prices of food, non-alcoholic beverages and energy[71]. But in June 2013, Poland recorded its lowest inflation level in history since the beginning of political transformation in 1989 – 0.2% on a year-on-year basis, and 0.8% for the whole of 2013.

Chart 16. Cumulative price increase (inflation) in the years 2004–2013



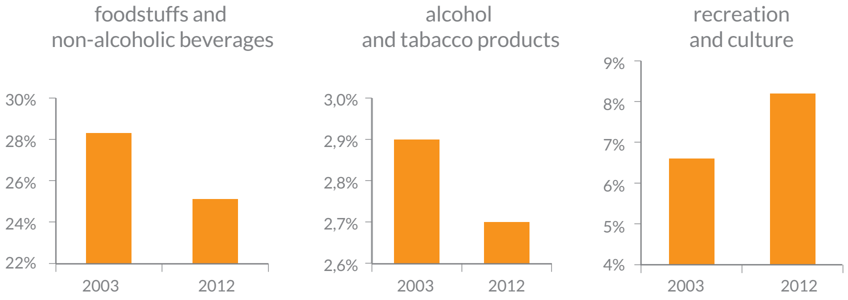
Source: Eurostat, Inflation rate, Annual average rate of change (as at 24.03.2014).

70 *Raport o inflacji. August 2004*, the National Bank of Poland, Monetary Policy Council, Warszawa August 2004, p. 5.

71 *Analiza sytuacji gospodarczej Polski*, based on reports for the years 2008–2012, Department of Analyses and Forecasts, Ministry of the Economy, 2009–2013.

In the entire period since Poland's accession to the EU, the main objective of the monetary policy has been to maintain price stability. As a result, the 2004–2013 cumulative inflation stood at 33% and was almost 2% lower than the average for EU-9 countries (lower values were recorded only by the Czech Republic and Slovenia)[72].

Chart 17. Share of selected goods in household expenditures in Poland



Source: CSO (as at 24.03.2014).

A preliminary analysis of the structure of household expenditures suggests that the share of foodstuffs and non-alcoholic beverages, as well as dwelling and energy costs represents a smaller burden for households today than it did in 2003. Spending on food and beverages fell by 4 percentage points and represents 25% of all expenditures[73]. This proves that the financial situation of Polish households has vastly improved, and Poles' consumer decisions are no longer dictated just by the need to buy basic necessities.

There was a rise in the share of luxury goods in household expenditures, which is characteristic for wealthy societies. Since 2003, spending on recreation, culture, restaurants and hotels has gone up by 2 percentage points[74]. After years of stagnation, the number of well-to-do and wealthy people has gone up since 2005. In 2004 they numbered about 300,000. According to the latest projections, in 2013 there will be over 800,000 Polish citizens in this group[75].

Trade: the engine of economic development

In the past few years, while other countries were hard hit by the global economic crisis, Poland enjoyed stable economic growth. This could be attributed in large part to the dynamically growing export of Polish goods and services. In the years 2004–2013, exports grew twice as fast as the GDP. Consequently, it should be emphasized that **when Poland acceded to the EU, exports became one of the engines of development of the Polish economy.**

72 Own study on the basis of Eurostat data (as at 24.03.2014).
73 Own study on the basis of CSO data (as at 31.12.2013).
74 *Ibidem.*
75 *Rynek dóbr luksusowych w Polsce, KPMG w Polsce. Edycja 2010*, p. 26; *Rynek dóbr luksusowych w Polsce. Edycja 2012*, KPMG w Polsce, p. 12.

Time of record-breaking exports

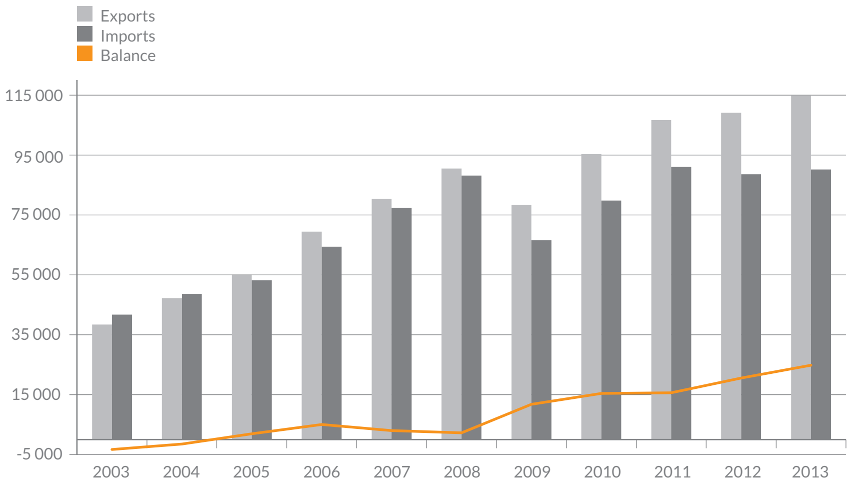
For the last 10 years of EU membership, Poland has maintained a positive trade balance with other EU Member States – approx. 1% of the GDP. This is a change for the better compared to the pre-accession time (the years 1996–2003), which saw a 0.5% trade deficit with the EU in relation to the GDP. After acceding to the EU, the trade balance with non-EU countries remained negative, while **trade with the European Union increased significantly; this in turn contributed to the growth of the Polish GDP.** When domestic demand started to decrease in 2009 and 2012, it was growing net exports to the EU countries that protected our economy from a decline in the real GDP.

Trade volume has been expanding in Poland's relations both with EU and non-EU countries. Those who voiced concerns before the accession about Polish exports being insufficiently competitive, and feared that reduced trade barriers would lead to an excessive rise of imports to Poland, have been proved wrong. **In 2004–2013 total exports grew much more quickly than imports – by approx. 220% and 160% respectively compared to 2003 – to reach the record value of EUR 152.8 billion in 2013.**

Poland's good exports results were largely due to positive trends in trade with the European Union Member States. In 2004–2013, **Polish exports to the EU grew almost three-fold relative to 2003,** with import growth lagging far behind. The only exception was the crisis year of 2009, when trade with the EU declined.

The first decade in the EU has been a time of record-breaking. In 2013 **Polish exports to the EU** achieved the historic value of **EUR 114 billion** (compared with EUR 38.4 billion in 2003). The EU membership allowed Poland to improve its trade balance with the Member States. While in **2003 our deficit was EUR 3.3 billion,** in the following years our export gathered steam, and **we closed 2013 with a record positive balance of over EUR 24 billion.**

Chart 18. Value of Poland's trade with European Union Member States (in EUR million)



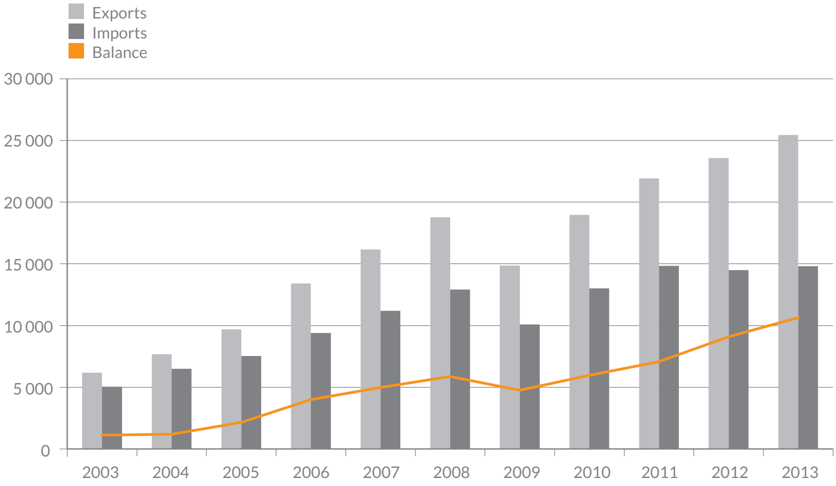
Source: Central Statistical Office, Ministry of Economy (as at 20.03.2014).

Poland's clout in EU-10

Poland's presence in the EU has **also substantially increased our trade with other countries of Central and Eastern Europe**. Between 2003 and 2013, exports to the EU-10 grew from EUR 6.2 billion to EUR 25.3 billion. This represents a leap of over 300%, and an almost ten-fold increase of Poland's positive trade balance: from EUR 1.1 billion to approx. EUR 10.5 billion.

This achievement was made possible by an almost four-fold increase in exports to the Czech Republic, which is one of Poland's key trading partners. In 2013, the Czech Republic was the destination for 37% of all Polish exports to the countries of the region.

Chart 19. Value of Poland's trade with countries of the region (in EUR million)



Source: Central Statistical Office, Ministry of Economy (as at 20.03.2014).

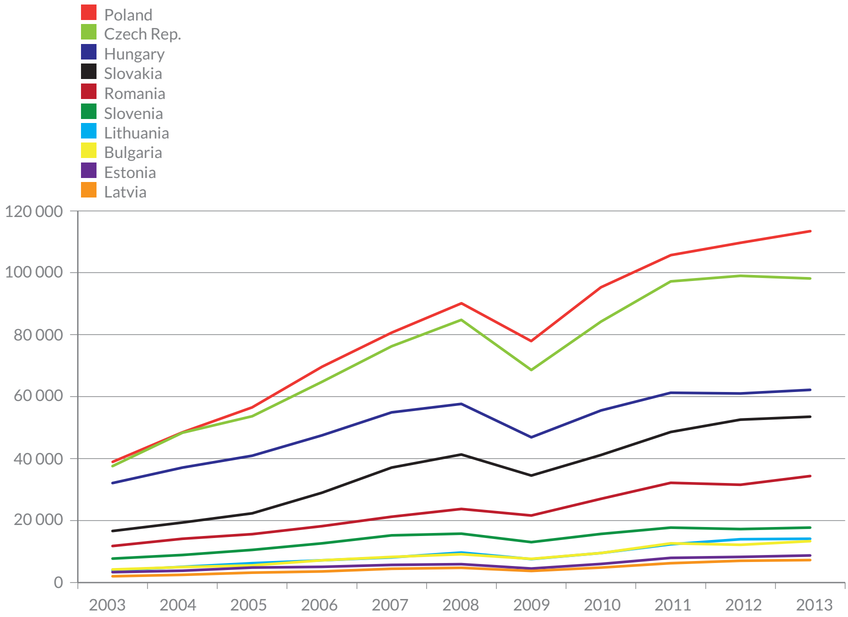
Trade value has surged in all countries that joined the European Union along with Poland. **Poland has secured its position as the leading exporter among all countries of the region**. Polish exports have steadily grown each year – in 2013 their value was almost three times as much as in 2003.

Thanks to the free movement of goods, **during 10 years of membership** Polish exporters **have increased their share in exports within the EU from 2% to 4%, which is the best result after the Netherlands among all member states**. To compare: the share of exports in trade within the EU has changed at a much slower pace than in the remaining countries of the region, e.g. the Czech Republic (increase from 2.0% to 3.5%) or Hungary (increase from 1.7% to 2.2%).

At present Poland accounts for more than one fourth of the exports value (close to 27%) of the entire EU-10 region. However, this is still less than our share in the region's total economic potential – in 2013 the Polish GDP made up approx. 39% of the EU-10's GDP.

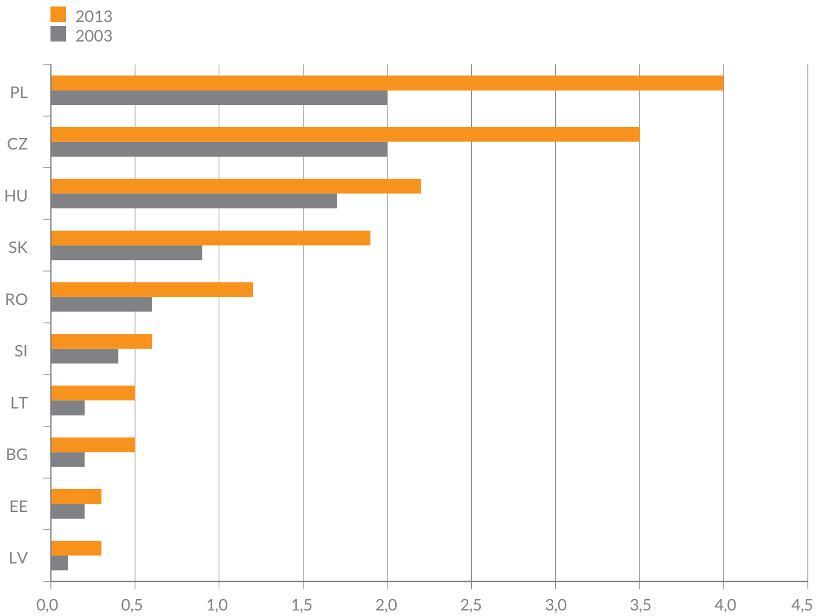
Yet by relying too much on exports some countries of the region run a greater risk of becoming dependent on the economic situation on foreign markets. This was demonstrated by the crisis year 2009, when Polish exports fell less than in other countries of the region (with the exception of Romania).

Chart 20. Total EU-10 exports to the EU (in EUR million)



Source: Eurostat (as at 20.03.2014).

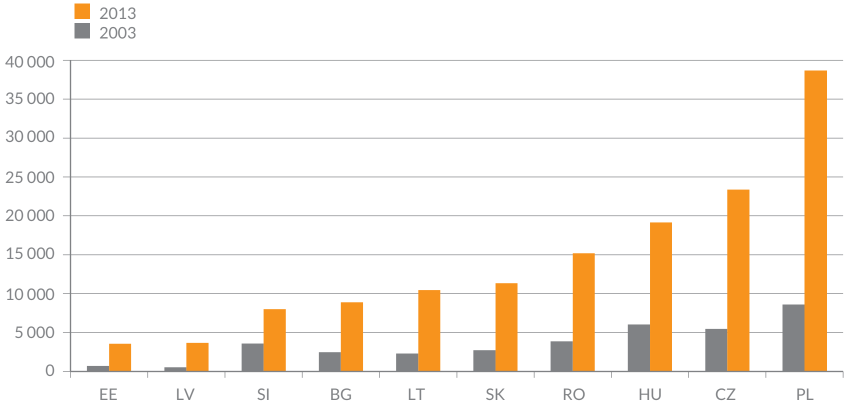
Chart 21. Share of EU-10 Member States in exports within the EU



Source: Eurostat (as at 20.03.2014).

Acceding to the EU has also led to a substantial increase in the region's trade with non-EU partners. In this regard, too, Poland has become an undisputed leader. Around 27% of the EU-10's exports to non-EU countries originated in Poland. In 2004–2013 **exports to third countries expanded four-fold, and Poland's share in EU trade with this group of countries grew from 1% in 2003 to 2.2% in 2013.**

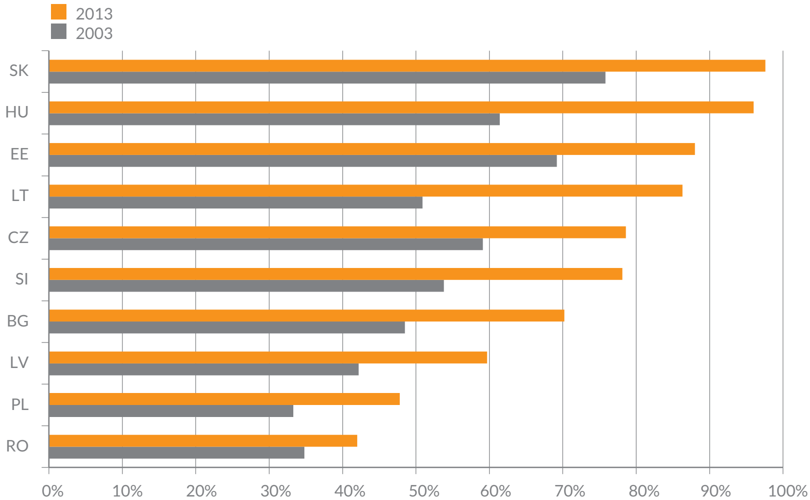
Chart 22. Exports of EU-10 Member States to non-EU markets (in EUR million)



Source: Eurostat (as at 20.03.2014).

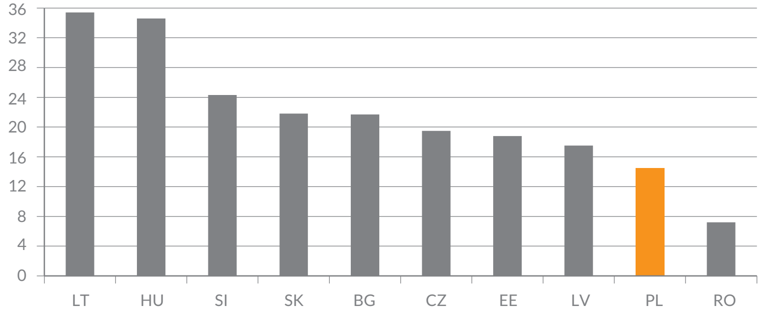
Moreover, Poland's economy has become increasingly internationalised, with the ratio of goods and services exports to the GDP standing at 47.8% in 2013, i.e. 14.5 percentage points more than in 2003. **A central role was played by exports to the EU, the value of which reached 35.6% in relation to Poland's GDP** (8.7 percentage points more than in 2003).

Chart 23. Exports/GDP ratio in 2003 and 2013



Source: Own calculation based on Eurostat data (as at 20.03.2014).

Chart 24. Exports/GDP ratio in EU-10 trade between 2004 and 2013 (percentage points)



Source: Own calculation based on Eurostat data (as at 20.03.2014).

Growing importance of third countries

After its accession to the European Union, Poland was made part of the common commercial policy (CCP). There had been concerns that the CCP would only serve as a tool for implementing postulates of the strongest countries, and that Poland would not be adequately protected from the competition of non-EU countries given the state of the Polish economy at the time. Yet it turned out that Poland's membership of the EU – which made our position on the internal EU market much stronger – did not weaken Poland in contacts with key partners from outside the EU.

Consequently, a positive effect of trade creation[76], both for Poland and other EU-10 countries, could be observed within the European Union and beyond in the long run. In 2013 Polish **exports to non-EU countries were four times bigger than in 2003,** and amounted to **EUR 38.6 billion**. Additionally, in 2004–2013 Polish exports grew much more quickly to non-EU countries than to most EU Member States. This was related to the growing potential of Polish exporters as well as to the improved access to third countries' markets.

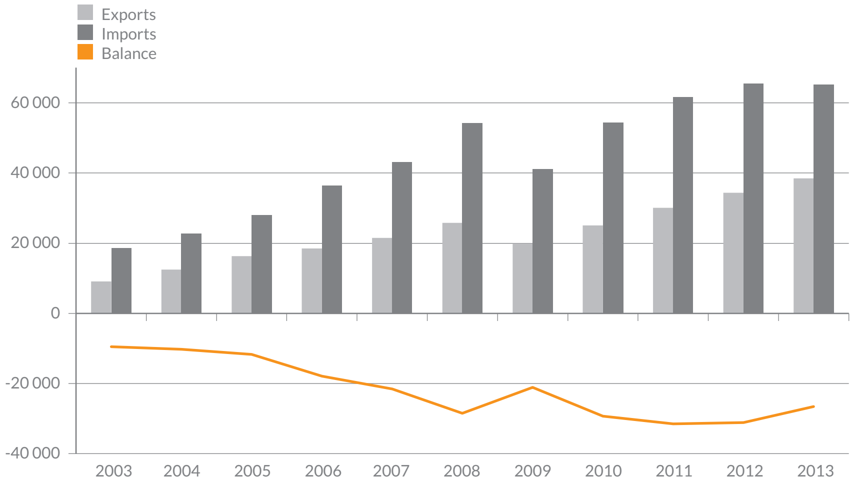
Concurrently, Poland's trade balance with non-EU countries deteriorated, generating a deficit of approx. EUR 27 billion in 2013. One reason was a sharp rise in imports – as in other EU Member States, the negative balance of Poland's trade is largely due to crude materials and mineral fuels. Once those two product groups are excluded from trade balance, Poland's trade figures with non-EU countries have improved significantly. While in 2003 the deficit amounted to almost EUR 4.5 billion, in 2013 there was already a trade balance surplus of approx. EUR 5 billion[77].

Because of, among other things, the Polish economy's solid position in the EU internal market, **the potential of Polish exporters grew considerably,** which in turn arrested a negative trend in trade with third countries – the deficit stopped growing. In addition, new opportunities opened up for realising Poland's

76 Trade-creation effects mean the creation of new trade flows through trade liberalisation (e.g. the elimination of customs duties and other trade barriers); this phenomenon is especially marked in the integrated territory of a customs union, thanks to a more effective allocation of production factors and enhanced effectiveness.

77 Eurostat data based on the Standard International Trade Classification (SITC), excluding SITC sections 2 (crude materials, inedible, except for fuels) and 3 (mineral fuels, lubricants and related materials).

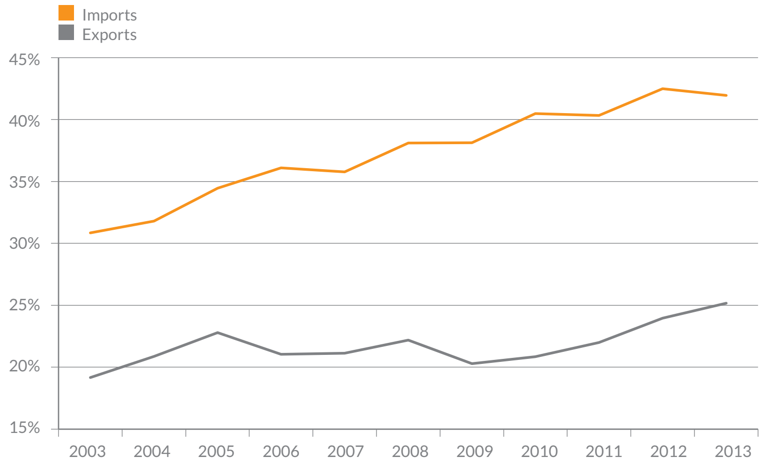
Chart 25. Volume of Poland's trade with non-EU countries (in EUR million)



Source: Central Statistical Office, Ministry of Economy (as at: 20.03.2014).

export potential, and for more involvement in new markets. Polish exporters started to adapt their commercial activity to the current situation on the global market. As a result, the share of Polish exports to third countries' markets grew from 20.3% in 2009 to nearly 25% in 2013.

Chart 26. Share of trade with non-EU countries in Poland's total trade



Source: Central Statistical Office, Ministry of Economy (as at 20.03.2014).

It should be emphasised that EU membership has allowed Poland to become party to trade agreements with third countries. Many such trade deals give more preferential access to the relevant markets, govern a wider scope of issues, and cover more geographic areas than the agreements Poland concluded before 2004. For example, we were granted better access conditions to the markets of countries that the EU had established a free trade zone or a customs union with, e.g. Turkey, Mexico, Chile, Morocco or South Africa.

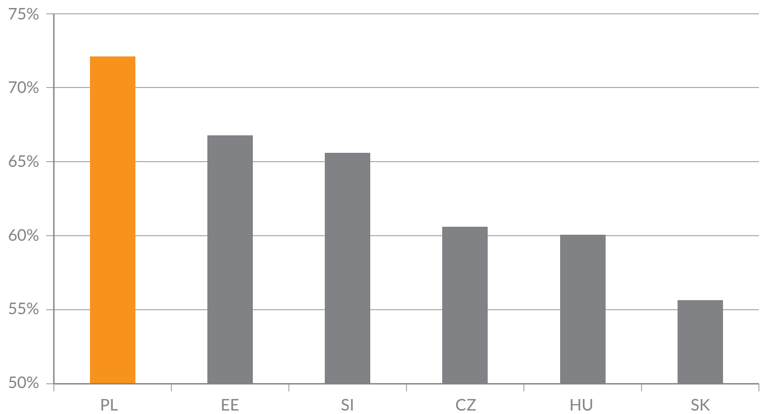
Stability and balance

What do exports growing quicker than the GDP say about the Polish economy? That it has become more competitive, and that demand for Polish products and services is on the rise abroad. However, while exports are no doubt an important growth factor, Poland does not rely exclusively on markets' conditions, including exchange rates, or on orders from foreign contractors. The concurrent growth of imports is evidence of both a growing demand among Polish consumers, and manufacturers' demand for means of production. Raw materials and investment goods imports have helped manufacturers modernise their technologies and make their production more competitive.

Very high ratios of exports and imports to GDP are typical for small countries, where the economic situation is interrelated with changes on foreign markets. Except for Romania, in the countries of our region the exports/GDP ratio was higher than in Poland. In this category, Slovakia set a record of approx. 98% in 2013. As regards Poland, **a relatively smaller exports/GDP ratio reflects the diversification of the Polish economy, which can be seen as evidence of its stability and balance**. This also partly protects Poland against potential turmoil on foreign markets.

Comparing Poland's situation to the rest of the region, our export potential is least reliant on the supply of components from abroad. It is true that after joining the EU Poland increased its share in global production chains, something that has had a positive impact on national modernisation processes. Yet despite this internationalisation, **over 70% of Polish exports' value added is** still **created by enterprises operating in Poland**. To compare: in the Czech Republic and in Hungary this is around 60%, and in Slovakia close to 56%[78]. Consequently, thanks to Polish companies, exports make a bigger contribution to the economic growth in Poland in relation to other EU-10 countries.

Chart 27. Domestic value added share of gross exports in 2009



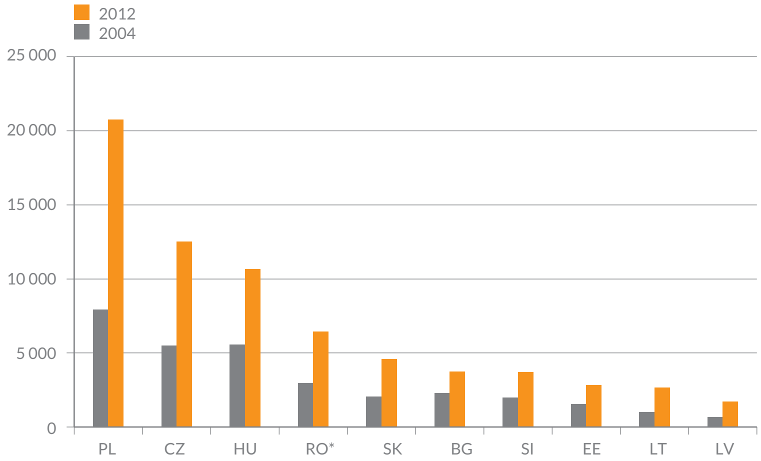
Source: Own calculation based on OECD data (as at 20.03.2014).

78 Data for 2009 based on value added indicators: *OECD Trade in Value Added (TiVA) Indicators.*

Regional leader in trade in services

Poland is the region's leader in the trade in services, especially in relation to other EU Member States. In 2012 we **provided EUR 20.7 billion worth of services to the European Union, which accounted for approx. 30% of the share of all EU-10 states**. Compared with other countries of the region, from 2004 to 2012 our services exports to the EU grew at almost the fastest rate (except for Lithuania) exceeding 160%.

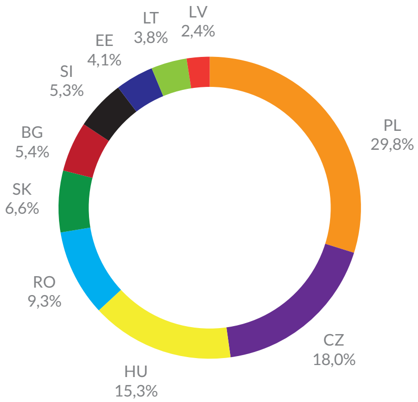
Chart 28. Services provided to the EU in 2004 and 2012 (in EUR million)



* Data for 2005

Source: Eurostat (as at: 20.03.2014).

Chart 29. Total share of EU-10 states in services exports to the EU in 2012

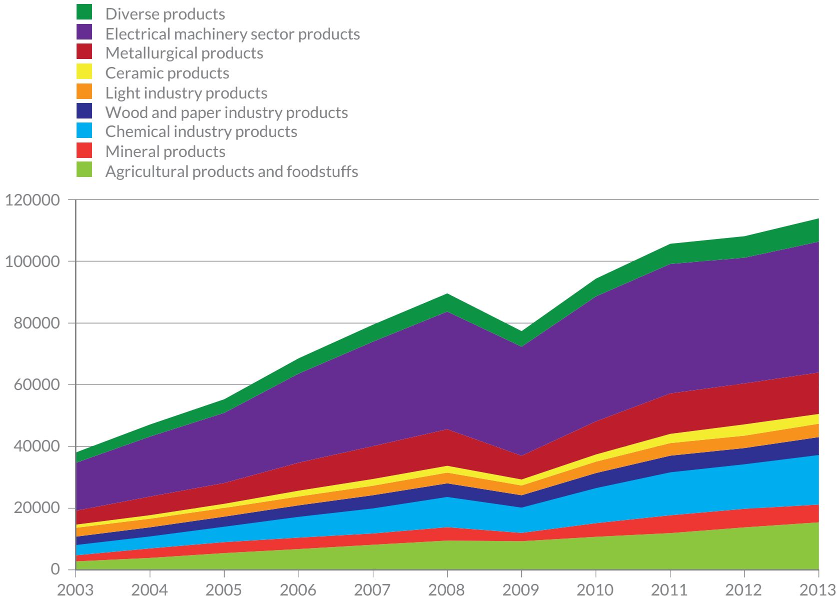


Source: Eurostat (as at 20.03.2014).

Polish export products

In 2004–2013 Poland exported several groups of commodities to EU Member States. **Electrical machinery ranked highest,** with a 37% share in total exports in 2013. In the same period the value of exported goods grew by over 170%, i.e. from EUR 15.5 billion to around EUR 42 billion. **The leader of exports growth was the agri-food industry**, whose exports to the EU have increased over five-fold since 2003, expanding from EUR 2.7 billion to nearly EUR 15.5 billion. Chemical industry products featured prominently in the Polish exports basket as well, with an increase of nearly 330%, and a value of EUR 16.3 billion in 2013.

Chart 30. Poland's exports to the EU in 2003–2013 (in EUR million) by major commodity groups (according to CN classification[79])



Source: Central Statistical Office, Ministry of Economy (as at 20.03.2014).

Vehicles, especially cars, and their components, remain extremely important export commodities for Poland. Together, those two groups of products[80] rank highest (CN classification: 8703 and 8708); in 2013 they represented 9% of all exports to the EU at a total value of EUR 10.5 billion. Compared with 2003, trade in those goods grew by an average of 200%.

Other Polish export groups come in the following order of importance: furniture, TV receivers, petroleum oils and their products, data processing machines, internal combustion engines, copper, and copper alloys. These ten main commodities (4-digit level in the CN classification) accounted for close to 30% of exports to the EU in 2013.

79 CN (*Combined Nomenclature*) – a commodities classification in international trade; a tariff-based and statistical nomenclature of the customs union, it is applied under the EU Common Customs Tariff.

80 According to CN classification: codes 8703 and 8708.

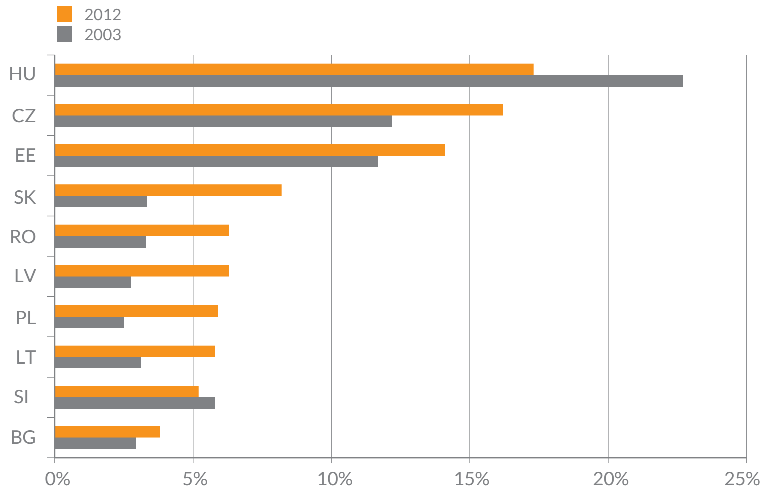
Since the EU enlargement in 2004, several sectors have significantly expanded their output. In the past decade Poland has joined the group of **top EU exporters in the following categories**:

- **Household appliances** – in 2012 we made the most household appliances in the EU (at a value of approx. EUR 3 billion);
- **Furniture** – in 2012 Poland in terms of quantity became the world's second biggest exporter of furniture after China (approx. 2.7 million tonnes);
- **Automotive industry products** – we are a leading exporter of vehicle parts, and the EU's largest exporter of buses and microbuses;
- **Television sets and LCDs** – we are a major producer and exporter of radio and television goods in Europe (in 2012 over 20 million television sets were produced);
- **Cosmetics** – over the past few years we have become the EU's fastest-developing manufacturer and exporter (over EUR 2 billion in 2012) of cosmetics;
- **Agri-food products** – we have become a leader in rye and frozen fruit (e.g. strawberries) exports, and a major exporter of poultry, eggs, juices, prepared vegetables and fruit, and tobacco.

Impact on export innovativeness

After Poland moved closer to the European Union, our exports became more innovative and technologically advanced. For example, the share of high-tech and medium-tech products grew from approx. 40% in 2000 to 50% in 2010. This stems, among other things, from the growing role of R&D in Poland[81].

Chart 31. Exports of high technology products as a share of total exports in 2003 and 2012



Source: World Bank, Eurostat (as at 20.03.2014).

81 PAIiIZ, R&D sector in Poland.

Another clear tendency is the **growing share of Polish high-tech** in the total goods exports. Between 2003 and 2012, Poland improved this ratio from 2.5% to 5.9%. Although high-tech indicators are higher for such countries as Hungary, the Czech Republic and Estonia, Poland is reducing this gap in a gradual and systematic way.

The innovativeness of exports is largely due to the inflow of foreign capital, which additionally spurs on modernisation in the national manufacturing sector. However, it should also be noted that what gives Polish exports a major competitive advantage is the fact that manufacturing sectors are less technologically advanced and more labour-intensive, although as labour costs rise, this trend is becoming ever weaker in Poland. Consequently, our country faces the challenge of making our exports more technologically advanced, and of narrowing the gap between Poland and other EU Member States.

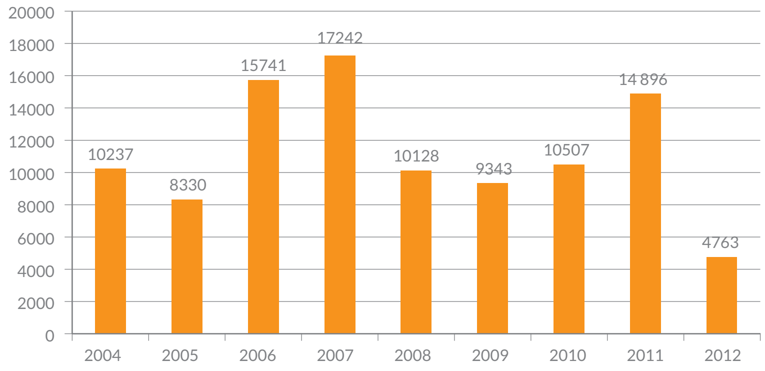
Poland attractive to investors

We are a leader of Central and Eastern Europe in terms of the value of foreign direct investments (FDI) inflow. The turning point was the year we joined the European Union, a decision that raised Poland's investment credibility and helped attract a lot of foreign capital. In 2012 the aggregate value of foreign investments was estimated at almost EUR 178 billion, a nearly **four-fold increase in relation to 2003**, when direct investment stocks in Poland amounted to approx. EUR 46 billion.

The most investments in the region

Since acceding to the EU, **the inflow of FDIs to Poland has exceeded EUR 100 billion.** 2007 was the best year in this respect. In the following years – despite the economic crisis – our country remained one of the most attractive investment destinations not only in Europe, but also throughout the world.

Chart 32. FDI inflow to Poland in 2004–2012 (in EUR million)



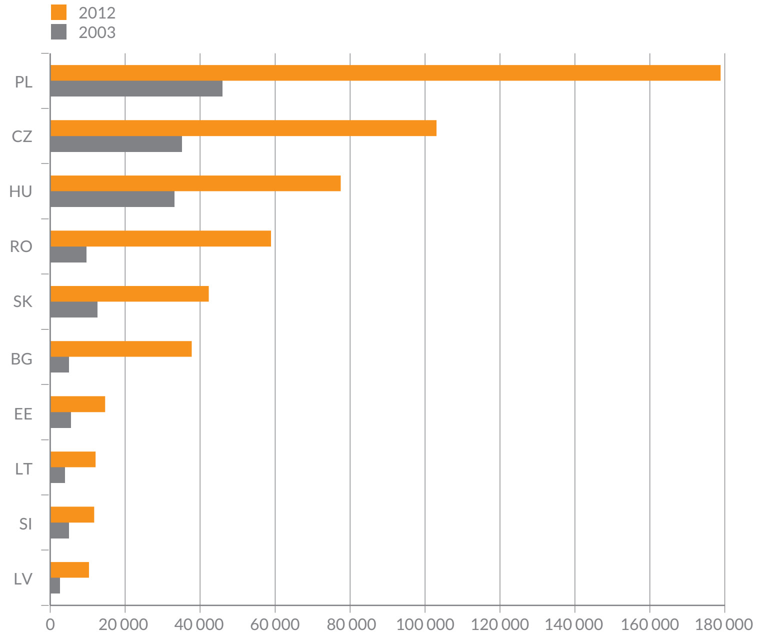
Source: National Bank of Poland (as at 20.03.2014).

A great majority of foreign investments, i.e. over 85%, came from the European Union Member States. Poland remains a leader among other countries of the EU-10 region. In 2012 Poland accounted for almost 34%, i.e. approx. EUR

157 billion, of all FDIs made by the EU in countries of the region. This was slightly below Poland's economic potential, whose ratio of the GDP to the EU-10's GDP stands at around 39%. Poland made up for a slight decrease in its FDI inflow by increasing its share in the region's FDIs.

Companies with foreign capital, including those from the automotive sector, have responded strongly to the global crisis, even though their Polish investments have suffered much less than those in other countries of the region. This was due to the fact that, unlike domestic enterprises, companies with foreign capital depended more heavily on global demand and external financing. A decrease in investment should thus be attributed to sluggish foreign demand, rather than Poland's declining attractiveness to investors.

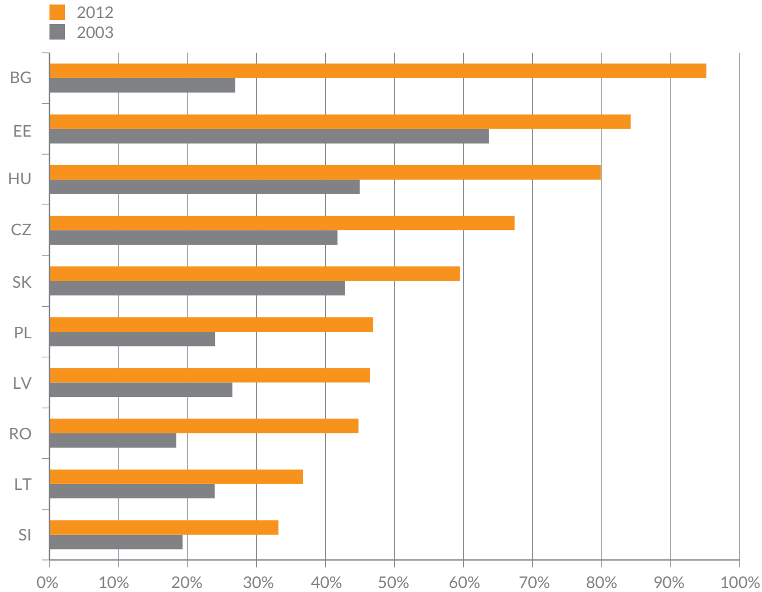
Chart 33. FDI stocks in EU-10 countries in 2003 and 2012 (in EUR million)



Source: Eurostat (as at 20.03.2014).

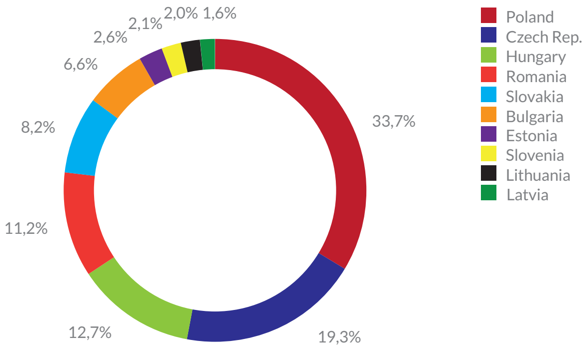
Foreign investments are important to all countries of the region, but the economic impact of FDIs differs (measured as relation of FDIs to GDP). The share of investments in relation to the GDP has been clearly on the rise in Poland – in 2012 this share was almost two times bigger than in 2003. It should be emphasised that – as in the case of exports – the importance of FDIs for the Polish economy remains relatively stable. This means that a sudden outflow of investments would not disrupt the country's economic conditions to the extent it did in Bulgaria, the Czech Republic, Hungary or Slovakia, where FDIs have a much bigger impact on the economy than in Poland.

Chart 34. Share of FDI stocks to GDP of specific countries in 2003 and 2012



Source: Eurostat (as at: 20.03.2014).

Chart 35. Share of Poland in FDI from EU Member States in EU-10 countries in 2012



Source: Eurostat (as at 20.03.2014).

Starting from 1995, foreign investors have been attracted to Poland by the good state of its economy. Thanks to close economic cooperation with the European Union, our prospective EU membership began to have a positive impact on FDI inflow as early as in the 1990s. Yet it was integration with the EU that markedly accelerated the inflow of foreign investments to our country. There were good reasons for this. **Poland's investment attractiveness improved after we joined the single market, benefiting from concrete advantages, such as deeper economic integration and a stable legal regime**. That is why Poland became the principal destination for investments from across the EU. Our main strengths include a large and receptive internal market (approx. 38 million people) and the considerable potential of the labour market (working population of over 30 million people).

Companies with foreign capital quickly took advantage of Poland's accession to the EU to increase their production, expand and market their exports in European markets. Companies with only Polish capital made considerable gains as well. Pressure from foreign companies mobilised them and forced them to modernise their production. What also made entities with Polish capital more active was entry into the single European market and access to EU funds[82]. Thanks to those measures, in the past few years **Poland has become a leading producer and exporter in key domestic industries.**

In addition, Poland's EU membership has likely boosted investment from non-EU countries, which wanted to bypass trade barriers in other EU countries.

Benefits from foreign investments

Following a sizeable FDI inflow immediately after EU accession (especially until 2008), in the past few years the economy has become partly saturated with foreign investments. In 2008–09, the share of companies with foreign capital in the Polish economy stabilised at a level close to 40%[83]. Concurrently, the share of foreign companies in total employment increased (creating approx. 170,000 new jobs in Poland[84] in 2004–2012), as well as their liabilities, although companies spent less on investment.

Although the significance of new investments has decreased recently, foreign companies continued to reinvest a large part of their profits (the only exception being the crisis year 2008). This shows that **investors have appreciated the stability of the Polish economy, and invest within a long-term timeframe.** It is reinvestments that have been largely responsible for good FDI results in Poland in recent years. **Bloomberg ranking for 2014 found Poland to be the most attractive country for investments in Eastern Europe and Central Asia**. Globally we ranked 26th[85].

How did Poland achieve such a good result? Our greatest advantages are:

- Internal market as big as the combined markets of Romania, the Czech Republic and Hungary;
- Political stability;
- One of the most stable currencies among all emerging markets (especially in relation to the euro);
- Considerable modernisation of road infrastructure (Poland occupies second position after Turkey with respect to lowering transport costs);
- The highest increase in work productivity among OECD countries between 2009 and 2012.

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82 J. Chojna, *Napływ bezpośrednich inwestycji zagranicznych do Polski po akcesji do Unii Europejskiej*, [in:] *Wpływ członkostwa w Unii Europejskiej na stosunki gospodarcze Polski z zagranicą*, IBRKK, Warszawa 2009.

83 *Inwestycje zagraniczne w Polsce 2009–2011*, ed.: J. Chojna, IBRKK, Warszawa 2011, p. 13.

84 Data on the basis of Ernst&Young reports, *European Attractiveness Survey.*

85 *Survey based on 6 important factors: economic integration, cost of setting up a business, labour cost, material cost, transport cost, less tangible costs;* source: http://www.bloomberg.com/visual-data (1.03.2014).

Poland has become an attractive destination to foreign investments also thanks to its great labour market potential – easy access to both non-skilled workers and specialists in various branches.

One of the benefits of FDIs for the Polish economy was competitive pressure which increased the manufacturing and labour productivity of Polish enterprises. This was made possible, among other things, by the application of modern production and work organisation methods, which made Poland's trade offer more competitive[86]. **In other words: even as more foreign capital flowed in, it played an increasingly important role in modernising the Polish economy.**

Companies with foreign capital also have a substantial, albeit decreasing, advantage over domestic firms in terms of labour and manufacturing productivity. This can be illustrated by the so-called synthetic advantage ratio. In 2009 it stood at 233.3 for the FDI sector (domestic sector = 100), and was approx. 35 points lower than the maximum level in 2004[87]. The fall of this disproportion is a welcome phenomenon, as it means that companies with only Polish capital have increased their effectiveness and production quality.

Foreign direct investments continue to provide strong incentives for Poland's export potential. While companies with foreign capital accounted for close to 30% of all exporters, their share in Poland's exports totalled as much as 60%. The group of leading exporters mainly comprises companies with foreign capital from branches that are characterised by high production concentration and considerable product diversity. However, enterprises with Polish capital have been improving their performance as well. As a result, the share of companies with foreign capital in the total goods and services exports is decreasing – from approx. 62% in 2005 to around 59% in 2012[88]. This means that **Poland's economic growth has become more balanced in the past few years, while the activity of the foreign and domestic sectors has become comparable.**

Transition from industry to services

The sector-based structure of foreign investments has been changing for several years now. The services sector is becoming more and more important, while investments in the industrial processing sector play an ever smaller role. That was the way developed countries once had to come. However, investments in industry remain an important source of growth for countries that are halfway between a labour-intensive and a knowledge-intensive economy.

In the largest EU-10 countries the share of FDIs in manufacturing steadily declined in 2004–12. Compared with other countries of the region, the fall was relatively small in Poland – from 36% in 2003 to 32% in 2012, while in Hungary the ratio went from 40% to 19%, and in the Czech Republic – from 42% do 33%[89]. These data show that industrial investments in Poland are relatively stable.

It can also be observed that industrial projects are becoming less significant, with investments in services coming to the fore, and that brownfield

86 G. Ancyparowicz, *Wpływ bezpośrednich inwestycji zagranicznych na wzrost polskiej gospodarki w okresie poakcesyjnym*, Central Statistical Office, Warszawa 2009, p. 21–25.

87 J. Chojna, *Inwestycje…*, *op.cit.*, p. 13.

88 According to Central Statistical Office data on economic activity of entities with foreign capital.

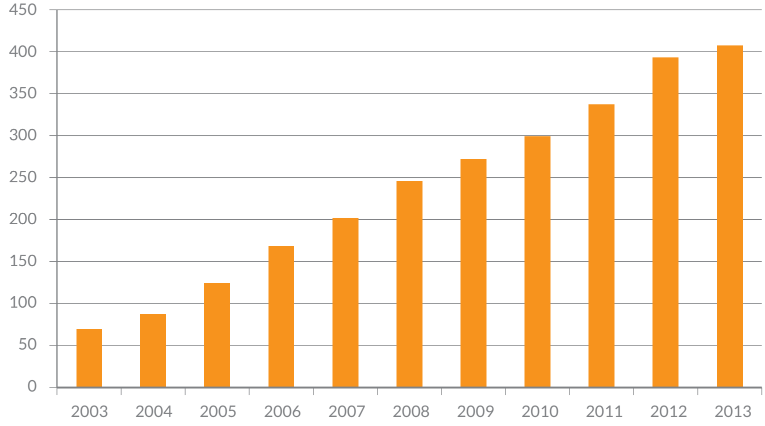
89 According to OECD data (as at 20.03.2014).

projects (based on existing production units) are replacing greenfield investments (made from the ground up). Investments in Poland's pro-export sectors (automotive, electronics and white goods sectors) continue to decrease. On the other hand, investments in business services and research and development services are on the rise. Though smaller than industrial investments, these projects generate more jobs.

Poland: EU's service centre

Poland is becoming Central and Eastern Europe's hub of business and service centres. The first such centres were established in Poland already in the 1990s, but modern business services only began to thrive after Poland's accession to the EU. Out of every four centres operating in Poland, three were set up after 2004. Little wonder, as joining the EU has made investors better disposed to Poland, increased Poland's political credibility, and accelerated transformation of the legal framework for doing business. Between 2005 and the end of 2011, 250 new service centres were established in Poland, and their number keeps growing[90]. **In early 2013, almost 400 such centres were already fully operational. This is almost 40% of all such investments in the region.** The majority are investments by enterprises from Western Europe and the US.

Chart 36. Foreign service centres in Poland in 2003–2013



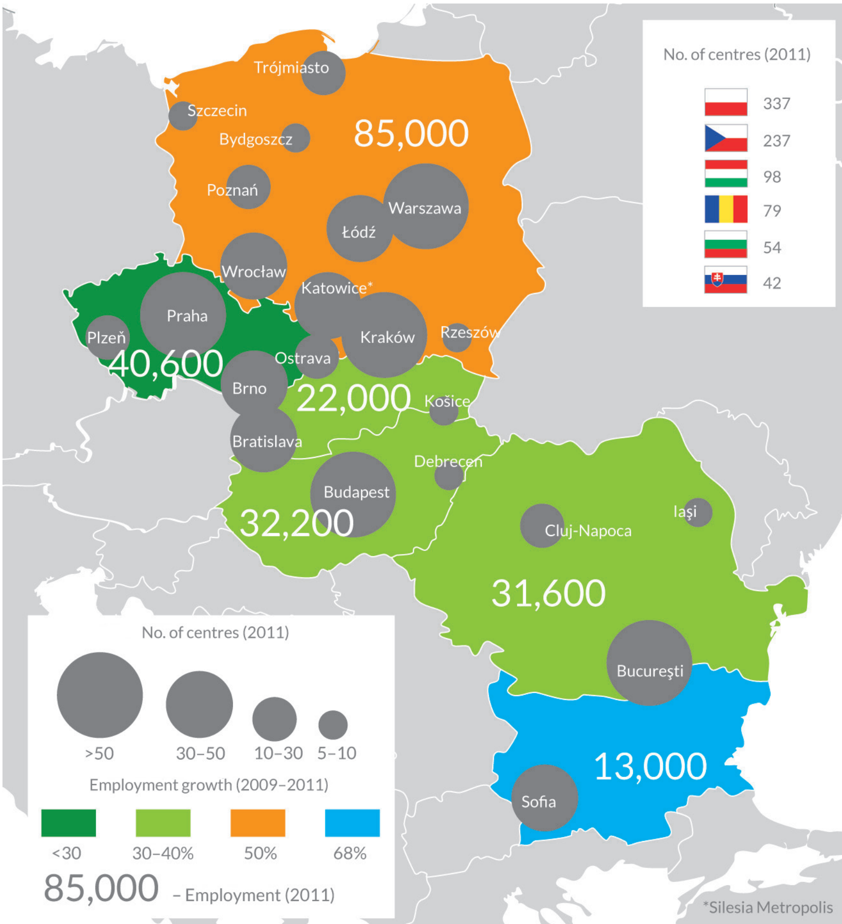
Source: Sektor nowoczesnych usług biznesowych w Polsce, PAIiIZ, Warszawa 2013.

The boom of modern business services is good news for Poland's labour market. At the beginning of 2013 **business and service centres with foreign capital employed approx. 110,000 people. This constitutes almost 40% of all jobs in this sector in Central and Eastern Europe.** The staff at such centres in Poland keeps growing, with the average annual employment growth continuing at 20%. This rate is the most stable in all countries of the region[91]. The majority of modern business services jobs are located in Krakow, which was the first city

90 Report: *Sektor nowoczesnych usług biznesowych w Polsce*, PAIiIZ, Warszawa 2012.
91 Association of Business Service Leaders in Poland (ABSL), *Raport: Sektor nowoczesnych usług biznesowych w Polsce 2013.*

in Central and Eastern Europe to be ranked among the world's top 10 destinations for business services outsourcing[92].

Map 1. Modern business services in Central and Eastern Europe in 2011



Source: Raport Sektor nowoczesnych usług biznesowych w Polsce, PAIiIZ, Warszawa 2012.

Poland's accession to the European Union has made **service investments more comprehensive and innovative**. Our service sector has already left its infancy and entered a more mature phase of development. Moreover, there are new reasons for transferring business processes from the West to Poland. In 2004–2007 low labour cost was a major factor, as business processes were still less advanced. In subsequent years, however, service centres started to seek more qualified staff to handle more complex financial and accounting services. As a result, offshore[93] centres began to crop up in Poland, specialising in selected

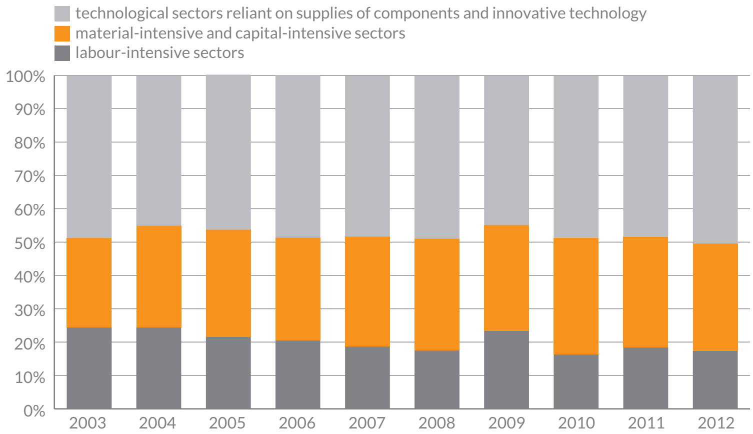
92 According to Tholons report: *Top 100 Outsourcing Destinations, December 2013.*
93 *Offshoring* – transfer of selected business processes abroad by an enterprise.

domains, such as developing software for foreign companies, chiefly automotive firms and telecommunication services providers. They were followed by specialist service and business centres, which are on a par with their head offices in Western Europe and the US. More than 70% of such centres operating in Poland provide services to Western European countries[94].

More cutting-edge industry

Poland's economy had begun its switch to high-tech goods manufacturing during the transformation, mainly thanks to companies with foreign capital. Joining the EU helped to maintain this trend, although in the past few years a slight departure has been observed from medium-tech towards low-tech and medium-low-tech products. This phenomenon was partly due to the situation on global markets and a smaller demand for high-tech products[95]. It should be noted that while the export structure of companies with foreign capital deteriorated, an opposite trend was observed in entities with only Polish capital. This was predominantly caused by the competitive pressure of foreign enterprises. Consequently, the presence of foreign investors helped make Polish production more competitive. This is especially true for manufacturing of vehicles, manufacturing of other non-metallic products, manufacturing of basic metals, and manufacturing of plastics. Although half of foreign investments in manufacturing have been made in low-tech and medium-low-tech sectors, the share of **FDIs is on the rise in medium-tech and high-tech sectors, such as the production of computers, pharmaceuticals, medical and optical instruments. Poland is also becoming a regional leader in software development and the aviation industry.**

Chart 37. Foreign capital structure in Poland according to technological intensity



Source: own calculation based on Central Statistical Office data (as at 20.03.2014).

In 2004–2012, foreign capital in the Polish processing industry gradually moved from labour-intensive and material-intensive sectors to capital-intensive and technology-intensive ones. This means that an increasing number of foreign

94 Reports *Sektor nowoczesnych usług biznesowych z 2012 i 2013, Association of Business Service Leaders in Poland.*

95 J. Chojna, *Inwestycje…, op.cit., p. 60.*

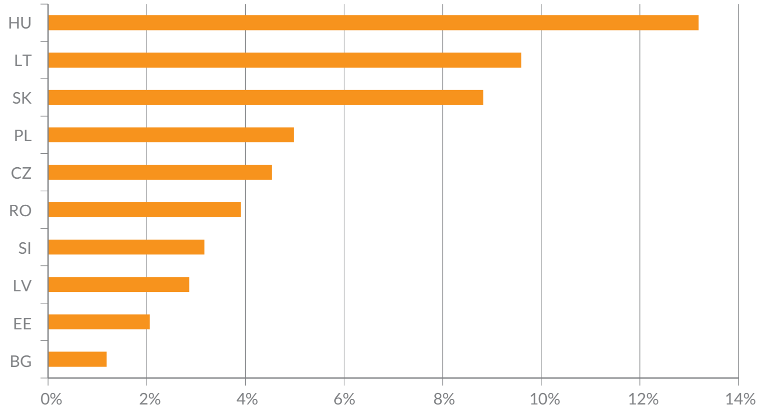
investments are moving towards more advanced production sectors. Technology-intensive sectors based on components supplies saw the biggest rise – from under 11% in 2003 to 15% in 2012. A look at foreign capital structure according to technological intensity reveals that the capital which is invested in technology-intensive and capital-intensive sectors helps the Polish economy transform its industrial structure. This in turn gives rise to more modern industry branches[96].

Foreign companies not only invest in Poland, but also increase R&D spending (although the capital's country of origin remains the focus of their activity). In 2012 their total share in Poland's R&D expenditures was 13.3%. To compare, in 2003 this figure stood at 4.6%. If we consider that in 2004–2012 the business sector accounted for approx. 30% of R&D funding in Poland, the innovative edge of foreign companies over Polish entities becomes obvious[97].

Attracting investors

Income tax reliefs are a concrete and welcome incentive for enterprises to invest their capital in a given country, especially when other competitive advantages are not available. In Poland this kind of public assistance was relatively less significant than in some EU-10 countries, and was limited to special economic zones (SEZ). Although FDIs have been on the rise, the use of tax reliefs by foreign investors has been stable in Poland over the past few years. In 2005–2012, between PLN 0.6 billion and PLN 2.9 billion worth of tax relief was claimed annually[98]. At the same time, investors became less interested in SEZs, with only a third of all investments operating in economic zones at the moment. This confirms that tax reliefs are not the key incentive for foreign investments.

Chart 38. Ratio of tax relief to FDI inflows in EU-10 countries in 2004–2012



Source: own calculation based on Eurostat data (as at 20.03.2014).

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96 Based on Central Statistical Office data on economic activity of entities with foreign capital; D. Starzyńska, *Bezpośrednie inwestycje zagraniczne a konkurencyjność przedsiębiorstw przemysłowych w Polsce*, Lodz University Press, Lodz 2012.

97 Based on OECD data.

98 Based on Office of Competition and Consumer Protection reports on public assistance granted to entrepreneurs in Poland.

A different approach has been adopted in some countries of Central and Eastern Europe. The Czech Republic, Slovakia, Hungary and Bulgaria have no special economic zones; instead they use several other mechanisms to support investors. To begin with, some countries have a much more extensive system of tax reliefs. This allows foreign companies to benefit from a wider range of tax incentives. For example, in Hungary investors can have an 80% tax relief for 10 years, while in Bulgaria or Slovakia they can be altogether exempt from CIT. The Czech Republic has recently (i.e. since 2012) extended its tax exemption period from 5 to 10 years and introduced investment grants for strategic investments. Bulgaria in turn lowered eligibility criteria for new investments[99]. By offering considerable tax exemptions and investment incentives, countries of our region try to outbid Poland, a market with greater potential and more qualified employees. A CIT exemption in Polish SEZs was limited by the amount of eligible costs and the maximum regional assistance in a specific location (investors could not hope for unlimited reliefs for their business).

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99 Based on Polish Information & Foreign Investments Agency report *Zachęty inwestycyjne w wybranych państwach Europy Środkowo-Wschodniej*.

Share of internal EU market

Prior to Poland's accession to the European Union there were widespread doubts whether Polish companies would withstand competition on the EU market and whether they have a chance to remain on it[100]. Some critics were convinced that Polish services and goods would not prove sufficiently attractive for European consumers. Effective entry on the largest market, which comprises 500 million consumers and 20 million companies, could appear to be beyond the reach of Polish companies. Yet, contrary to such concerns, it was Polish entrepreneurs who were the greatest enthusiasts of our country's integration with the EU. The present situation of Polish companies and their financial results suggest that the enterprise sector has not only risen to the challenge, but has also taken advantage of the opportunities offered by integration with the EU.

In the years 2003–2012 revenues of enterprises in Poland grew gradually[101]. An analysis of data from that period shows that financial results of Polish companies improved much faster than the EU average. To compare, in the years 2003–2013 the dynamics of turnover by Polish companies amounted to 148.2%, and in the EU-27 countries – 120.7%[102]. Statistics show that industrial production also started to grow from May 2004. The only exception was the crisis year 2009, yet as early as in 2010 the economy bottomed out and showed a tendency for growth again.

What is more, concerns that EU integration would lead to large foreign companies flocking *en masse* to Poland causing bankruptcy of small family businesses have not proven to be true. In 2012 companies from the sector of micro and small enterprises continued to represent 99% of all economic entities. Large enterprises, i.e. those that employ over 250 persons, represent not more than 0.2% of all non-financial enterprises in Poland. Since 2003 the number of small and medium-sized enterprises has grown on average by 27%, and of micro companies – by 3%. A total of 52,000 new micro companies have been created on the Polish market.

In 2012, 38% of all large enterprises were companies with foreign capital. Among small enterprises, i.e. those that employ more than 9 persons, companies with majority foreign participation represented less than 10%. Micro, small and medium-sized enterprises also offered the most jobs. Seventy per cent of all people employed in non-financial enterprises worked in those enterprises in 2012. In the same year the SME sector was responsible for 55.4% of all revenues generated by non-financial companies.

In 2013, Polish entrepreneurs were among the greatest enthusiasts of Poland's EU membership. Among entrepreneurs running their own companies, the

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100 *Badanie opinii BS/110/2003, Nadzieje i obawy związane z integracją [Opinion poll BS/110/2003, Expectations and concerns related to integration]*, CBOS [Public Opinion Research Center], June 2003.

101 Based on CSO data for companies that employ more than 9 persons (state as on: 6.02.2014 r.)

102 http://www.poig.gov.pl/2014_2020/konsultacje/Documents/Diagnoza_POIR_09_09_2013.pdf, p. 14. (24.03.2014)

percentage of supporters of integration was significantly higher than for all Poles and amounted to 86% (the average for Polish society was 76%[103]).

Advantages of uniform law

In qualitative research carried out in 2003 among medium-sized businesses, the best opportunities and benefits arising from integration were sought in the unification of provisions of law across all Member States. A Pentor survey suggested that prior to EU accession, entrepreneurs expected that EU legal regulations would be advantageous for business, i.e. simple, clear and easy to interpret correctly and unequivocally[104]. They were quite right. Accession to EU structures had a great impact on Polish law, especially economic law. The process of harmonisation of Polish law to EU law began in the early 1990s. This work was accelerated on 1 February 1994, after the coming into force of the Europe Agreement between Poland and the European Communities. Apart from a provision defining the framework of cooperation and economic exchange, the agreement also required Poland to approximate the existing and drafted law to Community law. Specific areas of mandatory adjustments were identified: customs, banking, accounting, tax, intellectual property, the protection of employees, financial services, rules of competition, the protection of life and health of humans, animals and plants, consumer protection, technical and standardisation law, as well as transport and environmental protection. The Europe Agreement became an impulse for launching adjustment measures also in non-legal areas of the Polish economy – for example, in relation to the effective operation of commercial courts or combating corruption[105].

Changes to the legal system in the period preceding integration with the EU's system helped reduce the costs of transformations. Poland benefited from tested regulation models, which existed in the more economically-advanced countries.

Transformations carried out in Poland were appreciated by the World Bank. In 2003 Poland and Lithuania were included in the group of so-called "10 top reformers", and they owed their position in the ranking to a significant relief of legal burdens for companies. Poland was also given credit for adopting the Freedom of Economic Activity Act in May 2004, which simplified the procedure and the time required to set up a business in Poland[106]. The Polish and Lithuanian successes are all the greater considering the fact that seven out of the ten countries selected in the ranking were already EU Member States

Legislative framework good for companies

In the opinion of Polish entrepreneurs, EU integration was responsible for replacing Polish law with EU law, which was more beneficial for our businessmen.

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103 Laboratorium Badań Społecznych, *Badanie opinii na temat Unii Europejskiej*, November 2013.

104 Pentor RI as commissioned by Office of the Committee for European Integration, *Postawy społeczne wobec Unii Europejskiej, Raport z badań jakościowych*, Warszawa 2003.

105 A. Nowak-Far, *Ewolucja prawodawstwa gospodarczego* [in:] Transformacja systemowa w Polsce [System transformation in Poland], ed.: K. Żukrowska, SGH, Warszawa 2010, p. 433.

106 *Doing business 2005, Removing obstacles to growth*, World Bank, 2005.

Such legal acts were the collection of new approach directives introducing the CE marking, rules on natural gas, energy labels, requirements for minimum use of energy and electronic waste[107].

The process of the harmonisation of law was also continued after 2004, when Poland was a full-fledged EU Member State and was able to better understand Community law and had time to implement it. New legal solutions were better adjusted to the Polish legal and cultural environment and could be implemented faster.

EU integration meant that many Polish associations of entrepreneurs decided to join European business organisations. Lewiatan, the Polish Confederation of Private Employers, has been a member of Business Europe since 2002, and the Polish Chamber of Commerce is affiliated with the Eurochamber; Polish entrepreneurs are also represented in European associations of the furniture, cosmetic, automotive, pharmaceutical, plastics or chemical sectors.

Companies were willing to engage in the activities of European organisations, because the majority assumed that the increased importance of European law for the shape of legal solutions in Poland requires their active presence in Brussels. Polish companies wanted to have a bigger say in the enactment of future European laws and policies, and to present opinions about Polish companies on the pan-European stage. Additionally, membership of those organisations allows companies to obtain information about the upcoming changes in EU law ahead of time, making it easier for them to take action at an appropriately early stage. It also enables them to analyse proposed solutions, to work out their own position and to prepare for changes.

Membership in European organisations has also provided a good opportunity to promote Polish companies, to engage in broader cooperation with other domestic organisations and to benefit from international experience both in the legislative and business dimensions, as well as in socially-oriented activities. In Lewiatan's opinion, one of the greatest successes made possible by membership in Business Europe is the impact on EU energy and climate policy, which is of key importance to the development of many industries in Poland. The Poles have not only managed to convince their European partners to adopt the Polish standpoint, but also to gain allies (the German Federation of Industries, BDI) to pursue common interests.

EU law has had a significant impact on institutional solutions adopted by Poland. Despite the fact that such solutions are basically the subject of fully independent decisions by Member States (within the procedural autonomy rule), EU law has had a great impact on many solutions, including on the model of independence of the central bank and the rules of its cooperation with the finance minister, and on the market oversight model. In the latter case, EU solutions allowed for a better balance between the interests of entrepreneurs and other market participants, especially consumers.

Other examples of the advantageous impact of EU law comprise institutional solutions adopted with respect to the protection of competition and consumers and to the functioning of the energy market. In Poland completely new

107 Based on responses given to the Ministry of Foreign Affairs by selected business organisations in January 2014.

legal solutions appeared as well, namely the opening of the railway and air transport markets. Furthermore, the EU law started to set out directions for the execution of certain public services, such as road passenger transport, and as regards public procurements, the EU imposes stringent requirements related to the clarity of adopted procedures. Nevertheless, one should also bear in mind that in the majority of cases the EU law does not prejudge specific solutions. A good example is public procurement, where numerous regulations are of a national nature.

EU regulatory standards have, in many cases, increased the costs of adjustments borne by the economy. Most of these costs were balanced by social benefits. In most cases the adoption of EU legislation did not lead to an increase, in absolute terms, of the costs of running the economy, but to a change in the distribution of (bigger) advantages and (smaller) costs between participants of the different markets.

The comprehensive EU law concerning the general safety of products and the protection of economic interests of consumers is a good example of such change. The law's basic function was to make mandatory the application of high technical and contractual standards. The solution was intended to benefit consumers. However, in the long run it also improved the competiveness of the entire sector by improving its standards.

It is worth mentioning that enterprises that had been exporting to the EU market before 2004 had to adjust their businesses to EU standards. This meant they had to bear the costs of that adjustment without concurrently benefiting from the profits of the EU's internal market. Polish entrepreneurs approached the EU's strict quality requirements in terms of development challenges not barriers. Poland had also negotiated transition periods which in the first years of its membership protected the Polish economy against excessive costs. The ten transition periods for the most costly adjustments to be carried out in the area of environmental protection are a case in point.

EU spurs on Polish companies

On 1 May 2004, Polish companies gained access to the single market. During the next ten years of their presence in the EU, they fully tapped into its potential.

In the period of 2004–2012, the number of companies exporting their goods abroad in the group of small, medium-sized and large enterprises (i.e. employing more than 9 persons)[108] grew almost twice as fast as the number of all entities (by ca. 38% as compared to 19%). This clearly shows the rise of internationalisation of Polish companies. As early as in 2012, one out of almost three Polish companies in this group (32%) was an exporter. The greatest numbers of exporters

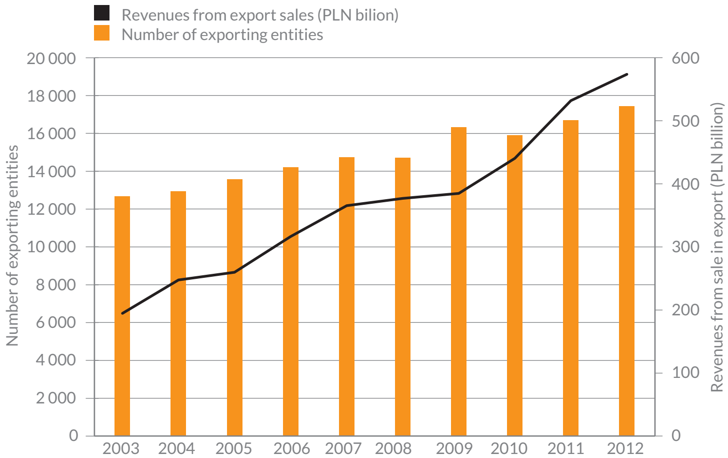
108 The available data are insufficient to precisely identify all the entities trading with the EU (this also applies to microenterprises) because the methodology of creating statistical sets for foreign trade has changed since Poland joined the EU. The EU uses the INTRASTAT data collection system, which is based on declarations of entities participating in foreign trade turnover, supplemented by additional estimates arising from the applied statistical thresholds. The entire commodity foreign trade cannot be broken down to specific companies and therefore the volume indicator cannot be identified. Starting from 2005, the share of exports and imports that cannot be linked to a specific entity has been systematically growing (in 2010 it was around 15%).

were in industry (ca. 54%), trade (ca. 25%), transport (ca. 6%), professional, service and technical activity (ca. 5%) and construction (ca. 3%)[109].

Traditionally, the greatest activity abroad is demonstrated by large companies, but integration with other EU Member States' markets also led to a gradual increase in exports by microenterprises and small companies (up to 49 employees). Of these ca. 12% declared in 2012 that they were present on international markets, which means that the number of exporting enterprises has grown by over 30% as compared to the period five years earlier. This suggests a growth rate that is almost three times faster than in the case of medium-sized and large enterprises[110]. Particularly active are small companies – a little more than one out of four companies employing between 10 and 49 people (ca. 28%) marketed their products and services outside Poland in 2012.

After 10 years of EU membership, Polish exporters continue to be optimistic about the development possibilities and market potential. Almost 77% of companies that sell their goods or services abroad expect to generate substantial profits in 2014[111]. What is more, Polish companies exporting to the EU are increasingly more optimistic about the condition of their enterprises, as evidenced by the export and production trends which continue to grow.

Chart 39. Number and revenues of exporting entities* in the years 2004–2012



** Applies to companies employing more than 9 people.*

Source: Financial results of economic entities according to balance sheets, CSO.

Success of Polish exporters

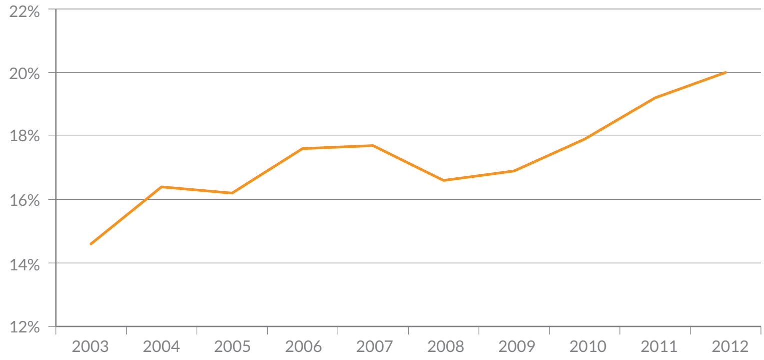
More Polish companies present on foreign markets meant higher export revenues. Between 2003 and 2012 exporters generated almost 200% higher profits. Export sales also began to generate an increasingly higher share of total

109 2011 data based on: *Bilansowe wyniki finansowe podmiotów gospodarczych*, GUS.
110 Polish Agency for Enterprise Development, *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2011–2012*, Warszawa 2013, pp. 59–71; *Raport o sytuacji mikro i małych firm w roku 2012*, Bank Pekao 2013, pp. 73–76.
111 B. Drewnowska, *Eksport da szansę na duże zyski*, *Rzeczpospolita*, 30 January 2014.

revenues of all companies. In 2003 this share amounted to ca. 14.5% and grew to 20% in 2012. This means that **every fifth zloty of revenue generated by Polish companies in this group came from exports.**

Given that almost 80% of exported goods are sold to the EU, Poland's presence within the single market after 2003 additionally contributed to higher company revenues on the domestic market by an average of PLN 300 billion annually.

Chart 40. Share of export sales in companies' total revenues



Source: Financial results of economic entities according to balance sheets, CSO.

After Poland's accession to the EU, its industrial output also grew significantly, followed by an increase in employment in certain sectors. This was mainly due to direct investments and higher demand for Polish goods on foreign markets, which led to a significant increase in exports. Noteworthy is the significant share – as high as 60 per cent – of companies with foreign capital participation in the value of Polish exports[112]. Because of this interrelation Poland could become one of the leading producers of goods in Europe in major sectors of the domestic industry. In 2012 the biggest share of exports in the revenues of companies in the industrial processing sector was recorded by manufacturers of: motor vehicles (75.7%), computers, electronic and optical appliances (65.3%), furniture (63.3%) and electrical appliances (61.5%)[113].

Concurrently, many Polish enterprises managed to create reliable brands and establish themselves on global markets. In 2012 exports generated over a half of revenues of such companies as Boryszew S.A., Solaris, Nowy Styl, Koelner, Barlinek S.A., Amica S.A., Tele-Fonika Kable, Rovese, Can-Pack S.A., Selena FM and others[114]. Many Polish companies are still not present on the EU's internal mar-

112 On average in the years 2005–2012 foreign capital constituted ca. 85% of basic capital of the companies considered; own study on the basis of: Central Statistical Office (GUS), *Działalność gospodarcza podmiotów z kapitałem zagranicznym* (yearbooks 2005–2012).

113 Central Statistical Office, *Bilansowe wyniki finansowe podmiotów gospodarczych w 2012 r [Balance sheet financial results of economic entities according in 2012].*

114 Based on the weekly *Polityka* ranking of major Polish companies in 2012. – *Lista 500 [Top 500 list]* Polityka.

ket[115], although the above examples illustrate that a considerable development potential in this respect exists for them as well.

Strong automotive industry

For years the automotive industry has been one of the most important Polish economic sectors with respect to foreign trade. Polish manufacturers exported the greater part of their production, while domestic sales generated one out of four zlotys of their revenues. Consequently, exports worth around EUR 20 billion represented a significant part (ca. 75%) of total revenues of the Polish automotive sector. This sector closed the year 2012 with revenues equal to around EUR 27 billion, with additional revenue of similar magnitude generated by companies selling cars, car parts and specialising in auto repairs[116].

Trade with EU Member States in this sector was responsible for a significant part of Poland's trade turnover (ca. 12% in 2013). From 2003 until 2013, automotive exports to the EU grew over threefold (from ca. EUR 4.3 billion to ca. EUR 13.2 billion). Poland's trade balance with EU Member States also saw significant improvement. In 2003, Poland reported a deficit of EUR 1.2 billion, but as early as in 2013, it had a trade surplus of EUR 2.8 billion. After accession to the EU, our country remained the biggest exporter of automotive products among the countries of the region for several years. In 2011 we lost this position to the Czech Republic, which in 2012 exported automotive products worth EUR 22.9 billion. Yet Poland remained an undisputed leader in the region with respect to exports of delivery vehicles, trucks and road tractors (55% of the export value in this group among EU-10 countries)[117].

In 2012, production sold in this sector amounted to over PLN 120 billion and represented ca. 12% of sold production of industry. This demonstrates the automotive industry's great impact on the performance of the economy. It accounts (directly and indirectly) for 8.6% of the total gross value added created in Poland[118].

Direct foreign investments have also contributed to the development of Polish companies in the automotive industry, as they did in other sectors of the Polish economy. Because of them, Poland saw more capital inflows as well as growth of demand for services provided by Polish companies. In 2003 and 2012 Poland recorded the highest levels of investments – EUR 684 and 758 million, respectively. It was a period when companies such as Volkswagen and Fiat made their investments in Poland. After a brief decrease in FDIs inflow in 2008, in 2010 it again attained the level recorded at the time of EU accession, i.e. ca.

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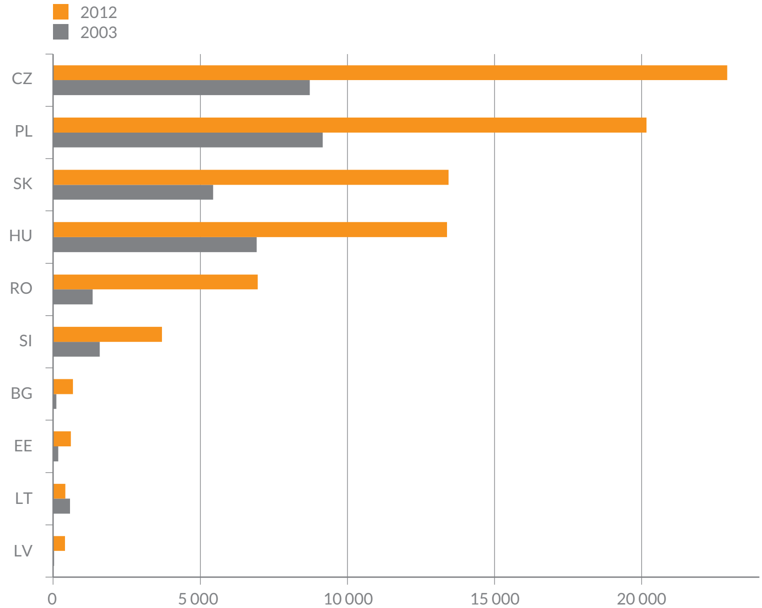
115 Based on results of the first survey carried out by the Lewiatan Confederation under the project called "*Monitoring kondycji sektora MSP w latach 2010–2012" [Monitoring the situation of the SME sector in the years 2010–2012]* a high percentage of enterprises still sees no importance of the common EU market for their operation.

116 Reports of the Polish Automotive Industry Association; own calculations based on: CSO, *Bilansowe wyniki finansowe podmiotów gospodarczych w 2012 r.[Balance sheet financial results of economic entities in 2012]*

117 *Branża motoryzacyjna, Raport 2013*, Polish Automotive Industry Association, October 2013; *Stan branży motoryzacyjnej oraz jej rola w polskiej gospodarce*, KPMG/ Polish Automotive Industry Association, October 2013.

118 *Stan branży motoryzacyjnej oraz jej rola w polskiej gospodarce*, KPMG/ Polish Automotive Industry Association, October 2013.

Chart 41. Export of automotive products in EU-10 countries in 2003 and in 2012 (EUR million)



Source: Eurostat (as at 10.01.2014).

EUR 760 million. The value of foreign investments stocks in the automotive industry grew in 2004–2012 by over 200% and at the end of 2012 amounted to almost EUR 8 billion. This constituted approx. 4.5% of the total value of foreign investments made in the Polish economy[119].

In 2012, there were around 2,700 companies in the automotive industry in Poland, of which around 75% were microenterprises. The inflow of foreign capital has strongly improved their financial condition by increasing demand for their orders and services on the part of the largest enterprises. Increased investment activity contributed to the development of entrepreneurship and higher employment and wages in the automotive sector. At the beginning of 2013 around 160,000 people were employed in production, up by almost 70,000 since 2004. In total, workers employed in production units represented around 6% of all people employed in the Polish industry[120]. In addition, twice as many people were employed in the sector of automotive trade and repairs. In 2013, the average remuneration in this sector was 55% higher than in 2003.

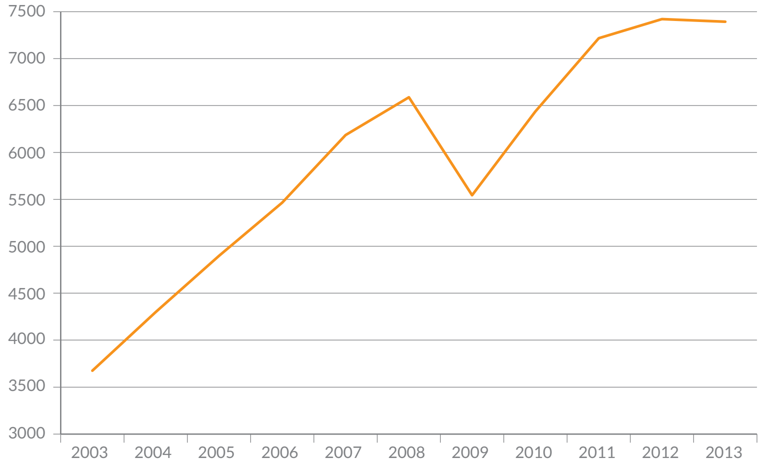
Poland – leading furniture exporter

Poland is one of the world's major furniture exporters and the biggest exporter of furniture in the region. In 2013 around 40% of all furniture products exported by the EU-10 came from Poland. The Czech Republic, the second

119 *Branża motoryzacyjna, Raport 2012*, Polish Automotive Industry Association, July 2012; NBP data (as at 20.03.2014).
120 CSO data (as at 20.03.2014).

biggest producer, exported almost three times less furniture than Poland. In 2013 the share of furniture in overall Polish exports amounted to around 5%, which is around EUR 7.5 billion[121]. It is important to stress that imports of furniture to Poland, valued at around EUR 1.2 billion, were six times lower than exports. This illustrates that the furniture sector is one of Poland's biggest net exporters generating a trade surplus in excess of EUR 6 billion.

Chart 42. Value of furniture export in Poland (in EUR million)



Source: CSO, Ministry of Economy (as at 20.03.2014).

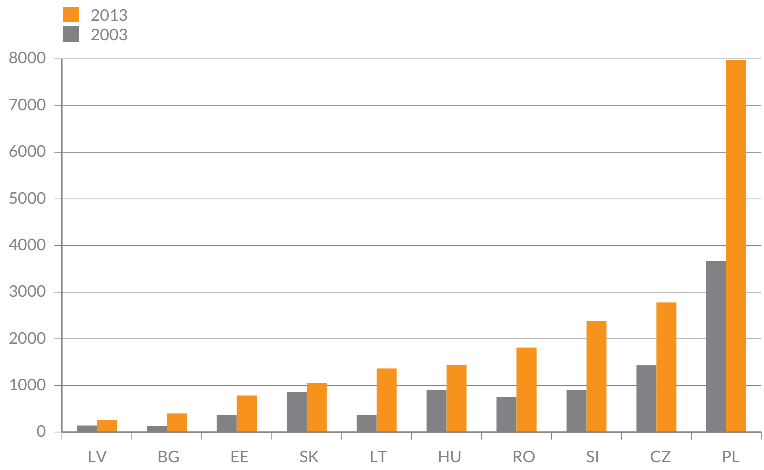
The Polish furniture sector manufactures products which are recognised in Europe and beyond and which help promote Poland's economy. Poland's furniture sold production exceeded PLN 30 billion in 2012, representing around 10% of the EU's production.

Such a positive result has also had a positive impact on Poland's economic growth. In 2012, furniture production represented 1.8% of Poland's GDP (as compared to the EU's share of 0.6%)[122]. Considering that this production is of a high value added (around 65%) and low import intensity (around 30%), furniture exports contribute significantly to the generation of Poland's GDP.

Thanks to the high export level, the furniture sector has become a significant employer in Poland. In 2013 this sector employed on average 124,000 workers, which is over 6% of all people employed in the manufacturing sector in Poland[123]. If we consider that around 90% of all furniture manufactured in Poland is marketed abroad, then it is clear that exports create the vast majority of the jobs in this sector. The Polish furniture sector's global importance is proven by the high value (ca. USD 9 billion) and volume (2.7 million tonnes) of exported furniture.

121 Applies to commodities from the CN 9401–9404 classification groups, which in addition to furniture includes vehicle seats, medical furniture, sleeping bags and bedding articles.
122 Report *Polskie Meble Outlook 2014.*
123 Central Statistical Office, *Zatrudnienie i wynagrodzenia w gospodarce narodowej w I-III kwartale 2013 r.*

Chart 43. Value of furniture exports in EU-10 (in EUR million)



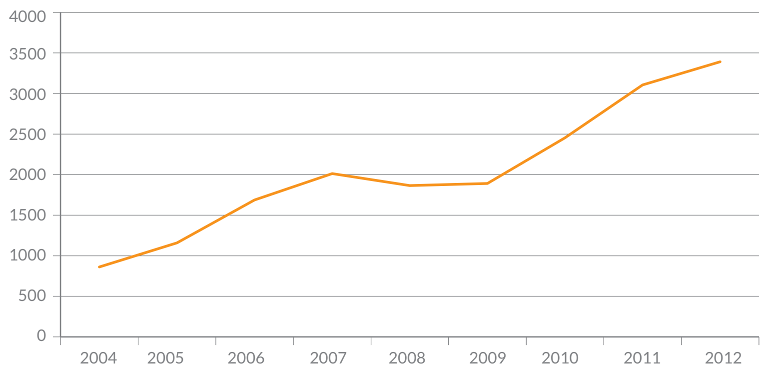
Source: Eurostat (as at 20.03.2014).

As regards export value, in 2012 Poland was behind China, Germany and Italy. As regards export volume, only China could boast of higher furniture exports[124].

Household appliances – second only to Germany

Since 2004 Poland has become one of the biggest household appliances producers and exporters. Higher foreign investments in this sector increased Poland's share in the production of large appliances manufactured in the EU (mainly washing machines, refrigerators, dishwashers, ovens and cookers) from around 5% in the first years of integration to around 22% in 2012. Thanks to this Poland has become an EU leader.

Chart 44. Exports of household appliances in Poland in 2004–2012 (in EUR million)



Source: own calculations on the basis of: CSO/Eurostat and CECED (as at 10.01.2014).

124 *Report "Polskie Meble Outlook 2014"*

As regards the value of production, Poland is still second to Germany. In 2012 the value of appliances manufactured in Poland was around EUR 3 billion, while Germany generated EUR 4 billion[125] during the same time. It also transpires from estimates that close to 80% of household appliances manufactured in Poland are marketed abroad. These exports grew from the moderate sum of EUR 850 million in 2004 to around EUR 3.4 billion in 2012. This is an increase of approximately 300%. In 2012, the trade surplus in this group of commodities amounted to EUR 2.4 billion.

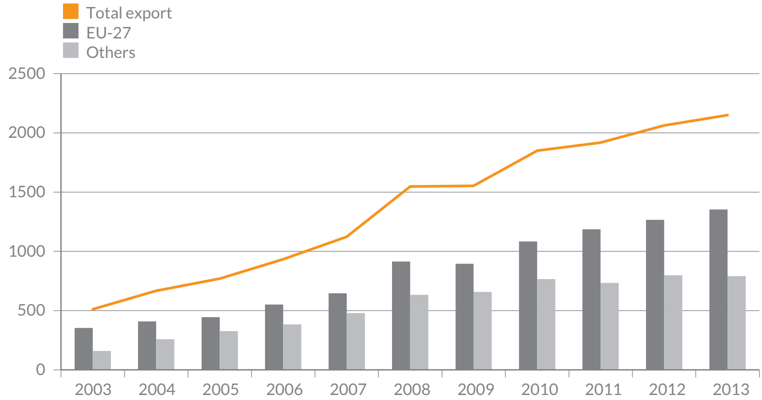
EU countries led by Germany (ca. 25%), France (ca. 15%) and the UK (ca. 13%) are the main destinations of goods exported from Poland.

Cosmetics – new export hit

Poland has gained a strong position on the cosmetics market. Production potential was expanded thanks to a presence on the EU's internal market and the adoption of EU standards, such as the 'Cosmetics Directive' and the common notification of cosmetics.

Since Poland's accession to the EU, overall exports of Polish cosmetics have grown more than four-fold – from EUR 0.5 billion in 2003 to EUR 2.1 billion in 2013. We are now marketing five times more cosmetic products in the EU than during the first years of our membership. This is an increase from EUR 0.3 billion to EUR 1.4 billion, i.e. on average around 15% a year. Exports to third countries grew at an even faster pace – from EUR 0.2 billion to EUR 0.8 billion. Since sales on the EU market have reached a stable level and prestigious cosmetic brands hit the market[126], the share of cosmetics exported to third countries has steadily increased (in 2013 it was around 35%), and exports have gained even greater momentum.

Chart 45. Value of Polish cosmetics export (in EUR million)



Source: CSO, Ministry of Economy (as at 20.03.2014).

In 2012 the cosmetics market in Poland was valued at EUR 3.4 billion, which gave Poland 6th position in the EU in cosmetics production. Recently Poland

125 Data of the Committee of Domestic Equipment Manufacturers – CECED Poland (state as on: 10.01.2014).

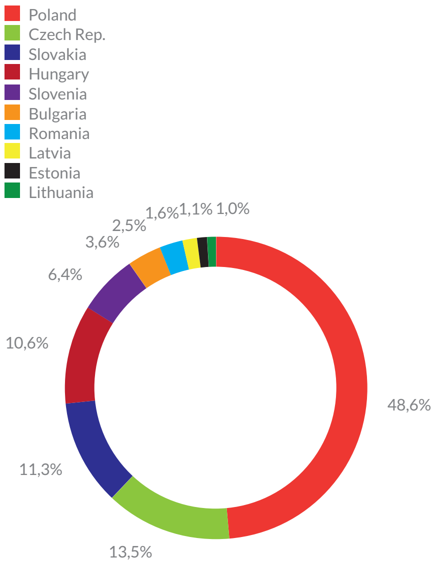
126 Cosmetics have become one of Polish economy's 15 champion industries.

has been recording a more dynamic increase in the production and export of cosmetics (on average 5% annually) than the biggest EU producers – the UK, Germany, France, Italy and Spain.

Poland is an undisputed leader in the export of cosmetics to EU countries among the EU-10. In 2013 Polish products constituted almost a half of the exported commodities in the group. This shows that Poland's share was much higher than the economic potential of our country in the region. The Czech Republic, which is second, only had a 14-per cent share in the export of cosmetics.

The growing production of the Polish cosmetics industry is also connected with its greater innovation. Companies allocate around 20% of their expenditure to innovation, and every fourth person employed in this sector works in research and development (R&D)[127].

Chart 46. Total share of Poland in the export of cosmetics from EU-10 to the EU in 2013



Source: Eurostat (as at 20.03.2014).

Polish consumer electronics

After Poland joined the EU, Polish companies became big manufacturers and exporters of consumer electronics, particularly TV sets, including LCD screens.

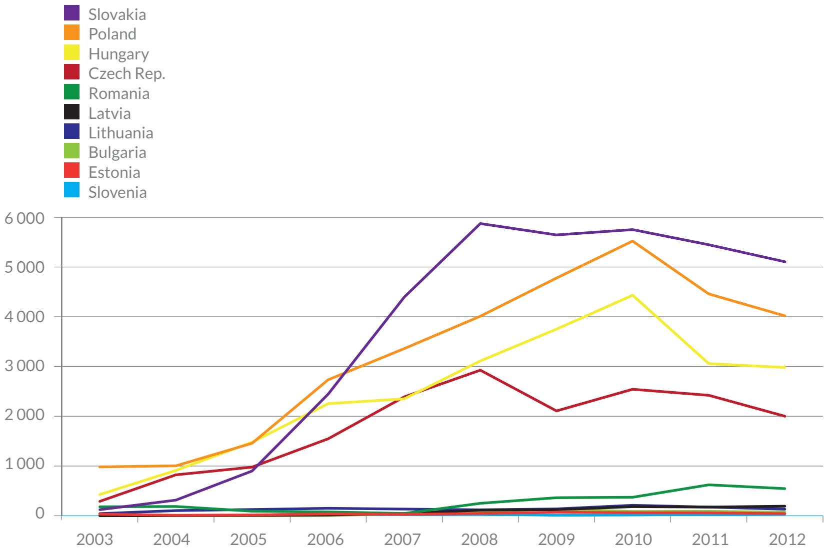
In 2012, of the 6,700 or so manufacturing companies in the Polish electronics industry over 90% were microenterprises (companies employing up to 9 persons). A total of 52,000 people are employed in manufacturing in this industry sector[128].

Producers of the so-called consumer electronics dominate this group. In recent years the sale of those goods has accounted for 2% of the total sales

127 Polski Związek Przemysłu Kosmetycznego data (as at 10.01.2014).
128 Instytut Rynku Elektronicznego data (as at 20.03.2014).

o the Polish industry, and the value of production sold in 2012 exceeded PLN 20 billion. After the EU accession and thanks to the inflow of foreign direct investments to the electronics sector, Poland has become a major European manufacturer of TV sets, including new generation screens (LCDs and plasma screens), as well as components and subassemblies. In 2012 Poland **produced over 20.5 million TV sets,** including screen monitors, while in 2003 it manufactured only ca. 6.8 million pieces[129]. A considerable part of the production, i.e. over 80%, was marketed abroad, especially in the EU. In 2012 exports of monitors, projectors and TV sets were worth EUR 4 billion, up by more than 300% relative to 2003. In the group of EU-10 only Slovakia has recently exported more products.

Chart 47. Exports of monitors, projectors and TV sets[130] from EU-10 in 2003–2012



Source: Eurostat (as at 10.01.2014).

Development of services sector

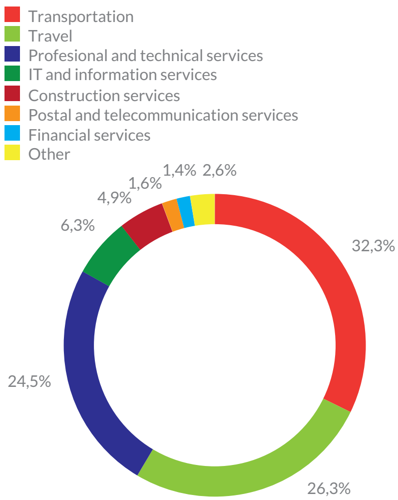
Poland's accession to the European Union hastened the trend characteristic for developed countries, namely the growing importance of the services sector in generating the GDP. A review of the number of companies operating in Poland and their profiles shows that Polish entrepreneurship is based mostly on services, which are offered by nine out of ten existing companies. Among them ca. 30% are in trading, but transport, business support or financial and insurance services are of high importance as well. Over 12% of all Polish enterprises operate in these sectors. Along with tourism these services are the most important ones provided by Poland to the other EU countries. This is an important effect of integration with the EU internal market. As a result, value added in those sectors

129 GUS data on industrial production (as at 10.01.2014).
130 Products listed in CN 8528 customs tariff code ("Monitors and projectors, not incorporating television reception apparatus; reception apparatus for television, even incorporating radio-broadcast receivers or sound or video recording apparatus").

has increased by over 100% since 2004[131] and has been very important for our country's economic growth. A substantial growth of employment in Poland, especially in microenterprises, additionally stimulated by foreign capital, can also be attributed to the services sector.

Poland's presence on the single market is particularly visible with respect to transport services and professional and technical services, including accounting, legal and consulting services. Those two groups alone generate over 50% of the value of all services provided to the EU. Additionally, Poland is an important provider of tourism – in 2012 tourist services generated EUR 5.5 billion, over a half more than in 2004. This reflects the increased interest of foreigners in our country.

Chart 48. Share of particular types of services in Poland's export to the EU in 2012



Source: Eurostat (as at 20.03.2014).

Internationalisation of transport

An important example of the effective use of possibilities offered by the European Union internal market is the evident stabilisation of Poland's position in international road transport.

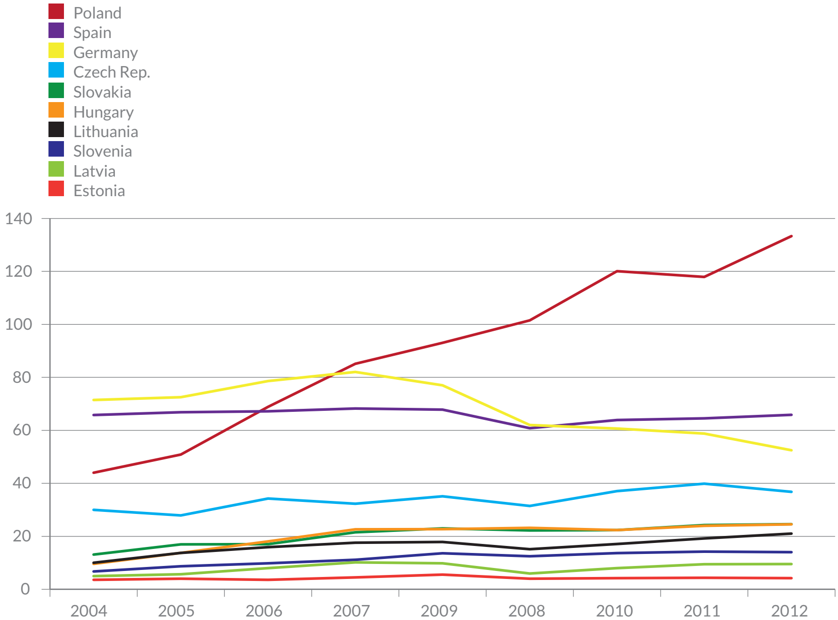
In recent years Polish carriers have quickly noticed the potential of this service sector and they have dominated the EU market. Following Poland's accession to the EU, the number of companies participating in road transport on the EU market grew almost threefold (up to more than 25,000 in 2012)[132]. Poland has quickly become a leader among EU carriers in international road transport. Its volume reached the level of ca. 133 billion tonne-kilometres (tkm), thanks to which in this transport category our country has clearly outperformed Spain, which is second (ca. 66 billion tkm) and Germany (ca. 53 billion tkm).

131 Data of CSO (state as on: 20.03.2014).
132 Association of International Road Carriers – ZMPD data (as at 20.03.2014).

In all types of road transport services, which comprise national and international freight services (including cabotage operations and transborder services), Poland is second only to Germany (ca. 307 billion tkm) when it comes to the volume of transport services (ca. 222 billion tkm) and ahead of Spain (ca. 199 billion tkm)[133].

In 2012 Polish had an 18% stake in the market of transport services starting or ending in Poland and in international transit, and Polish carriers were leaders in long distance transport services (1,000–2,000 km and over 2,000 km). The hauling of goods to Russia and the Baltic countries represented a major part of long distance transport[134].

Chart 49. International transport services in road freight transport in the years 2004–2012 (in billion tkm)

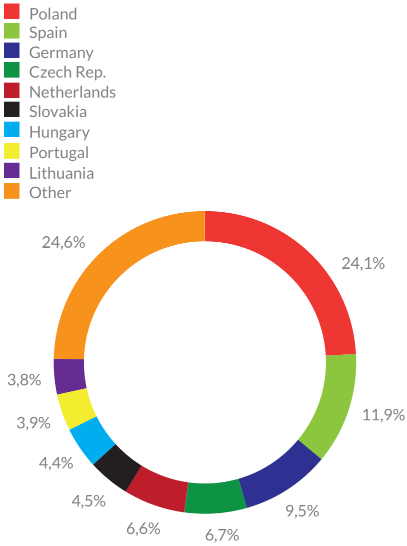


Source: Eurostat (as at 20.03.2014).

Market domination of Polish carriers is even more visible on a regional level. Polish companies are undisputed leaders in Central and Eastern Europe – practically every second tonne of transported goods was hauled by Polish carriers. The value of transport services of the Czech Republic, which is second in this category, was almost four times lower than Poland's. The transport services sector in Poland has grown more than threefold since 2004. In other countries of the region this sector grew much more slowly during this time.

133 Eurostat data (as at 20.03.2014).
134 Eurostat data (as at 20.03.2014).

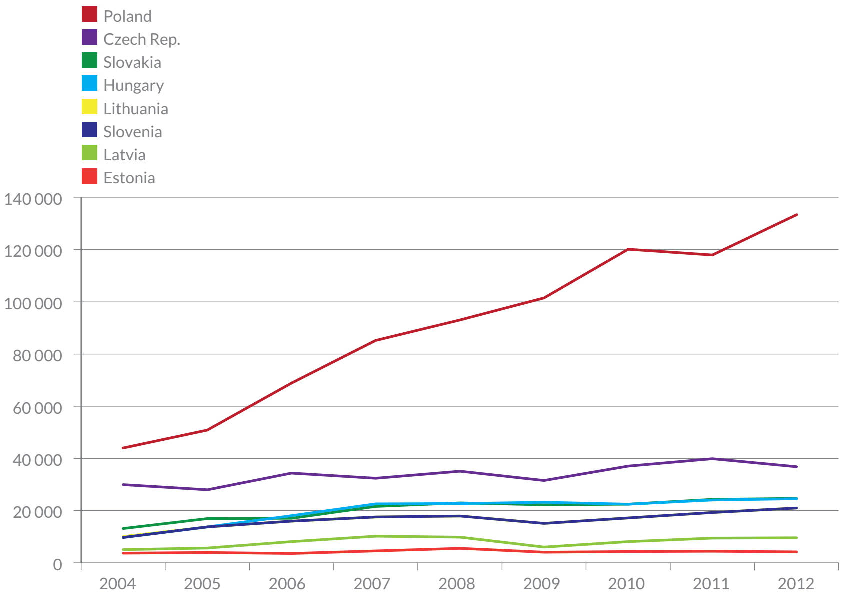
Chart 50. Participation of particular countries in international road freight transport in the EU in 2012



Excluding the UK and Luxembourg.

Source: Eurostat (as at 20.03.2014).

Chart 51. International road freight transport services of Poland compared to other countries of the region (in million)



Source: Eurostat (state as on: 20.03.2014).

Easier trading of goods

Since Poland's EU accession, the rules by which products were marketed have fundamentally changed[135]. We have adopted the EU's conformity assessment system, which defines the requirements connected with the safe use of products[136]. The CE marking indicates that the product meets the basic requirements and that a conformity assessment was carried out[137] and therefore the product can be placed on the market[138]. Although the number of legislative acts in this respect is not substantial (over 20) they apply to many products marketed in the EU[139].

In the pre-accession period there were concerns in Poland that the costs of meeting EU requirements would worsen the situation of many Polish companies, or even lead to mass bankruptcies. It turned out, however, that the new system made it easier for entrepreneurs to market their products. The review of data on the number of companies and production of goods labelled with the CE marking did not corroborate those concerns either. Although there was no clear evidence that CE requirements had any impact on the condition of specific enterprises in the post-accession period, the data indirectly showed that the system did not impede the development of those sectors.

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135 This part has been limited to an analysis of the costs and benefits of the new approach and the CE label.

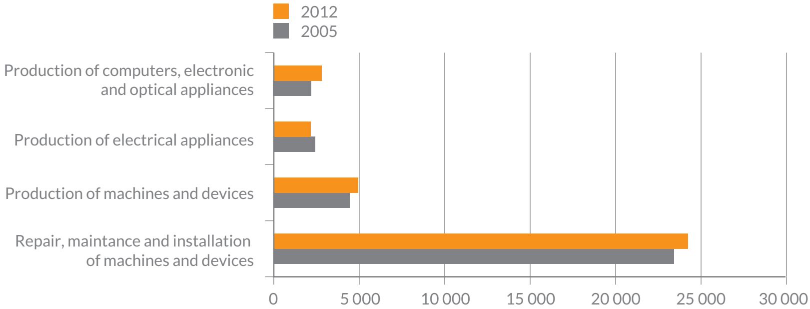
136 Most New Approach Directives identify safety requirements of product use, i.e. the elimination of life and health risks to humans and animals, property and the environment. Some of them account for other aspects, such as energy saving, metrological accuracy of the readings of measuring instruments, transport safety of some devices. According to: *New Approach Directives*; http://www.mg.gov.pl/Wspieranie+przedsiebiorczosci/Bezpieczenstwo+produktow+i+uslug/Ocena+zgodnosci/Dyrektywy+Nowego+Podejscia (21.03.2014).

137 Conformity assessment procedures are measures aimed at verifying and documenting whether a product meets the requirements specified in the relevant rules. According to: http://www.oznaczenie-ce.pl/przewodniki/src/02halas04.htm (21.03.2014).

138 According to: J. Zymonik, *Certyfikacja wyrobów i systemów zarządzania cz. 2*; http://www.ioz.pwr.wroc.pl/ (21.03.2014). Prior to the accession, the producer would be granted a "permit" for marketing a product, and was allowed to place the B mark on the product after receiving confirmation that the requirements have been met. Following the accession, the mark B certificate ceased to be a document considered as a condition for marketing of a product and has acquired a voluntary nature. According to the binding EU law, it is the producer's obligation to confirm the conformity of the product (at its own responsibility) to basic requirements of the new approach directives and places the CE marking on the product. According to: J. Leśniewski, *Certyfikacja dobrowolna wyrobów na znak bezpieczeństwa B*, "INFOBIZNES", No. 2, May 2013.

139 The law applies to electrical, medical, lifting, pressurised equipment, as well as equipment used outside premises that emits noise, pressure vessels, toys, building materials, machines, personal safety equipment, non-automatic weighing appliances, active implants, radio/telecommunication equipment, heating boilers, recreation craft, packaging and packaging waste, as well as household refrigerators and freezers. It is assumed that the sales of basic products covered by the New Approach Directives in the entire EU exceeds EUR 1.5 trillion annually. [Based on: *CE marking – what does it really mean?*, MEMO/10/257, June 2010]. This is four times more than Poland's GDP.

Chart 52. Number of economic entities in selected sectors in 2005 and 2012



Source: Central Statistical Office, Statistical Yearbook of Industry 2013, p. 44, February 2014.

For example, in three out of four branches presented in the chart above there were more entities in 2012 than in 2005. Fewer businesses operated in the production of electrical appliances.

In the four branches specified above the nominal value of production was higher in 2012 than in 2005. In two branches (production of computers, electronic and optical appliances; and production of electrical appliances) production grew faster than the average in Poland (industry – a total of 71.8%) at a rate of 88.3% and 117% respectively[140]. The fact that production in the latter of the two branches (i.e. production of electrical appliances) expanded at one of the fastest rates may suggest that the decline in entities in this sector was caused by consolidations of entities on the domestic market[141]. If one looks at specific goods, in 2003–2013 the production of refrigerators in Poland increased by 200%, the production of washing machines by 500%, whereas the production of vacuum cleaners fell by 11%[142].

Following the EU enlargement, the cost of a CE conformity assessment was similar to or slightly higher than the cost of certificate B that had been used prior to the accession. In some cases the necessity of modernising production lines or implementing new technologies would generate additional costs for entrepreneurs[143].

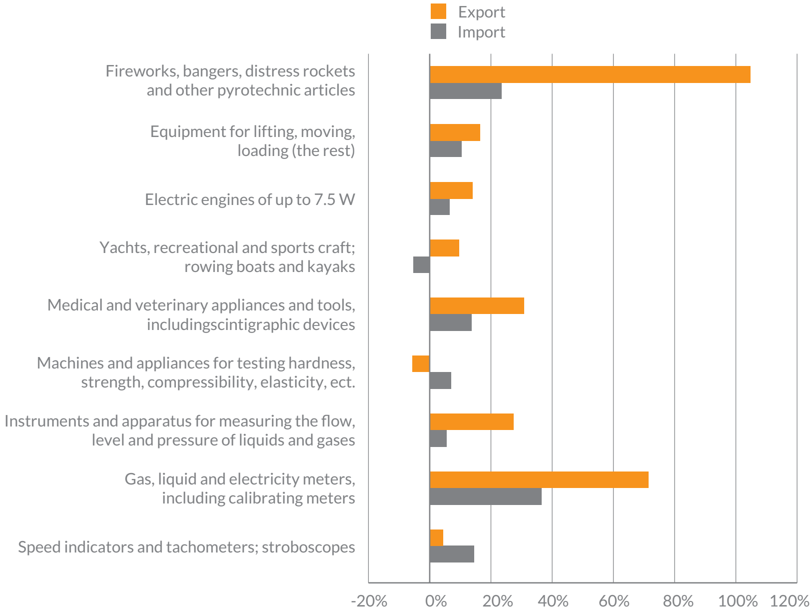
New regulations have made it easier for Polish companies to trade in goods on the EU market. Export companies have benefited most, as producers no longer have to make different goods for the domestic market and for EU Member States' markets to meet requirements applicable in individual countries. The formalities of marketing products in other EU countries have been simplified – CE-labelled goods can be put on the market and used throughout the EU without limitations. As a result, today exporters no longer have to apply to particular

140 Due to the nominal presentation of data the real level of production growth in those sectors is twice lower.
141 Based on Ministry of the Economy materials, *Koszty i korzyści członkostwa Polski w UE – Oznakowanie CE*, January 2014.
142 Data of the European Committee of Domestic Equipment Manufacturers – CECED Poland.
143 *Bilans kosztów i korzyści przystąpienia Polski do Unii Europejskiej. Prezentacja wyników prac polskich ośrodków badawczych*, Office of the Committee for European Integration, April 2003.

domestic authorities for separate certificates. The overall trade increase with EU Member States is evidence that Polish exporters increasingly benefit from these changes.

The chart below shows exports of 9 groups of CE-labelled products to EU Member States. There was an upward trend for 8 of them in 2003–2012, with total exports growing in that period from approx. PLN 1.3 billion to PLN 4.4 billion. Fluctuations in exports dynamics were likely caused by the economic cycle, including the global economic crisis[144].

Chart 53. Average annual increase in imports and exports of selected product groups in 2003–2012 (in %)



Source: calculation of the Ministry of the Economy, January 2014.

For enterprises operating only in Poland the biggest advantage of adopting EU regulations was a better protection of the domestic market against unlawful imports from outside the EU. This is because the regulations state that essential requirements have to be met not only by products manufactured in Member States, but also by those imported from third countries. The imports which were subject to new approach directives but had no required CE marking were not admitted for trade in the EU, and as such could not be brought into Poland[145].

As regards more complex or potentially hazardous products, an authorised third party, the so-called notified body, must take part in the conformity

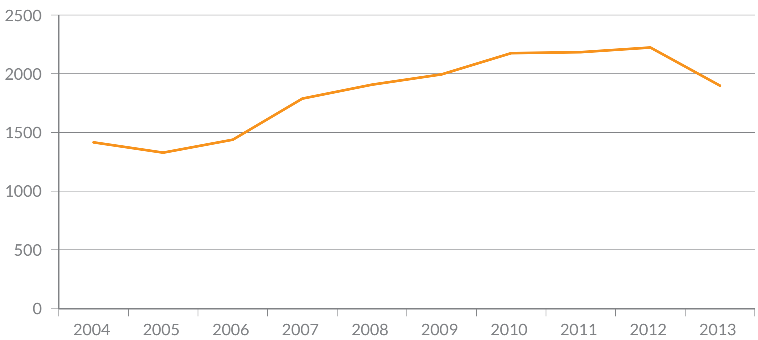
144 *Koszty i korzyści członkostwa Polski w UE – Oznakowanie CE*, Ministry of the Economy, January 2014.

145 *Polski system oceny zgodności i kontrola wyrobów podlegających dyrektywom nowego podejścia – przewodnik*, Office of Competition and Consumer Protection, Warszawa 2005.

assessment procedure[146]. Since Poland's accession to the EU, our enterprises have been able to use the services of Polish notified bodies[147]. Preparations for their establishment were already underway in the pre-accession period. This explains why shortly after Poland's accession to the EU Poland-based notified bodies could handle all directives, and Polish companies did not have to resort to more expensive services offered by German or Austrian bodies[148]. For example, a Polish notified body would charge a white goods manufacturer PLN 4,000 for a conformity assessment; a similar service performed by a German body would cost EUR 4,000[149].

The number of Polish notified bodies grew from 29 in 2004 to 62 in 2013. In 2005–2012, ever more Polish companies would commission Polish bodies to draft conformity assessments. During the same period the number of foreign entities using the services of Polish bodies fluctuated slightly. The chart below shows a small drop in 2013 compared with 2012. The chart covers Polish and foreign entities, with data for 2013 being incomplete.

Chart 54. Entities commissioning Polish notified bodies to carry out conformity assessments



Source: Data of the Ministry of the Economy, January 2014.

Polish entities accounted for over 90% of conformity assessments commissioned to Polish notified bodies. In 2004–2013 the share of foreign entities grew from 3% in 2004 to 10% in 2013, but was still relatively low.

146 New approach directives often require that, prior to being marketed, products should be certified by the so-called notified body. These are private enterprises or organisations (laboratories, inspection and certification bodies) that provide commercial services. Manufacturers can select the best services at the most competitive price. Moreover, they can choose a notified body in any country [according to: SEC(2007) 174]. Some products may even be tested by the producer. The possibility of in-house checks benefits SMEs, which may not have ready funds to pay for external inspections.

147 The lack of Polish notified bodies gave rise to concerns among entrepreneurs in the pre-accession period.

148 Conformity assessment costs vary depending on the product's type and its complexity (according to: *Koszty i korzyści członkostwa Polski w UE – Oznakowanie CE*, Ministry of the Economy, January 2014).

149 Data of the European Committee of Domestic Equipment Manufacturers – CECED Poland.

The Polish yachting industry (which manufactures yachts and their components) was one of the sectors that felt the positive impact of change. The industry's boom started before the accession, but yacht manufacturers, whose output was mainly exported, had had difficulty obtaining CE marking. Before Poland joined the EU, the labelling would often be arranged by importers, who sometimes concealed the real identity of the yacht's manufacturer. In effect, Western companies would often exhibit and sell Polish yachts as their own products during international fairs[150]. The establishment of Polish notified bodies has solved this problem and made access of Polish yachts to the European market much easier. This has been important to the sector, as 90% of its craft are sold abroad[151]. The key destinations are Western Europe, Scandinavia and the Mediterranean countries[152].

Another beneficiary is the white goods sector, which exports as much as 85% of its production. A notified body need not be part of the process, as producers can issue most home appliances with declarations of conformity and CE labels based on their own tests. In practice, however, many producers do not have laboratories for tests that are needed to meet the requirements laid down in specific directives. This means that they seek the help of notified bodies when this is both obligatory (e.g. in the case of gas equipment) and voluntary[153].

Successes of Polish companies: investment, EU funds, innovation

Following EU accession, Polish companies have scaled up their foreign investments, both in terms of real investments (affecting production and employment), and capital flow. Thanks to competitive pressure from foreign companies, Polish companies have come of age and started viewing expansion abroad as a real development opportunity. According to the Central Statistical Office, by 2012 as many as 1,501 Polish entities[154] invested their capital abroad. The total value of Polish foreign direct investments was close to EUR 43 billion. This is over twenty-five times as much as in 2003.

Poland's accession to the EU marked a turning point for Polish companies interested in foreign expansion – 93% of Polish FDIs have accrued since 2005. In terms of investment expansion, 2006 proved to be the most significant year. In subsequent years Polish enterprises have put the economic crisis to a very good use, supplementing their investment portfolios with foreign assets, which were

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150 Sejm paper No. 517, 17 May 2002.

151 Yachts are now sold under the brands of Polish companies and large foreign shipyards alike. According to: *Polska gospodarka: perspektywiczne sektory, polskie firmy oraz ich produkty*, a report published as part of the "Made in Poland" promotion and advertising campaign of the Ministry of the Economy.

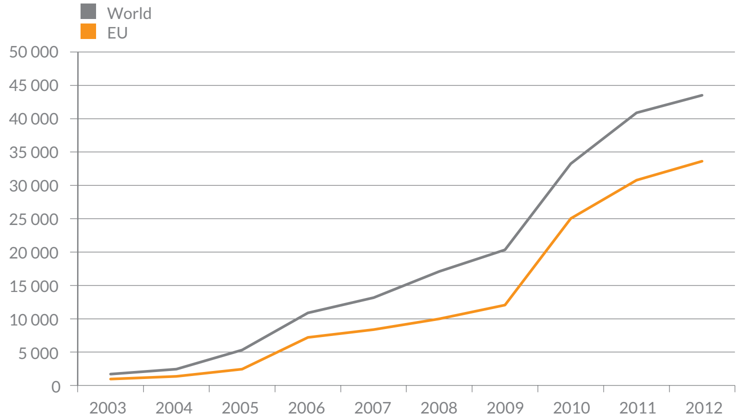
152 *Ibidem*.

153 Notified bodies check whether home appliances are in conformity with the following directives: Low Voltage Directive, EMC Directive, Eco-Design Directive, Directive on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS), and Gas Directive.

154 Central Statistical Office, *Działalność podmiotów posiadających udziały w podmiotach z siedzibą za granicą w 2011*, 30 April 2013. The data refer to entities with a seat in Poland.

becoming cheaper. This ability to harness the crisis for development has helped Poland to achieve the present status of a regional leader in foreign investments.

Chart 55. Polish FDI outward position in 2003–2012 (in EUR million)



Source: NBP.

A substantial part of Polish FDIs are investments in EU Member States. This applies to over 77% of Polish FDIs. Investors from Poland feel comfortable in the EU market, a sentiment confirmed by a survey that was carried out among over a hundred major manufacturers from Poland. In their opinion, the EU integration had a positive impact on 86% of the companies surveyed, and a neutral one on 13%, mainly those that operate on Eastern markets[155].

Among all EU Member States, companies from Poland have invested most in Luxembourg (almost EUR 9.5 billion's worth of investment as of late 2012), Cyprus (EUR 4.5 billion), the UK (EUR 4.4 billion), the Netherlands (EUR 3.2 billion), and Germany (almost EUR 2 billion).

Data on Polish capital abroad show that it was only after the EU enlargement in 2004 that those countries became important destinations for Polish investments. In 2003 receivables from Polish investments in Luxembourg totalled as little as EUR 50 million, in Cyprus – EUR 71.4 million, in the UK – EUR 50 million, in the Netherlands – EUR 239 million, and in Germany – EUR 182 million. In 2004–2012 Polish foreign investments in EU Member States increased by **thirty-five times**. Financial flows continue to account for the majority of Polish investments abroad[156]. Yet the real involvement of Polish companies outside Poland – i.e. with production and provision of services – has been growing steadily.

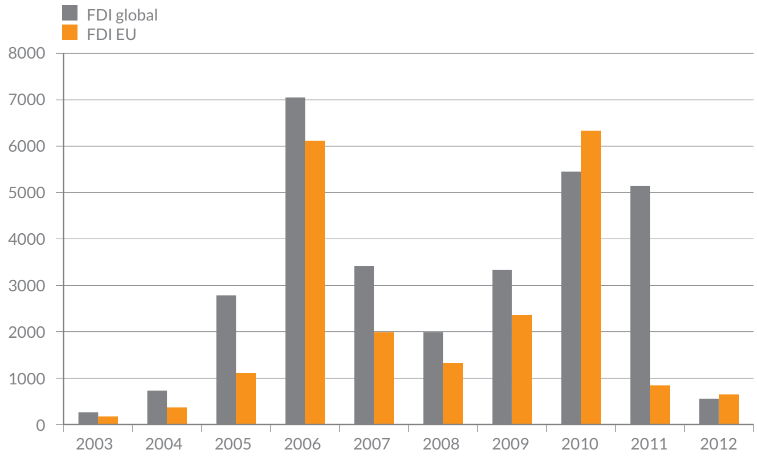
Polish companies have been making ever bolder forays into new markets. This is an indirect consequence of the increased FDI inflow to Poland, and of the growing competitive pressure Polish entrepreneurs faced. A Central

155 *Ekspansja międzynarodowa polskich przedsiębiorstw produkcyjnych*, KPMG Poland, 2010.
156 Investments in Luxembourg and Cyprus are usually classified as financial flows connected with the capital structure of companies. These countries attract investments mainly through preferential tax regulations; according to: PricewaterhouseCoopers, *Polski Czempion. Doświadczenia polskich firm inwestujących na rynkach zagranicznych*, 2012, and Ministry of the Economy, *Polskie inwestycje bezpośrednie w 2011 r.*, March 2013.

Statistical Office survey of investment activity by 1500 Polish enterprises that hold the so-called foreign units (i.e. shares in enterprises with a seat, branches or plants outside Poland) shows that in 2011 62% of such foreign units were in EU countries. This group included Germany (a 13% share), the Czech Republic (8.5%), Romania (5%), Slovakia (4.7%) and Cyprus (4.1%). Trade represented one third of foreign activity, followed by industrial processing (17%) and the construction industry (11%)[157].

A noteworthy case in Central and Eastern Europe is Lithuania, which ranks high as a target country for Polish FDIs. This is likely due to PKN Orlen's takeover of the refinery in the Lithuanian town of Mažeikiai. Investments in the Czech Republic have been made by such large Polish companies as Asseco, Synthos SA, ANWIL SA, Tymbark-Maspex and PKN Orlen. The German market is in turn being captured by Ciech and Azoty Tarnów[158].

Chart 56. Polish FDIs abroad (flows) in 2003–2012 (in EUR million)



Source: NBP.

The region's FDI leader

Polish entrepreneurs make more foreign investments than companies from any other country in Central and Eastern Europe. In 2012 investments by Polish companies accounted for 43% of all foreign investments in this part of Europe. This result is better than Poland's share in the region's GDP (approx. 39%) would suggest.

The change took place after Poland's accession to the European Union: in 2003 we were fourth in this classification, with Hungary, Slovenia and the Czech Republic ranking higher. What proved key was the ability of Polish companies to harness the consequences of the economic crisis for their own development. The 2008 crisis devalued European companies[159] by making their assets and shares worth less. Lower demand reduced the competition from financial institutions

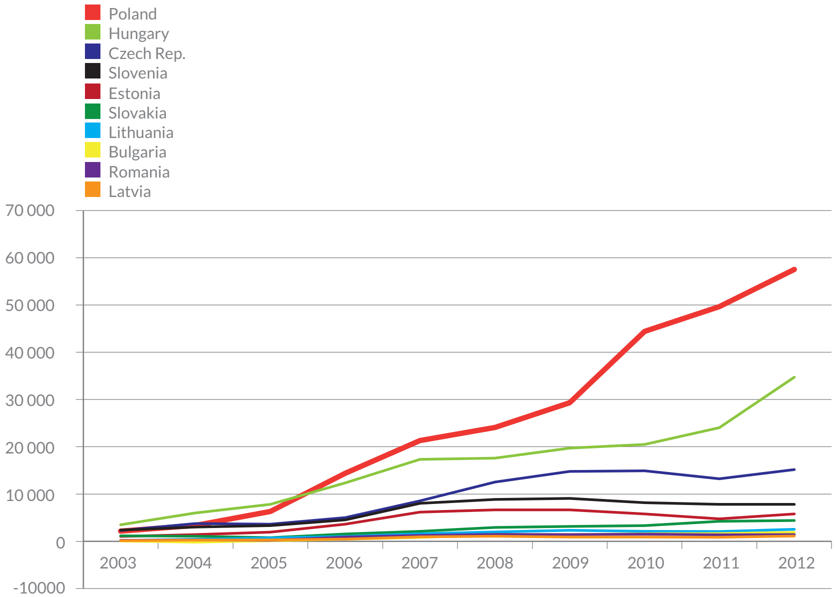
157 Central Statistical Office, *Działalność podmiotów posiadających udziały w podmiotach z siedzibą za granicą w 2011*, 30 April 2013.

158 PricewaterhouseCoopers, *op.cit.*

159 KPMG Poland, *Ekspansja międzynarodowa polskich przedsiębiorstw produkcyjnych*, 2010.

(banks and investment funds), while assets which had previously been unavailable for financial reasons lost some of their value, becoming more accessible to Polish companies. Also, given Poland's relatively good economic situation, enterprises managed to avoid losses that would have made them unfit to invest abroad.

Chart 57. The region's FDI outward stock (in USD million)



Source: UNCTAD.

Boryszew group, an automotive parts company, is a prime example of a Polish firm that has made good use of the economic crisis. In 2010 Boryszew took over the Maflow group, an Italian manufacturer of rubber hoses. A year later it acquired the German companies AKT and Theysohn, manufacturers of plastic automotive parts; and in 2012 it took over the German outfit YMOS[160]. Equally successful was the expansion of Atlas, a Polish producer of construction chemicals, which purchased the Romanian Cesar-Romcolor factories, thus strengthening its position in Central Europe[161]. The Wroclaw-based Koelner Group (known today as Rawlplug), a powerful player on the construction and industrial fixings market, did not shy away from securing new markets either; in 2008 it took over its German rival Stahl, thus increasing the company's assets[162]. Selena, a manufacturer of construction chemicals, followed suit in 2009 when it acquired the majority stake in the Spanish company Industrias Quimicas Lowenberg (Quilosa)[163].

160 A. Błaszczak, *Markowe podboje polskich firm*, Bloomberg Businessweek, 26 August 2013; http://www.bloombergbusinessweek.pl/artykul/1041398.html?print=tak&p=0. (24.03.2014).
161 K. Marchlewski, *Atlas: kryzys finansowy ułatwił nam ekspansję zagraniczną*, wnp.pl business website, 7 February 2011.
162 http://polskiczempion.pl/polski-czempion/rawlplug/ (24.03.2014).
163 http://www.parkiet.com/artykul/828434.html?print=tak (24.03.2014).

European funds for companies

Polish enterprises have become major beneficiaries of EU funds. In **2004–2013, entrepreneurs implemented 62,600 projects, with a total share of EU budget funding of PLN 85.5 billion. The majority of projects focused on entrepreneurship, innovations, research and development, human capital, and the information society. Apart from financial benefits, it was often the process of preparing project application documents itself that would motivate applicants to develop company strategies, think long-term, and come up with business ideas[164].**

Within the 2007–2013 financial perspective, grant agreements that were concluded by 31 October 2013[165] are expected to produce the following results[166]:

- support 27,000 enterprises, including over 25,600 SMEs (one enterprise may be involved in several projects),
- implement almost 4,300 export projects,
- support 24,900 SMEs by capitalised loan funds/guarantee funds/risk capital funds
- develop 1,100 innovative concepts,
- market 47,300 new or updated products/services,
- establish approx. 300 research labs in enterprises,
- create 96,600 new jobs (full-time) by implementing projects co-funded by the European Regional Development Fund and the Cohesion Fund;
- create 186,800 new jobs (funds for people taking up business activity) with support from the European Social Fund.

European Union supports innovations

Since Poland's accession to the EU, Polish entrepreneurs have faced competition on the EU single market. To succeed they need to seek competitive advantages, including those based on innovations.

Following integration with the EU, Poland was involved in implementing the Lisbon Strategy, and later the Europe 2020 strategy, which highlight R&D and pro-innovation measures as instrumental to development and greater competitiveness. The EU membership has thus augmented the programming of pro-innovation measures in Poland, while innovation issues have become part of the national public debate and development policy. Several strategic documents on innovativeness have been adopted, and a host of bills have been put forward, e.g. the draft act on supporting certain forms of innovative activity.

The situation of enterprises is made easier by the fact that they can benefit from structural funds that support innovations. A whole system of operational programmes has been developed, which made it possible to use these funds.

164 Kapitał Dolnego Śląska, "Żyjemy w świecie dotacji", http://www.kapitaldolnoslaski.pl/drukuj-artykul/zyjemy-w-swiecie-dotacji/83.html (24.03.2014).

165 No statistics were compiled on the implementation of substantive effects in the period 2004–06, as EU regulations imposed no such requirement.

166 Despite the actual conclusion of the projects, only some of them have been formally closed. Consequently, so long as they have not been closed, substantive effects cannot be described as achieved, but rather as to be achieved. Based on data of the Ministry of Infrastructure and Development (data from 17.12.2013).

Beneficiaries have been large enterprises, SMEs and micro-enterprises, start-ups and long-standing companies, foreign capital firms and Polish enterprises, and service and production companies. Support was granted to innovative activity in its various aspects, and covered help to engage in such activity, establish relations between the economic sector and science, conduct R&D work, implement projects, obtain patents, and (the most popular investments) modernise enterprises[167].

Under the most popular programmes[168], in 2004–2013 Polish entrepreneurs concluded 27,000 agreements and received PLN 27.6 billion in funding. The 2007–2013 funding under the Operational Programme "Innovative Economy" helped implement 551 new technologies and results of 215 R&D projects. In addition, 972 innovative concepts were supported, and 2960 e-services were introduced[169] in the so-called incubators.

Innovative projects by Poles

The experience of using those funds has shown that Polish entrepreneurs have a **potential to implement innovative projects, and can boast achievements both in innovative start-ups and in traditional sectors that are based on modern technologies**.

- One of the best known Polish innovations and a worldwide success is the **Ivona text-to-speech synthesiser**. Operational Programme Innovative Economy grants allowed the IVONA Software[170] company to set about developing IVONA Embedded, a speech synthetizing technology. The software can be used on such portable devices as mobile phones, tablets, satellite navigation systems, and reading devices for people with visual impairments[171]. Today the IVONA speech synthesiser is being used by companies and individuals across the globe, and the company's portfolio comprises 44 voices that speak in 17 languages.
- EU funds also helped the growth of **Oponeo.pl**, a stock exchange company from Bydgoszcz, which is the Polish leader in online sales of wheels and tyres.
- Solaris Bus & Coach S.A. and the Poznan University of Technology carried out a joint project which led to the development and manufacture of a **hybrid electric municipal bus**. The vehicle has a competitive edge over similar products made by European companies due to its low operating costs, safety, fewer exhaust fumes, and reliability. It was one of the first hybrid models on the European market[172].

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167 J. Krzemiński, *PARP broni wydatków na innowacyjność*, http://m.obserwatorfinansowy.pl/forma/analizy/parp-broni-wydatkow-na-innowacyjnosc/ (21.03.2014).

168 Operational Programme "Improvement of the Competitiveness of Enterprises" (SOP ICE 2004–2006) and Operational Programme "Innovative Economy" (OP IE 2007–2013).

169 Based on information of the Ministry of Infrastructure and Development of 17 December 2013.

170 In 2013 the company became part of Amazon.com.

171 *Innowacyjne Pomorze*, "Newsweek", http://polska.newsweek.pl/innowacyjne-pomorze,95342,1,1.html (21.03.2014).

172 Based on information of the Ministry of Infrastructure and Development of 24 January 2014.

- Thanks to the EU funds used for expanding business operations, VET-AGRO, a Polish company active in several sectors, established **a production plant of veterinary medicinal preparations which is the most modern facility of this kind in Poland.** The company uses innovative technological solutions and state-of-the-art analytical equipment[173].
- The NetPistols company received EU support to set up its Dontpay platform. NetPistols developed an **e-service** which stands out through cross-selling, a new concept of online trade that combines offers of various partners. Thanks to funding, the company created the system and promoted it among online shops and services[174].
- EU support also benefited the companies Ziaja and Trefl. The former used the funds to develop formulas, production technologies and marketing for a new series of dermocosmetics and cosmetic oils; the latter – a producer of puzzles, games, cards and toys – built a shop floor of 5,000 m^2, bought modern bookbinding machines, and bought equipment for its R&D and production department[175].

Entrepreneurs could also benefit from financial instruments (including repayable assistance) which were made available thanks to the support of European funds. The most recognisable of these has been technology credit. Entrepreneurs and financial experts agree that the programme, in operation since July 2009, is a tried-and-tested and effective way of supporting technological innovations in the economy. The scheme made it possible to conclude agreements on 695 technology investment projects, to which the Bank Gospodarstwa Krajowego (BGK) allocated PLN 1.8 billion. Through financial leverage, this amount was increased by PLN 3.7 billion thanks to the involvement of private resources (PLN 1.2 billion in beneficiaries' own funds, and PLN 2.5 billion contributed by banks cooperating with the BGK). Following the implementation of technology credit, approx. **400 new technologies were put in place and close to 1000 innovations were marketed**[176].

Support for ensuring the protection of industrial property has gained more popularity since 2004. This demonstrates that Polish entrepreneurs have come to appreciate the importance of protecting industrial property when developing innovative products or technologies. Among other things, this instrument was used by QNC, a Krakow-based company that put on the Polish and global markets an innovative technology for coating small metal elements with lacquer by using electromagnetic induction. To secure its exclusive right to the technology, QNC applied to the Polish Patent Office for patent and utility model protection. This will allow the company to enhance its competitive advantage during the protection period[177].

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173 *Innowacyjne Pomorze, op.cit.*

174 *Innowacje w działaniu. PO IG w 2012 r. Trwałość projektu unijnego. Polska na CeBIT*, Polish Agency for Enterprise Development, 2012.

175 *Innowacyjne Pomorze, op.cit.*

176 New or updated products or services created thanks to the implementation of investments [according to: *Kredyt technologiczny – efektywne wsparcie w małych i średnich przedsiębiorstwach*, information material, 2014].

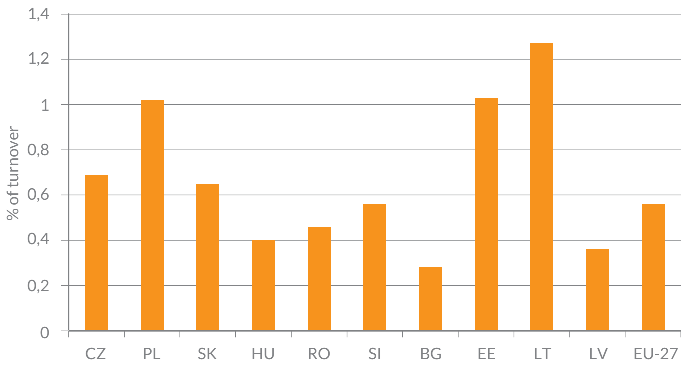
177 *Innowacje w działaniu, op.cit.*

Innovation expenditures

EU structural funds also paid for investments in infrastructure for innovations: industrial parks and science and technology parks, business incubators and advanced technology centres. Currently, over 650 companies are operating in technology parks[178], including academic spin-offs and outfits that originated in academic incubators. In 2012, 40 technological parks were in operation in Poland, with a further 14 being set up. 55% of companies located in technological parks were micro-enterprises, 23% were small companies, and 15% were medium-sized enterprises. One in eight of these companies was involved in science and research work, while in leading centres this figure stood at 40–60%[179].

Countries that are catching up with the more developed world derive substantial economic gains from obtaining and implementing foreign innovative solutions. In terms of firms' non-R&D expenditures, Poland ranked third (after Lithuania and Estonia) compared with EU-9 countries. These expenditures accounted for 1.02% of companies' turnover, which was far more than the EU average (0.56%).

Chart 58. Non-R&D innovation expenditures



Source: Data for 2010. Innovation Union Scoreboard 2014.

Poland's strong position in this category is due to the fact that the economic development of the last decade has largely been fuelled by the absorption of technologies – i.e. the application of existing technologies and processes in a new environment – rather than R&D activity or innovations[180].

In Bloomberg's latest **Global Innovation Index 2014,** which presents the 50 most innovative countries[181]**, Poland has moved up from the 30th** (in 2013) **to the 24th position** out of over 200 countries surveyed. We scored best on high-tech density (13th position) and manufacturing capability (15th position). We also

178 Response to interpellation No.18801 about the impact business environment institutions have on the development of the economy, August 2013; http://www.sejm.gov.pl/sejm7.nsf/InterpelacjaTresc.xsp?key=6ED2BB56 21.03.2014).

179 *Ibidem.*

180 *Innovation in Poland – Addressing the €10 billion Question*, August 2013; http://www.worldbank.org/pl/news/feature/2013/08/14/innovation-in-poland (21.03.2014).

181 The Bloomberg ranking takes into account 7 factors, including R&D intensity, patent activity, and researcher concentration.

performed well in patent activity (18th position)[182]. The higher overall position is an eloquent sign of Poland's better standing. This has also been confirmed by the latest Innovation Union Scoreboard report, in which our country moved from the *modest innovators* (IUS 2013) to the *moderate innovators* category (IUS 2014). These results give grounds for optimism about the future; all the more so as being innovative had never been a strong point of the Polish economy, which had lagged behind the EU average on this account.

Table 4. Non-R&D innovation expenditures in Poland compared with EU-9 countries

Member State	Firms' non-R&D innovation expenditures – value in relation to EU-27 (EU-27 = 100)
LT	226
EE	183
PL	**182**
CZ	122
SK	115
SI	99
RO	81
HU	71
LV	64
BG	50

Source: Innovation Union Scoreboard 2014.

According to the Bloomberg ranking, what still needs to be improved is Poland's R&D expenditure[183]. Despite efforts made in recent years, the total R&D spending is still low in Poland compared with other countries. But the tide seems to be turning. In 2004–2011, companies would spend 13.2% more on R&D each year, taking the total from PLN 1.48 billion in 2004 to PLN 3.52 billion in 2011. 2012 saw an increase of 52% on the preceding year (to PLN 5.34 billion)[184]. In 2012 the business sector accounted for 32.3% of R&D funding, which is 4.2 percentage points more than in 2011 (28.1%)[185]. Poland's aim is a 50% share of the private sector in R&D expenditures by 2020.

In October 2013 the Central Statistical Office published data on 2012 R&D activity by entrepreneurs, higher education institutions, research units of the Polish Academy of Sciences, and research institutes. The report showed that over 2,700 entities had conducted research and development activity or commissioned this kind of work, an increase of 23.1% on the preceding year. The total

182 Apart from R&D expenditure (40th position) there is also room for improvement in researcher concentration (37th position) and productivity (46th position).

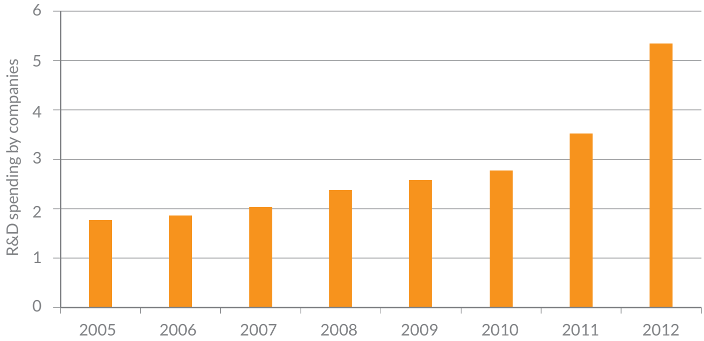
183 http://www.bloomberg.com/slideshow/2014-01-22/30-most-innovative-countries.html#slide8 (21.03.2014).

184 This was most likely due to government support through the National Centre for Research and Development. According to: *Research and Development Activities of Enterprises in Poland. The 2020 Perspective*, KPMG, Warszawa 2013.

185 *Działalność badawcza i rozwojowa w Polsce w 2012 r.*, Central Statistical Office, October 2013.

R&D expenditure was PLN 14.4 billion (approx. 215% more than in 2003)[186]. Since 2007 the ratio of R&D expenditures to GDP has been steadily growing. In 2012 it reached 0.9% (the EU average is 2.06%)[187].

Chart 59. R&D expenditures by companies in Poland (in PLN billion)



Source: Research and Development Activities of Enterprises in Poland. The 2020 Perspective, KPMG.

A study conducted by the Central Statistical Office confirms that public spending on research and development in Poland is increasing. The above-mentioned funds were spent on improving research infrastructure (construction of the most modern laboratories in Europe). Improvement of infrastructure and R&D in the public sector contributes to the development of cooperation with entrepreneurs and will yield long-term results.

Unfortunately, Poland continues to underperform when it comes to innovative SMEs (36% of the EU average), including enterprises which implement technological, organisational and marketing innovations. In 2004, 25% of enterprises implemented technological innovations, in 2006 – 23%, in 2008 – 28% and in 2010 – 16%. This situation may be due to the structure of Poland's economy and the small number of large enterprises[188], which are usually responsible for the greatest number of innovations because the scale of their operations permits them to incur such costs.

The role of innovations is gradually increasing in the Polish economy. Strengthening of this trend should be further enhanced primarily by resources from structural funds for the period 2014 – 2020. Poland should receive about EUR 11 billion under the relevant operational programmes[189].

Consumer benefits

On the eve of Poland's accession to the EU, the average Polish citizen did not expect to see any personal gains before the end of the first few months or years after accession. Poles believed that benefits from this project would come after many years and would be reaped by the following generations. Let us recall

186 *Ibidem*.
187 Materials of the Ministry of Infrastructure and Development, March 2014.
188 *Konkurencyjna Polska. Jak awansować w światowej lidze gospodarczej?*, ed. J. Hausner, Kraków 2013.
189 OP Intelligent Development and OP Digital Economy.

that the main motivation behind participation in the referendum was the obligation to have a say in our children's and grandchildren's future, as well as in the future of our country. But, as it turns out, we are already experiencing some benefits in daily life. These include lower roaming rates, cheaper air fares and the ability to choose the provider of electricity, to name just a few.

Lower telecommunication prices

For many years, the prices of some telephone services in the EU, especially of roaming,[190] remained high. In fact, they were so high that the European Commission considered them a major barrier to the effective development of the internal market. In 2006, i.e. before the implementation of EU regulations, 44% of EU citizens who had a mobile phone travelled to another EU state at least once a year[191]. Roaming was used by as many as 147 million Europeans, of which 110 million were business clients and 37 million were tourists[192]. At the time, telecommunication companies charged a margin between 300% and 400% on roaming services. Another major problem, besides high prices, was the lack of transparency in terms of charges – many mobile phone users were not aware of the rates charged for international calls. The price and information policy that had been adopted by telecommunication companies resulted in shockingly high bills for tourists and businessmen and women returning from holidays or business trips[193].

This issue came to be regarded as a major problem affecting the practical aspect of life in a united Europe. Nevertheless, actions undertaken at national levels did not yield major results. The Eurobarometer polls conducted in 2006 showed that as many as 70% of those polled were in favour of implementing EU roaming regulations which would result in lowered prices[194]. A citizens' lobbying campaign to persuade policy-makers to eliminate roaming charges in the EU called "Europeans for Fair Roaming" was also organised[195].

In 2007, the European Commission adopted a relevant legislative act, which introduced a so-called Eurotariff, i.e. an established maximum rate to be charged for selected roaming services. In 2009 with no satisfactory results in sight, new price limits were introduced, but this time they also applied to data transfers. This was an important measure given the rapidly developing information and telecommunications technologies in Europe. Easy access to the Internet significantly contributes to the development of innovation.

Yet the success of the implemented solutions was only partial: Prices dropped, but competition did not increase and roaming charges were still close to the highest permitted rates. Therefore, in 2012, another legislative act was

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190 *Roaming* – using a mobile phone outside a country in which it is registered.

191 *Roaming*, Eurobarometer poll, 2006; *http://ec.europa.eu/information_society/activities/roaming/docs/eurobarometer/eurobarometer_en.pdf.* (24.03.2014).

192 European Commission, *Impact assessment regarding a proposal for a regulation on roaming*, 12th July 2006 http://ec.europa.eu/information_society/activities/roaming/docs/executive/executive_en.pdf. (24.03.2014).

193 A. Włodarski, *Jak nie wpaść w pułapki roamingu, "Widziałem rachunek Polaka na 120 tys. zł, "Gazeta Wyborcza"*, 8 July 2013.

194 Roaming, Eurobarometer poll, 2006; http://ec.europa.eu/information_society/activities/roaming/docs/eurobarometer/eurobarometer_en.pdf. (24.03.2014).

195 *http://fairroaming.org/* (24.03.2014).

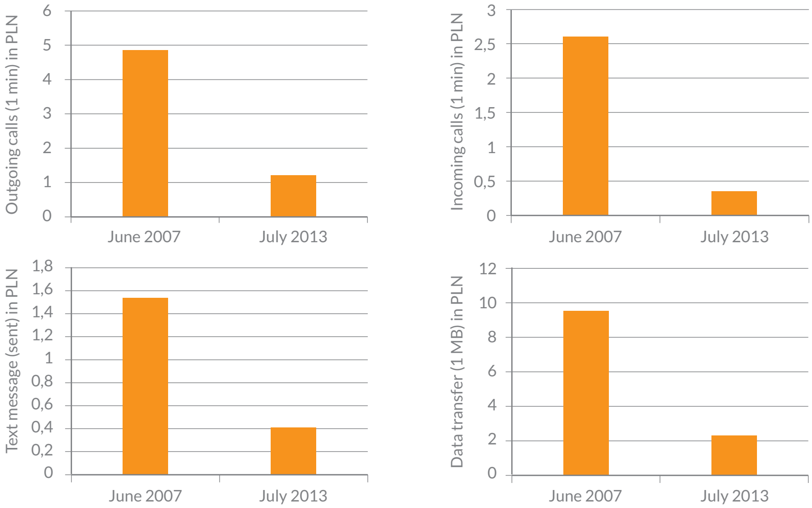
implemented, this time with structural solutions for boosting competition among telecommunication service providers besides further reducing prices[196].

Poles benefited as well

Poland turned out to be one of the biggest beneficiaries of telecommunications regulations in the EU. The greatest number of workers and seasonal workers in the EU comes from Poland, and intra-EU mobility of Poles is high. Also, rising exports, mostly to EU Member States, were behind a major increase in the number of business trips by Polish businessmen and women, trips to visit family members working abroad and for purely tourist purposes. In 2012, 10 million Poles went abroad for longer than one day. That year Polish tourists most often visited the EU countries, including Germany, the UK, Italy, the Czech Republic and Spain[197].

Considering that costs of mobile calls in Poland are one of the lowest in the EU, the difference between prices of national calls and European roaming calls was painfully apparent to Polish citizens. In 2011, the charge for a 1-minute call in Poland was just 4.6 euro cents, while the average price in the EU was 9.1 euro cents. For comparison, a Dutch citizen had to pay as much as 14.7 eurocents for a 1-minute call[198].

Chart 60. Retail roaming prices offered by service providers operating in Poland for[199]:



Source: MFA analysis based on data provided by the Office for Electronic Communications.

196 For example, it provided for the obligation of telecommunications companies to introduce an offer for separate retail sale of roaming services (the change will become effective on 1 July 2014).

197 *Wyjazdy zagraniczne Polaków, Institute of Tourism, statistics, http://www.intur.com.pl/statystyka.htm.* (24.03.2014).

198 European Commission, *Differences between phone call charges in the EU reach 774 per cent*, press release, 6 August 2013.

199 The average price in 2007 was calculated on the basis of pricing schedules of service providers prior to the entry into force of the First Roaming Regulation in 2013; all service providers offered the same price at the maximum level specified by the regulation as per outgoing calls and data transfer. The differences were visible in the price for incoming calls (PLN 0.35 or 0.36 for 1 minute) and text messages (PLN 0.40 or 0.41).

Thanks to the implementation of EU regulations, **the price of roaming calls in Poland fell almost fourfold in six years.** Prices for incoming calls fell as much as sevenfold. Text messaging also became cheaper. Text messages sent from outside Poland are almost four times cheaper and the price of 1 MB of data transfer fell more than fourfold in comparison with its price before the coming into force of the EU regulations[200].

This significant drop in prices resulted in increased telephone traffic, which is confirmed by statistics: In 2007 only 9.2% of Poles travelling to other EU Member States used roaming, while in 2013 as many as 60% used it[201].

Open air transport market

With accession to the European Union a new law benefiting passengers in the field of air transport came into force. Based on the so-called third liberalisation package, any carrier from EU Member States gained the right to free access to provide air transport services to/from and within Poland. Polish airlines acquired the same right within the EU[202]. Poland entered the EU when the process of liberalising the EU's air transport market was in its 10th year. Polish passengers almost instantly felt its positive effects in the shape of more market competition, new carriers, lowered air fares, and more offers of transport services, etc.

Poles had experienced the first positive effects of participating in the internal market even before EU accession. Poland decided to open a part of the market already in 2003 by amending bilateral air service agreements with Germany, the United Kingdom, Denmark and Sweden[203]. As a result, by the end of 2003, the first so-called Low-Cost Carrier (LCC) entered the Polish market.

Further liberalisation, as expected by specialists, brought major transformations to the Polish air transport market after 1 May, 2004. One of the most important changes was the increased dynamics of air traffic. Since 2004, the number of passengers handled by Polish airports has been growing by about 20–30% per year, while in 2000–2003, this market grew by just 9%. The observed rates were only eventually halted by the 2008 aviation crisis. In the years 2008–2013 the dynamics of air traffic grew from 8% to 13%.

Air transport is closely related to the economic situation and changes of the macroeconomic situation on a global scale. The world crisis from 2008 therefore directly impacted the situation on the Polish aviation market. In 2003, Polish airports handled 7.1 million passengers. One year later, the number grew to 9 million. In 2013[204], Polish airports served 3.5 times more passengers than in 2003 – the number increased by **17.9 million passengers in total.**

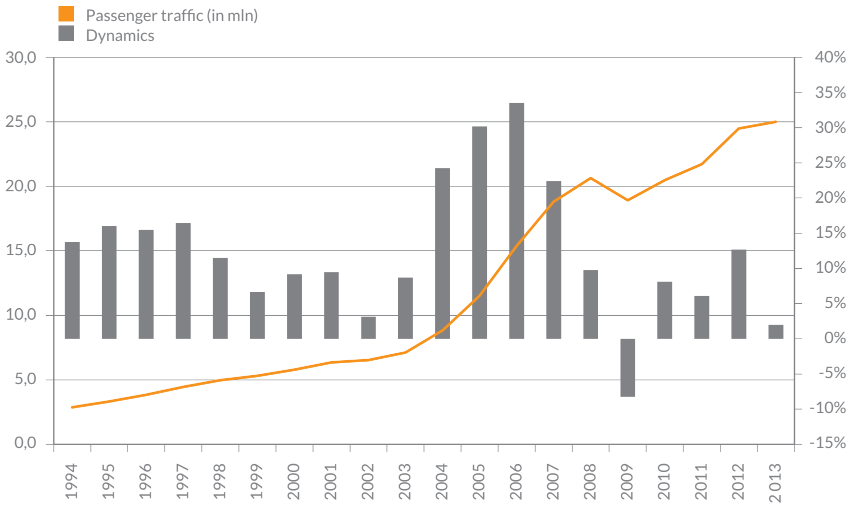
To better illustrate the growth rate, we should recall the change in dynamics over the past decade. In 2002, only 4 million more passengers travelled by air than in 1993 (in 1993 the number of all passengers using Polish airports

200 [167] Data provided by the Office for Electronic Communications for June 2007 and July 2013. (as at 13.01.2014.)
201 Data provided by the Office for Electronic Communications (As of: 10.01.2014.)
202 Information Paper to ICAO 6-th World-wide Conference, Market Liberalization: Polish Experience, Civil Aviation Authority, 2013.
203 *Ibidem*.
204 All 2013 data are preliminary ULC data.

reached 2.5 million, in 2002 – 6.5 million). In 2004–2013, Polish airports handled a total of 185 million passengers.

The increased popularity of air transport in Poland contributed to an increase in the mobility ratio (relationship between the number of passengers handled at airports in a given country and the population size). In 2004, the ratio was 0.23 and in 2013 – it reached 0.65. It is worth noting that the mobility ratio for Poland is still one of the lowest in the European Union. Lower indicators were attributed only to Slovenia (0.57), Slovakia (0.29) and Romania (0.46).

Chart 61. Passenger traffic in Poland (in millions) and air traffic growth (%) in 1994–2013



Source: Civil Aviation Authority.

Low-costs revolutionise air traffic

The dynamic development of the market was a result of the opening of the air travel market to new carriers, mostly low-cost ones. Another factor that contributed to the increased air mobility of Poles was the free movement of persons inside the EU, successive waves of labour migration and increased tourist activity. The UK, with a 26% share of the total number of flights, continues to be the most popular travel destination to and from Poland, while London remains the most frequently visited European city by Poles. New flight connections to holiday destinations continue to open up. The best examples are flights to popular tourist destinations in Greece, Italy or Spain: Chania, Thessaloniki, Alicante, Palma de Mallorca, Burgas, Split, Dubrovnik and Zadar, but also destinations for skiers, e.g. to Grenoble.

In 2003, only five carriers had a Polish operating license. By 2013, this number had increased to twenty[205]. The share of low-cost carriers in the aviation market gradually increased from a very low level in 2003 to 32% within two years, and in 2007–2012 – to about 50%.

205 Information Paper to ICAO 6-th World-wide Conference, Market Liberalization: Polish Experience, Civil Aviation Authority, 2013.

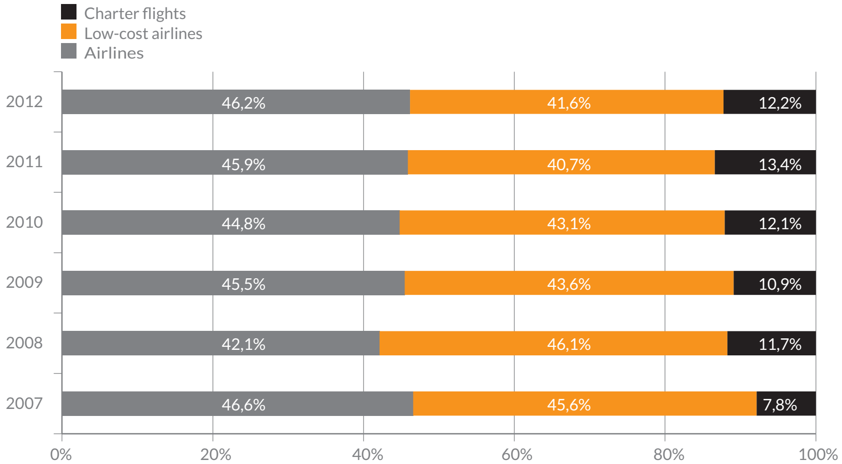
In 2007–2012, there were as many as 21 low-cost airlines operating in Poland. In 2005, they carried 3.2 million passengers; one year later, they carried as many as 6.5 million passengers[206]. In 2008 the share of the low cost carriers in regular passenger traffic amounted to 52%, which translated into 8.5 million passengers travelling to and from Poland. In 2012, they recorded 10 million passengers. Estimates show that in 2005–2012, low-cost airlines carried 63.8 million passengers – that is 42% of all air passengers. However, the low-cost carriers that have dynamically entered the Polish market did not take passengers away from traditional operators. Thanks to competitive prices, low-cost carriers increased demand for air traffic services, while traditional carriers reduced prices for their services and offered attractive bargains. Everybody won, but the ultimate winners were the passengers.

Table 5. Number of low-cost carrier passengers in 2007–2012

Year	2007	2008	2009	2010	2011	2012
Number of passengers	8 566 008	9 517 483	8 258 945	8 827 920	8 844 626	10 174 193

Source: Civil Aviation Authority.

Chart 62. Market share of low-cost carriers (regular and irregular services) compared to traditional operators and charter flight operators



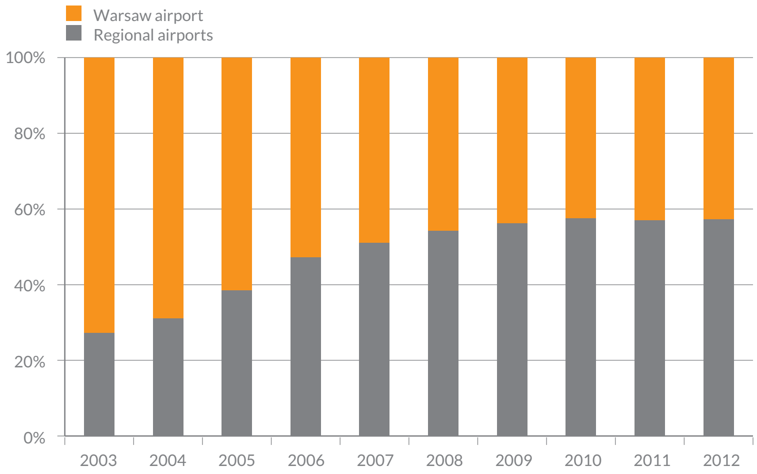
Source: Civil Aviation Authority.

In the geographical context, Polish regions were the biggest beneficiaries of the liberalisation of the Polish aviation market. Although in 2012 Warszawa airport managed to serve 100% more passengers than in 2003, regional airports recorded a huge, even sevenfold increase in the number of air passengers[207]. The number of regular international flights operated from smaller airports increased

206 Office of the Committee for European Integration, *Transport lotniczy*, [in:] *5 lat Polski w Unii Europejskiej*, Warszawa 2009, p. 126.
207 Information Paper to ICAO 6-th World-wide Conference, Market Liberalization: Polish Experience, Civil Aviation Authority, 2013.

from twenty in 2003 to two hundred in 2013. The dynamic development of Polish regional airports changed the distribution of passenger traffic. Passenger traffic handled by regional airports has increased from 10% in 1993 to almost 60% now.

Chart 63. Polish market share of regional ports compared with Warszawa airport



Source: Civil Aviation Authority.

New air transport infrastructure

In 2012, two new airports were opened in Poland, one in Modlin and the other in Lublin. The case of the Modlin Airport is particularly interesting. In 2012 it had a 4% market share, which was relatively high after just a few months of operations (July-December).

The existing airports were thoroughly modernised thanks, in part, to EU funds. In 2007–2013, the total value of investments in air transport infrastructure financed with EU funds amounted to PLN 5.5 billion. European funds represented almost a half of that amount, i.e. PLN 2.2 billion. They financed the expansion of passenger terminals and improvements of airport and road surfaces. Large sums were also invested in navigation infrastructure, fire protection systems, airport safety and security, and the purchase of equipment to maintain airports in wintertime.

Additionally, transport connections between airports and urban agglomerations were built to increase passengers' comfort. A train connecting Warszawa Chopin Airport with the city centre- the Central Railway Station in Warszawa and a section of the A1 motorway connecting the Silesian agglomeration hub with Katowice-Pyrzowice airport were constructed.

By the end of December 2013, 31 out of 74 planned projects totalling PLN 497.2 million had been carried out, of which PLN 260.7 million came from EU funds. Other projects are in progress, most of which will be completed by the end of 2015 – these include investments in airport infrastructure in Bydgoszcz, Gdańsk, Kraków and Rzeszów.

The visible enhancement of passenger comfort and the safety of airport operations are also important effects of the investment projects, besides increased air passenger traffic. The time needed for the fire department to reach the most distant part of the runway was shortened (even by 1 min. 30 sec. in Gdańsk), the number of snowploughs at airports was increased, which in turn increased airports' ability to face weather-related problems (resulting from, e.g. heavy snow). This helps to avoid temporary closing of airports and sending planes to alternate airports. For example, the reaction time at Warszawa airport (from the start of precipitation to the clearing of the tarmac) was shortened by 20 minutes, while the efficiency of snowploughs at the Szczecin airport has increased by 11 times.

EU funds have also financed investments in passenger identification and baggage control systems. The baggage control time at Krakow airport was shortened by 54.29% and the number of passengers undergoing security checks at Wrocław airport was increased by 240 persons per hour. The above-mentioned investments have significantly improved passengers' comfort.

According to Oxford Economics estimates, the Polish aviation sector has contributed PLN 6.8 billion to Polish GDP (0.5% GDP). This total comprises PLN 2.5 billion directly contributed through the output of the aviation sector (airlines, airport and ground services), PLN 2.7 billion indirectly contributed through the aviation sector's supply chain and PLN 1.7 billion contributed through spending by the employees of the aviation sector and its supply chain. Additionally, the aviation sector has paid over PLN 648 million in taxes to the budget. The air transport sector in Poland employed 65 000 people. It is worth noting that Oxford Economics provided the above-mentioned estimates for 2009, when air traffic was around 30% lower than it is today[208].

Common energy market

Foundations for an integrated, liberalised and competitive European electricity market were laid in 1996 and for the gas market – two years later. The new rules on the operation of the energy market described in the so-called Third Energy Package in 2009 allowed the EU to thoroughly rebuild the market to the benefit of consumers. Its major achievement was to permit all energy providers who were willing to operate according to market rules to depart from the rule that one company produced, transmitted and sold energy to end users. An indirect element of such chain, i.e. managing the infrastructure of energy transmission is now in the hands of independent companies in the EU. These entities provide access to infrastructure to all interested players, including new energy producers and suppliers, who cannot build their own infrastructure.

Before Poland's EU accession, the national energy sector was fully monopolised. That monopoly was broken by EU regulations. Energy producers as well as distributors entered the Polish market. Energy generation companies and distributors should feel more motivated to find even more effective methods of acquiring energy and permit energy prices to fall within the next few years.

Polish entrepreneurs in the energy industry can now freely compete on the common European energy market and Poland is a net exporter of electricity. In 2012, Poland exported a total of 6,674 GWh of electricity. Germany and the Czech Republic were the biggest importers of energy. The construction of interconnectors between these countries and the gradual unification of pay settlements for energy transmission

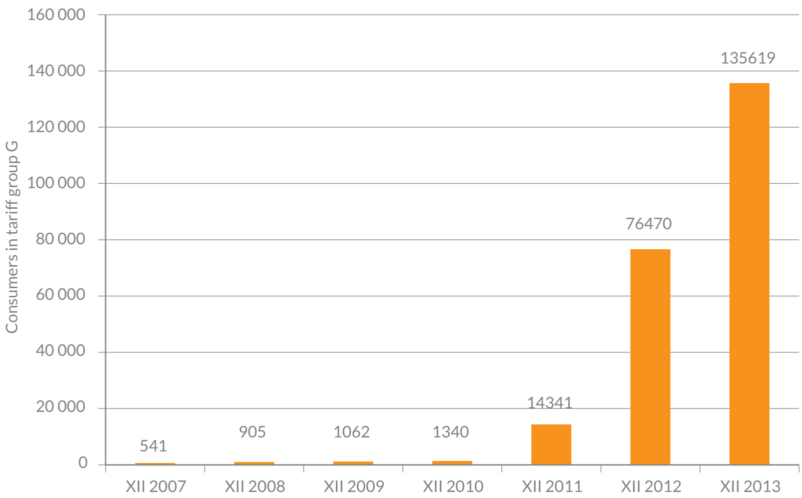
208 *Economic benefits from air transport in Poland*, Oxford Economics, 2011.

(the so-called European grid codes) enable Poland to sell surplus energy and buy energy in the event of higher demand. This significantly raises Poland's level of energy security thanks to the greater number of energy interconnectors with EU Member States, reducing our dependency on single energy suppliers.

The common EU energy market has led to a deregulation of national energy monopolies, but also to the pooling of energy infrastructures of Member States into one market organism. EU rules have also equipped energy consumers, both large industrial consumers and individual households, with tools to influence entities operating on the market. The most important right is that of access to the grid. In practice, this right obliges power utility companies to connect every applicant to the power grid or present such applying entity with a realistic infrastructure modernisation schedule which will allow for such connection in the future.

Other major consumer rights include: the right to information about prices and fee rates, the right to conclude agreements based on transparent terms and conditions, the right to choose convenient payment methods, the right of access to information about the amount of energy consumed, the right to change the seller, right to use clear, easy and inexpensive procedures to review complaints and resolve disputes (out of court) and the right to enjoy the protection of the state in the case of the so-called vulnerable consumers, i.e. those threatened by energy poverty. At the same time, EU regulations obligate energy suppliers to use energy consumption estimates that are the closest possible to the actual consumption and to make out clear and understandable energy bills.

Diagram 64. Electricity providers switched by households in 2007–2013 (number of consumers)



Source: Energy Regulatory Office, 2013.

The Polish energy market is changing slowly, but it is going in the right direction. One example of change is the growing number of households which have decided to change the electrical power supplier (which has been possible since 1st July 2007). The initial low number of consumers who decided to change the supplier might have stemmed resulted from attachment to their current suppliers or simply lack of knowledge. In 2007, only 604 supplier changes were made; one year later, the number was still relatively low at 1018. However, consumers' knowledge grew in time and people started to exercise their right more and more frequently. The number of households that changed the energy supplier by 2012 increased more than 5 times: from 14 341 to 77 284 energy consumers. By the end of 2013, the opportunity to change the supplier was seized by 135 619 other households. In relation to the previous year, the number increased by 77.3%.

Reconstruction of the energy market

All the changes that were introduced at the EU level have significantly impacted the Polish energy market, which has gone through a general reconstruction during the last few years. In 2007, the commercial and distribution operations of the existing electricity distribution companies were split. Since then, every client of the energy market has bought electricity and the service of providing it from two different companies. Consumers can pick any energy provider they like, but when it comes to delivery, they must choose a company that operates in their place of residence. Energy is transported from the power plant to the consumer via two types of power grid: transmission grids owned by PSE SA, and distribution grids owned by energy distributors.

Just like other goods, both electricity and gas are now traded on the market. First, they are generated by producers, then they are bought by agents (the so-called trading companies that buy and sell electrical power and gas), and ultimately they are sold to consumers. Prices and conditions of such transactions are agreed upon by enterprises that sell and buy electricity and gas, or are set at energy exchanges.

Poland's key exchange market is the Polish Power Exchange, where energy is traded wholesale. Besides wholesale value, the end price paid by consumers includes excise tax and the agent's transaction costs. Once bought, electricity must be transmitted from the company that has generated it (power plant) to the buyer. This means that customers buy not only electrical energy itself, but also a transmission service. Today, at least two different companies send energy generated in power plants to the buyer. Electricity can also be sold by a third independent entity.

In line with EU regulations, energy prices for industry were liberalised on 1 January, 2008. On 1 April, 2008, long-term contracts for power and energy purchases were terminated. The energy covered by these contracts made its way back to the power exchange, where potential customers can buy it at market prices. As a result, today distributors procure more energy at the power exchange, rather than limiting themselves to long-term bilateral contracts that ran counter to market principles. The power exchange ensures that buyers have easy access to energy, and makes it easier for them to look for bargains, while simultaneously incentivising providers to offer as good sales conditions as possible.

Gas (r)evolution

Changes in the functioning of the European energy market have impacted Poland's gas market. The energy market is being liberalised not only in Poland but also in the European Union at large. This means that all EU Member States are going through a difficult restructuring of the energy sector. The process stems from the need to make prices more realistic, so that they better reflect the actual costs of energy generation, transmission and distribution, and necessary investments in infrastructure. There is a continuing need for major, and thus costly, investments in energy infrastructure to make free energy transmission possible, increase the security of pan-European supplies, and boost unhindered power trade across borders.

As of now it is impossible to abandon all energy price regulations for households. As long as competition on the energy market is not fully satisfactory, the state will protect Polish households against unjustified price spikes. Energy prices that consumers need to pay are based on tariffs which are fixed by companies, but which the President of the Energy Regulatory Office must consent to. When approving the tariffs, the Energy Regulatory Office checks whether actual costs of suppliers justify energy prices the tariffs are based on. On 17 December 2013, the President of the Energy Regulatory Office accepted energy sale tariffs for the following companies: Enea SA, Energa – Obrót SA, PGE Obrót SA and Tauron Sprzedaż. Under the approved tariffs, electricity prices for households are to drop by about 6.2–6.5%, a change that was caused by lower wholesale prices for electrical power. As a result, household bills may even fall by 2.5%.

Energy market liberalisation in Poland and the EU is still more of an evolution than a revolution. Fortunately, the first results of this difficult and time-consuming process, from which consumers stand to gain so much, can already be felt. From now on, things can only get better.

Benefits from tourism

In the past few years Poland has clearly moved up in the *The Travel & Tourism Competitiveness Report*[209] ranking. In the tourism competitiveness index, Poland ranked 42nd in 2013, while in 2011 it was 49th, and in 2007 it took the distant 63rd place. Our integration with the EU has been a major factor behind this advancement.

In May 2004, Poland became a member of the EU – the world's biggest tourism market comprising 500 million potential travellers. Europe dominates global statistics on tourism and the tourist industry. It is here that most of the international tourist traffic is concentrated, and tens of thousands of tour operators and travel agencies do business.

Poland's accession to the EU benefited both foreign tourists who are interested in visiting our country, and Poles travelling abroad for holidays. The status of a Member State is very good for Polish holidaymakers, who can now freely travel across Europe (since Poland joined the Schengen area in 2007, also without passports or visas), obtain health insurance under the European Health Insurance Card (no need for additional travel insurance), pay lower roaming fees for international phone calls, and save on bank wire transfers between EU countries.

Moreover, integration with the EU has given a strong stimulus to Poland's tourism sector. This opportunity had raised great hopes even before accession, when accession was expected to reverse negative trends in both inbound and outbound tourism. In 2000–2003, the number of tourist arrivals in Poland dropped by about 3.7 million to as little as 13.7 million in 2003. 2000–2003 also saw a downward trend in the number of Polish holidaymakers going abroad (9.6 million trips in 2000 and 7.2 million in 2003). This tendency continued until 2005 (6.2 million trips).

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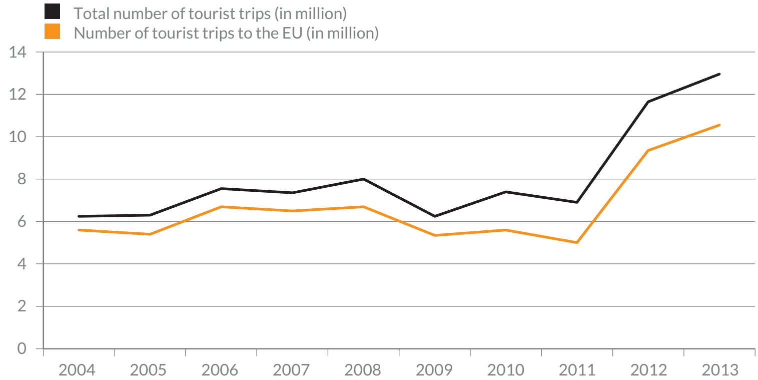
209 *The Travel & Tourism Competitiveness Report 2013*, World Economic Forum 2013.

It had been clear for years that the lack of capital for developing tourist facilities (recreational centres, hotels, resort spas, etc.) posed the chief obstacle for the development of tourism in Poland. EU structural funds turned out to be a remedy for this problem. By the end of December 2013, tourist companies and institutions received PLN 4.9 billions' worth of funds, which allowed them to implement 1 924 projects (worth over PLN 11 billion)[210]. Among other things, EU funds helped to promote Poland, its cities and specific tourist attractions (regions, towns, and monuments). Furthermore, the EU contributed financially to such projects as the construction of sports and cultural centres, bicycle paths, exhibition and conference centres; the improvement of local sports infrastructure; and the modernisation of existing facilities. Additionally, some parks and historic areas were revitalised.

Chart 65. Foreign trips by Polish tourists in general and to EU Member States (in million)[211]



Source: J. Łaciak, Aktywność turystyczna mieszkańców Polski w wyjazdach turystycznych w 2012 r.; Turystyczne zagraniczne wyjazdy Polaków (http://www.intur.com.pl/wyjazdy.htm); Podróże Polaków w 2013 r Podstawowe wyniki badań, Ministry of Sport and Tourism, March 2014.

2004–2011 saw a small fluctuation in the number of Polish tourists travelling abroad, depending on the economic situation in the country and abroad. The tourist sector experienced a visible revival in 2012, when Poles went on about 11.65 million trips abroad, which was a 69% increase on 2011 (6.9 million), and 57.4% more than in 2010 (7.4 million). In 2013, Poles made close to 13 million trips abroad. Between **2004 and 2013** Poles undertook a total of **80.6 million** tours abroad[212].

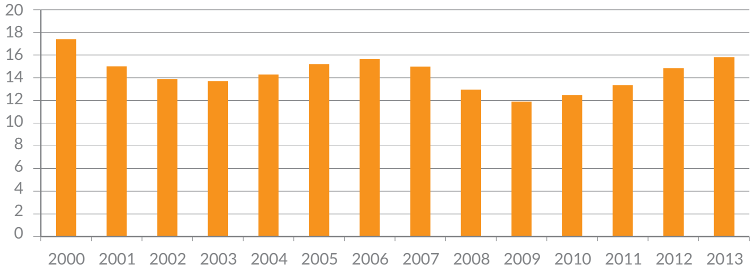
210 Based on: mapadotacji.gov.pl.
211 Data compilation based on polls. The tables feature the most popular destinations, and exclude countries that have been visited by less than 0.1 million Poles.
212 The total number of tours includes trips to a single country and trips covering several countries; once the sum of visits to particular countries is excluded, the total number of tours is 76.95 million.
2004–2009: DE, IT, CZ, UK, AT, NL, SK, FR, ES, BE, HR, EG, SE, HU, TR, EL, LT, BG, DK, IE, NO, UA, USA, TN, BY, RUS,
2010–2012: DE, IT, CZ, UK, AT, NL, SK, FR, ES, BE, HR, EG, SE, HU, TR, EL, LT, BG, DK, IE, NO, UA, USA, TN, LV,
2013: DE, IT, CZ, UK, AT, NL, SK, FR, ES, BE, HR, EG, SE, HU, TR, EL, LT, DK, IE, NO, UA, LV, USA, RUS, BY.

Poles' favourite tourist destinations in 2013 included (in the descending order) Germany, Great Britain, Italy, the Czech Republic, France, Spain, Croatia, Greece, Austria and Slovakia. Over the past 10 years, Germany has been the most popular destination, with little variation in the following places. It is worth noting that Great Britain moved high up in the ranking (from 11th in 2003 to 2nd in 2013), which is probably due to the country's popularity as a destination for labour migration (visiting families). Moreover, package holidays have been attracting more interest in recent years, a trend that has played into the hands of the tourist sector.

Destination: Poland

A positive trend can also be seen in journeys to Poland. Although at first the number of foreign tourists seemed to be increasing without end (15.7 million arrivals in 2006), the tide had turned in the following three years. The decline was caused by the global financial and economic crisis of 2008–2009, and to some extent also by Poland's accession to the Schengen area in 2007 (which made trips to Poland more difficult for people from outside the EU, especially Russia, Belarus and Ukraine). In 2009 Poland once again became a popular travel destination, with the number of tourists steadily growing ever since. Last year, Poland saw 15.8 million tourists coming in, which is the most in the past ten years. Compared with 13.7 million visitors in 2003, this represents an increase of 2.1 million.

Chart 66. Tourist arrivals in Poland in 2000–2013 (in million)



Source: Based on Institute of Tourism reports Zagraniczna turystyka przyjazdowa do Polski za okres od 2003 do 2012 r., and materials by the Ministry of Sport and Tourism Przyjazdy do Polski w 2013 r. – synteza wyników badań.

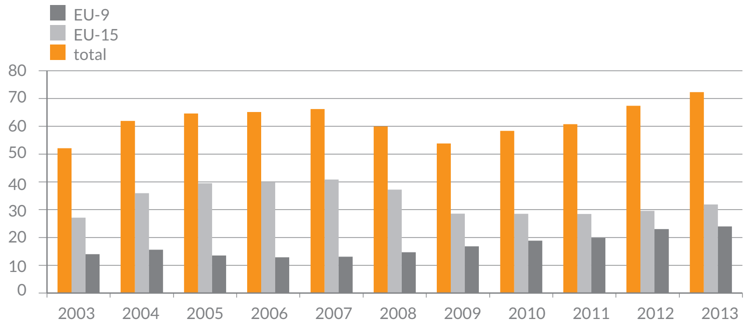
The total number of foreign arrivals in Poland[213] was even higher, primarily due to citizens of EU-9 countries. As was the case with foreign tourists, the number of arrivals dropped slightly in the crisis period of 2008–2009, and then rose again after 2010.

After Poland joined the Schengen area, Poland's eastern border became the external land border of the EU. To facilitate passenger traffic in border areas, Poland concluded local border traffic agreements with Ukraine and Russia, which came into force in 2009 and 2012, respectively. This has partly solved the problem of entering Poland. Under the agreements, inhabitants of border areas can

213 The number includes both one-day visitors and foreign tourists who spent at least one night in Poland but stayed less than a year.

repeatedly cross the state border after obtaining a special permit[214]. Since the agreement with Ukraine was signed, traffic on the Polish-Ukrainian border has been on the rise. Between 2009 and 2013, 23.6 million foreigners used the local border traffic arrangement for coming to Poland.

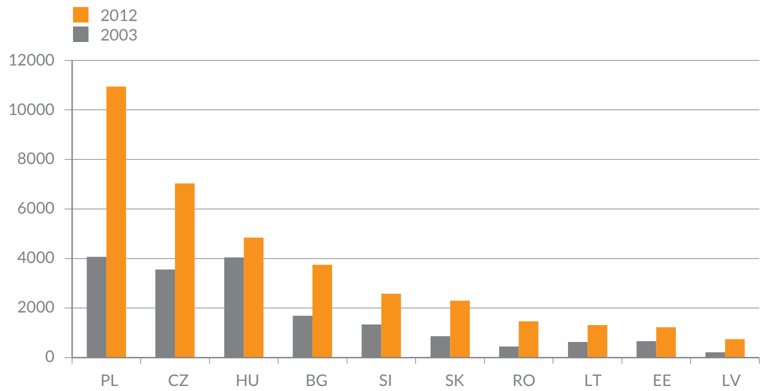
Chart 67. Arrivals in Poland in 2003–2013 (in million)



Source: Based on Institute of Tourism reports Zagraniczna turystyka przyjazdowa do Polski za okres od 2003 do 2012 r., and materials by the Ministry of Sport and Tourism Przyjazdy do Polski w 2013 r. – synteza wyników badań.

The growing number of foreign visitors has translated into more revenues from their arrivals. While USD 4.1 billion (including USD 2.7 billion from tourists) was taken in in 2003, in 2013 this figure stood at USD 12.5 billion[215]. A more detailed breakdown shows that the revenues from tourists (52.2% in 2013) slightly outweighed other categories. In the region at large, Poland benefited most from tourism.

Chart 68. Revenues from inbound tourism in the countries of the region (in USD million)



Source: Based on Institute of Tourism data, Zagraniczna turystyka przyjazdowa do Polski w 2006 roku, p. 26, and Zagraniczna turystyka przyjazdowa do Polski w 2012 roku, pp. 18–19.

214 Poles cross the Ukrainian border under a visa-free regime.
215 *Turystyka w Polsce w latach 2004–2013. Oszacowania wskaźników ekonomicznych*, Department of Tourism, Ministry of Sport and Tourism (as at 14.03.2014).

Our integration with the EU has benefited not only the tourism industry, but also Poland's image around the globe. This has been confirmed by satisfaction surveys conducted among foreign tourist who visited Poland. On the whole, visitors were very happy with their stay (on a five-point scale the average satisfaction of Polish and foreign tourists was 4.4 and 4.1, respectively). The quality of tourist services was highly assessed regardless of the respondent's nationality. It was tourists from Germany and other countries of the "old EU" who took home the best memories from Poland, and were most likely to recommend our country to others.

Table 6. Tourist satisfaction at visits to Poland

Germany	Other EU-15 countries	New member states
General satisfaction		
90%	93%	74%
Repeated visit		
90%	90%	81%

Source: Satysfakcja turystów 2013. Report of a PBS Sp. z o. o. survey commissioned by the Polish Tourist Organisation, 2013.

Medical tourism

The so-called medical tourism has been playing an increasingly important role in foreigners' visits to Poland. Within a relatively short period of time Poland has gained popularity in this field. In terms of the number of patients from abroad our country ranks right behind Hungary and the Czech Republic, but the potential and dynamic of this market suggest that Poland could become a regional leader[216]. Poland's strong points comprise competitive pricing of services, short waiting times for medical procedures, high quality, and specialist medical personnel.

It was only after Poland joined the European Union that tourists began coming to Poland for medical treatment. In 2004–2008, Poland's medical tourism market expanded 30–40% annually[217], and then levelled off after 2010. The Institute of Tourism estimates the number of people who came from abroad for treatment in 2012 at 600,000. This yielded USD 257 million in revenues[218].

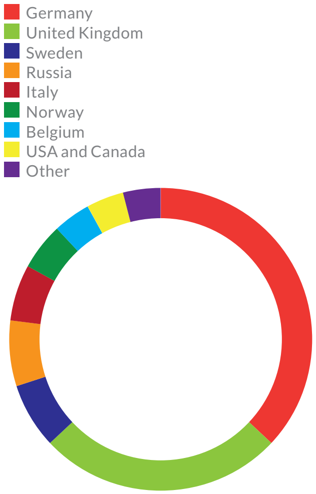
Table 7. Number of foreign patients and their spending on medical treatment in 2009–2012

Year	2009	2010	2011	2012
Number of patients (in thousand)	330	300	320	330
Health expenditures (in PLN million)	900	750	780	900–950

Source: based on information of the Polish Association of Medical Tourism, Polish Information and Foreign Investment Agency, and press articles[219].

216 http://www.tourmedica.pl (24.03.2014).
217 M. Mrozińska, *Turystyka medyczna*, "Marketing & more," no. 9 (16)/2008.
218 W. Bartoszewicz, T. Skalska, *Zagraniczna turystyka przyjazdowa do Polski w 2012 roku*, Institute of Tourism, p. 93; Data by the Ministry of Sport and Tourism.
219 *Coraz więcej obcokrajowców w polskich klinikach*, online edition of "Gazeta Wyborcza", 20.07.2011; *Więcej cudzoziemców w polskich gabinetach*, "Rzeczpospolita", 04.10.2013.

Chart 69. Medical tourism by country of origin



Source: Tourmedica.pl Sp. z o.o.

Before 2010, physiotherapy and stays in resort spas topped the list of medical services that were most popular with foreigners (80%). The remaining 20% of visits concerned dental treatment, and plastic and aesthetic surgery. Since 2010, there has been a minor (3% per annum) increase in the number of people coming for physiotherapy and resort spa treatment. What has grown quite dramatically, though, was demand for medical services in the following categories: dentistry, plastic and aesthetic surgery, orthopaedics, infertility treatment, bariatrics and neurosurgery[220]. For example, Poland is second only to Hungary in terms of the number of dental tourists[221].

220 Information by the Polish Association of Medical Tourism.
221 A. Wcisło, *Turystyka medyczna*, 21.03.2012.

Modernisation of Poland

EU funds driving Poland's modernisation

Between 1 May, 2004 and the end of December 2013 Poland received EUR 92.4 billion from the EU budget. These resources helped conduct a modernisation that had no precedent in the country's history. The scale of the support is best illustrated by the fact that the total financial assistance provided by the European Union accounted for around 25% of Poland's GDP in 2013.

Of the entire financial envelope, EUR 58.7 billion was allocated to the cohesion policy, EUR 29.4 billion to the common agricultural policy, and EUR 850 million were the remaining transfers. In the same period Poland paid EUR 30.9 billion to the EU budget as its member state contribution. **This means that the ten-year balance of financial transfers between Poland and the EU is positive and amounts to EUR 61.4 billion**[222]**.**

Contrary to fears that were voiced prior to Poland's accession to the EU, we have not become a net contributor. **In the first year of membership alone we gained more from the EU coffers than we paid in**[223]**.** Since 2009 the surplus in financial flows between Poland and the EU was over twice as much as that of the second major net beneficiary, i.e. Greece (2009–2011) and Portugal (2012)[224]. The outcome of negotiations of the 2014–2020 EU budget (the so-called Multiannual Financial Framework) shows that Poland will keep this position (i.e. of the major net beneficiary) in the nearest future as well.

In the last decade we have seen a substantial increase in transfers from the EU – from EUR 2.5 billion in 2004 to EUR 15.6 billion in 2013. EU funds made up 1.21% of Poland's GDP in 2004, and 4.02% in 2013, respectively. This increase in co-funding was due to the effective use of resources (under the cohesion and rural development policies), the end of the transition period during which Polish farmers were only eligible for a part of direct payments[225], as well as the multiannual financial programming, and the launch of the key implementation phase of major infrastructural projects (funded from the 2007–2013 EU budget).

Each year since 2011 Poland has received the most EU funds of all Member States.

For example, Spain, France and Germany, which rank right behind Poland in terms of allocated funds, have received at least EUR 1–2 billion less than Poland in the past few years. According to the European Commission's calculations, in 2004–2012 a total of EUR 190 billion was allocated from the EU budget to the countries of our region. Poland received 41.3% of this amount.

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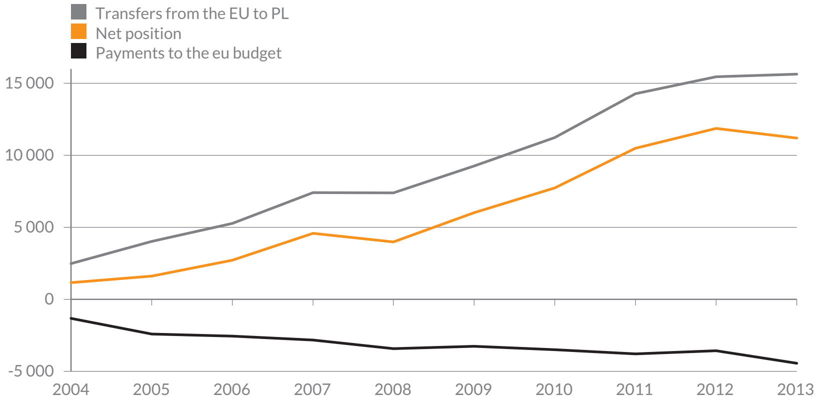
222 *Zestawienie transferów finansowych środków unijnych w ciągu 116 miesięcy członkostwa (grudzień 2013 r.)*, Ministry of Finance.

223 The balance of settlements between Member States and the EU, i.e. the difference between a given country's transfers to and from the EU budget, is defined as "net position."

224 2013 is not included as the EC's financial report for 2013 will only be published in autumn 2014, and no other data are available for comparing Members States.

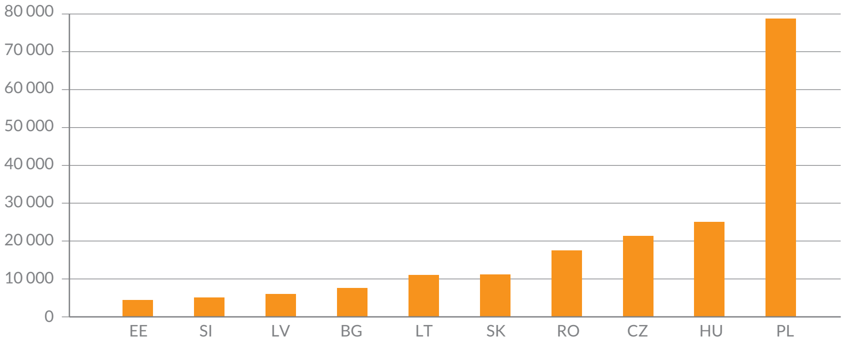
225 In 2013 payments from the EU budget were made in the full amount foreseen for Poland.

Chart 70. Balance of financial flows between Poland and the EU in 2004–2013 (in EUR million)



Source: Zestawienie transferów finansowych środków unijnych w ciągu 116 miesięcy członkostwa (grudzień 2013 r.), Ministry of Finance.

Chart 71. Total transfers from EU budget to Poland and EU-9 in 2004–2012 (in EUR million)



Source: based on European Commission financial reports for 2004–2012.

Polish contribution to the EU budget

Over the 10 years of its EU membership, Poland has contributed EUR 30.9 billion to the EU budget. This amount comprised EUR 21.1 billion of own resource based on Polish Gross National Income (GNI)[226], EUR 4.6 billion of own resources based on VAT, EUR 3.2 billion of Traditional Own Resources (TOR), and EUR 2.0 billion for other countries' rebates (in particular the UK rebate).

Gains from the cohesion policy

There is more to transfers of funds between the European Union and Poland than only the financial dimension. Thanks to EU budget funds Poland has carried out key investments, improved the standards of living, continued to modernise, fostered economic growth, and made its economy more competitive.

226 Gross National Income is the sum of incomes citizens earn in the country and abroad.

In the initial years of membership, i.e. in 2004–2006, close to EUR 20 billion was allocated to the implementation of the cohesion policy. EU funds accounted for approx. EUR 14 billion of this amount.

Table 8: Share of specific operational programmes in total allocation of cohesion policy funds to Poland in 2004–2006, including sources of financing

Operational programme	Share of the programme in total allocation of resources	Source of financing
Strategy for the Use of the Cohesion Fund	39.6% of total financial allocation (EUR 5.4 billion)	Cohesion Fund
Increase of Economic Competitiveness	8.8% of total financial allocation (EUR 1.2 billion)	European Regional Development Fund
Human Resources Development	10.3% of total financial allocation (EUR 1.5 billion)	European Social Fund, European Regional Development Fund
Restructuring and Modernisation of the Food Sector and Rural Development	8.4% of total financial allocation (EUR 1.1 billion)	European Agricultural Guidance and Guarantee Fund (Guidance Section)
Fisheries and fish processing	1.4% of total financial allocation (EUR 179 m)	Financial Instrument for Fisheries Guidance
Transport	8.1% of total financial allocation (EUR 1.1 billion)	European Regional Development Fund
Integrated Regional Operational Programme	20.8% of total financial allocation (EUR 2.9 billion)	European Social Fund, European Regional Development Fund
INTERREG III A	1.2% (177 million)	European Regional Development Fund
EQUAL Community Initiative	0.9% (134 million)	European Social Fund
Technical Assistance	0.2% of total financial allocation (EUR 28 million)	European Regional Development Fund

Source: based on Sprawozdanie końcowe z realizacji Narodowego Planu Rozwoju na lata 2004–2006, Ministry of Regional Development, Warszawa, May 2013.

A total of EUR 85 billion was in turn expended on implementing the cohesion policy in Poland in 2007–2013. EU funds accounted for close to EUR 67.5 billion of this amount.

In 2004–2013 EU funds helped implement over 160 000 projects[227], and some more are still being implemented. This had a positive impact on the growth dynamic of our GDP, enhanced the competitiveness of the Polish economy, boosted entrepreneurship, and created new jobs. EU funds not only resulted in better infrastructure (new roads, sewage treatment plants, etc.), but above all improved the living conditions of all Poles through, among other things, access to EU knowledge, training for entrepreneurs, and broadband internet access.

227 http://www.mapadotacji.gov.pl/statystyki-i-porownania (as at 24.03.14)

Table 9. Share of specific operational programmes in total allocation of cohesion policy funds to Poland in 2007–2013, including sources of financing

Operational programme	Share of the programme in total allocation of resources	Source of financing
Infrastructure and Environment	41.9% of total financial allocation (EUR 27.9 billion)	European Regional Development Fund, Cohesion Fund
Regional Operational Programmes	24.9% of total financial allocation (EUR 16.6 billion)	European Regional Development Fund
Human Capital	14.6% of total financial allocation (EUR 9.7 billion)	European Social Fund
Innovative Economy	12.4% of total financial allocation (EUR 8.3 billion)	European Regional Development Fund
Development of Eastern Poland	3.4% of total financial allocation (EUR 2.3 billion)	European Regional Development Fund
Technical Assistance	0.8% of total financial allocation (EUR 0.5 billion)	European Regional Development Fund

Source: based on Narodowe Strategiczne Ramy Odniesienia 2007–2013, Ministry of Regional Development, May 2007.

Poland among absorption leaders

Under the cohesion policy, as of 1 December 2013 the European Commission had paid out a total of EUR 210.3 billion in advances and interim payments. This was for the implementation of tasks in the 2007–2013 financial perspective, which allocated the most funds (EUR 44.9 billion) for Poland. This accounted for 66.8% of our entire financial allocation from the EU. Calculated this way, Poland's absorption (in other words the effective use of EU funds) is 6.0% higher than the EU-27 average (60.8%), and 8.4% higher than the average in our region (58.4%)[228].

At the same time, grant agreements that were concluded with beneficiaries of EU funds account for 96.5% of Poland's allocation for the years 2007–2013[229]. The remaining disposable resources, i.e. around 3.5%, will be spent on selected projects that are at the stage of signing grant agreements; individual projects to be signed; and additional projects that will be approved and then implemented by the end of 2015.

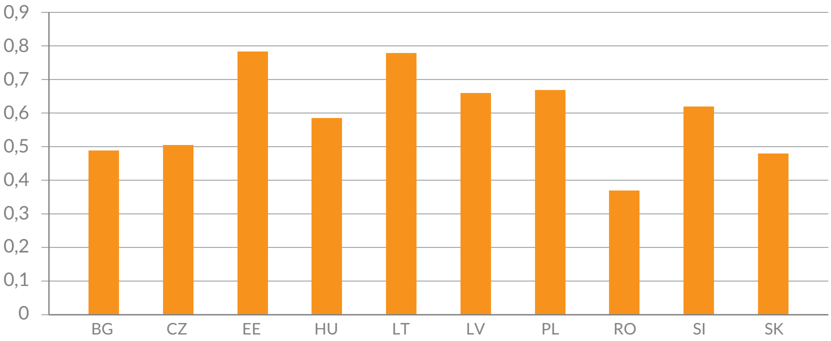
The success of Poland's first decade in the EU is closely related to the high level of absorption of EU funds, and their effective use. There are several reasons why Poland did so well:

- Good use was made of experience from the pre-accession period, when Poland benefited from PHARE, SAPARD and ISPA funds,
- It was rightly decided to establish a ministry that would bear full responsibility for programming and implementing a substantial share of funds under the cohesion policy,

228 Data do not include the European Territorial Cooperation.
229 Ministry of Infrastructure and Development, *Informacja ws. postępów realizacji Narodowej Strategii Spójności 2007–2013* (as at 16 March 2014).

- In central and self-government administration, qualifications of personnel involved in the programming and implementing of the cohesion policy were consistently improved, which was to some extent co-financed from the technical assistance,
- Self-governing voivodeships were gradually made more responsible for the programming and implementing of cohesion policy funds,
- The legal framework for the development policy was gradually created.

Chart 72. Advances and interim payments under cohesion policy in 2007–2013 (percentage of Member States' allocations)



Source 1. European Commission (as at 1 December 2013).

Development of infrastructure

Motorways and expressways

The transport system is one of the fields where the real impact of EU funds can be clearly seen in Poland. EU money went towards expanding and modernising motorways and expressways, among other things. This has benefitted us all – mobility has improved greatly, it takes a few dozen minutes less now to travel between major cities, road traffic has become safer, and the number of fatal road accidents has declined.

Between 2004 and 2013, Poland could tap into EUR 28.7 billion for transport infrastructure projects. Of this pool EUR 5.4 billion was allocated in 2004–2006, and EUR 23.3 billion in the years 2007–2013.

During the second stage, EUR 16 billions' (PLN 69.2 billion) worth of motorways and expressways were built and modernised in Poland, of which approx. EUR 10 billion (PLN 42.6 billion) was EU co-funding. Starting from 2004, **a total of 673 km of motorways were built, and 808 km of expressways were built or modernised**[230]. This is a dramatic change compared with 2003 – a leap by 165% and 357%, respectively. According to Central Statistical Office estimates, at the time Poland had only 405 km of motorways and 226 km of expressways[231]. Further investments in Poland's road infrastructure are planned for 2014–2020. These too are to be co-funded by the EU, and will be implemented on a similar scale as in the years 2004–2013.

230 Based on information of the General Directorate for National Roads and Motorways, 22 January 2014.

231 Central Statistical Office, *Concise Statistical Yearbook*, Warszawa 2004, p. 340.

Map 2. Network of national roads. Motorways, expressways and other national roads

LEGEND:

MOTORWAYS, EXPRESSWAYS AND OTHER NATIONAL ROADS

EXISTING

Planned system of motorways and expressways

Other 1- and 2-carriageway roads

Borders of voivodships /GDDKiA branches

towns with poviat rights

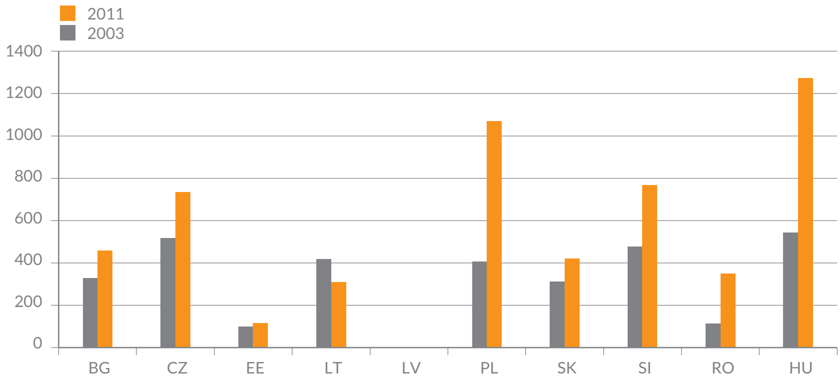
Prepared: January 2014

Source: based on materials of the General Directorate for National Roads and Motorways.

Modernisation of the road network has made it much more comfortable and safer to drive in Poland, boosted the attractiveness of investment areas along the main transport routes, and reduced the adverse impact of transport on the natural environment. According to a PwC report, in 2007–2012 Poland was an EU leader in the construction of motorways, as the number kilometres grew by 106%[232].

232 PwC, Report: *Road building in Poland. The facts and the myths, experience and perspectives*, http://www.pwc.pl/pl/publikacje/budowa-drog-w-polsce.jhtml (as at 21.03.2014)

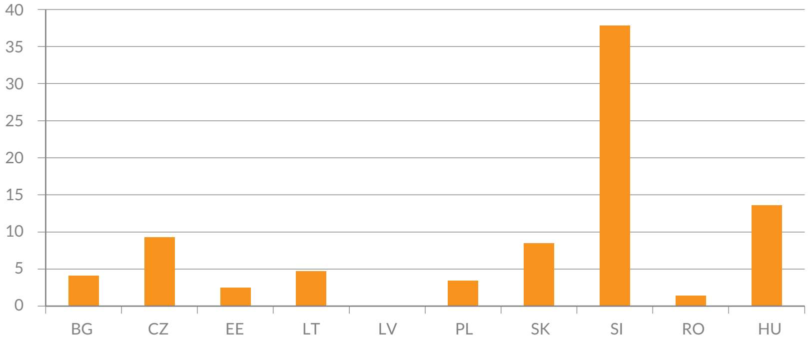
Chart 73. Motorway construction dynamics in 2004–2011



Source: based on EUROSTAT data, epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=ttr00002 (21.03.2014).

Despite the progress our country has made in expanding the motorway and expressway network, Poland's investment needs remain substantial. Even before joining the EU, some Central and Eastern European countries, e.g. the Czech Republic and Hungary, had a much more developed motorway network than Poland[233]. That explains why we continue to rank relatively low (7th place) in the region in terms of the absolute density of the motorway network (i.e. the length of motorways per 1000 km^2). This situation is also largely due to a thought-out strategy, whereby not only motorways, but also much cheaper expressways are built in Poland.

Chart 74. Length of motorways per 1000 km^2 (data from 2011)



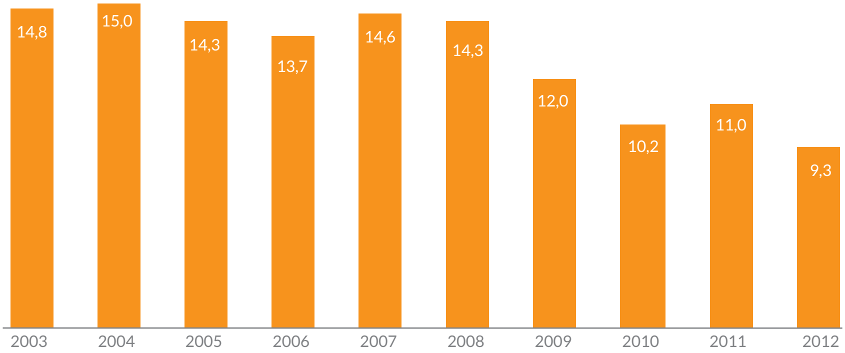
Source: based on EUROSTAT data, epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=ttr00002 (21.03.2014r).

Travelling in Poland: faster and more safely

Built with EU support, better roads that offer more capacity help to make travelling safer. In 2007–2012 the number of accidents fell by approx. 25% in Poland, with 37% less fatalities on national roads during the same period.

233 The length of motorways in Lithuania fell, as the existing motorways failed to meet the relevant safety standards. No motorways have been built in Latvia.

Chart 75. Number of fatal accidents (per 100,000)



Source: based on Sprawozdanie z realizacji NSRO na lata 2007–2013. Przebieg realizacji w 2012 r., July 2013.

It turns out that a better road infrastructure means not only more time and safety for drivers, but also more profits for the state. Annually, **the economy saved between PLN 1.3 billion and PLN 2.1 billion, i.e. approx. 0.1% of GDP,** on cutting the travel time on five selected sections of national roads that were completed in 2007–2013. For all motorways and expressways commissioned during that time these savings could be as much as 0.3% of GDP. As for shortening the travel time on specific road sections, the annual savings range from PLN 152 million (minimum values for the Gorzów Wielkopolski – Szczecin route) to as much as PLN 618 million (maximum values for the Poznań – Świecko route).

Table 10. Estimated time savings on selected sections of motorways and expressways completed in 2007–2012

Sections	Time savings	ADT* passenger cars	ADT* trucks
Gdańsk – Toruń	40 minutes	11 000	3 500
Warszawa – Łódź	30 minutes	17 000	8 500
Poznań – Świecko	40 minutes	10 000	10 000
Gorzów Wlkp. – Szczecin	30 minutes	8 500	3 000
Kraków – Tarnów	20 minutes	15 000	5 000

**ADT is the average number of vehicles of a given category driving along a road section during 24 hrs.*

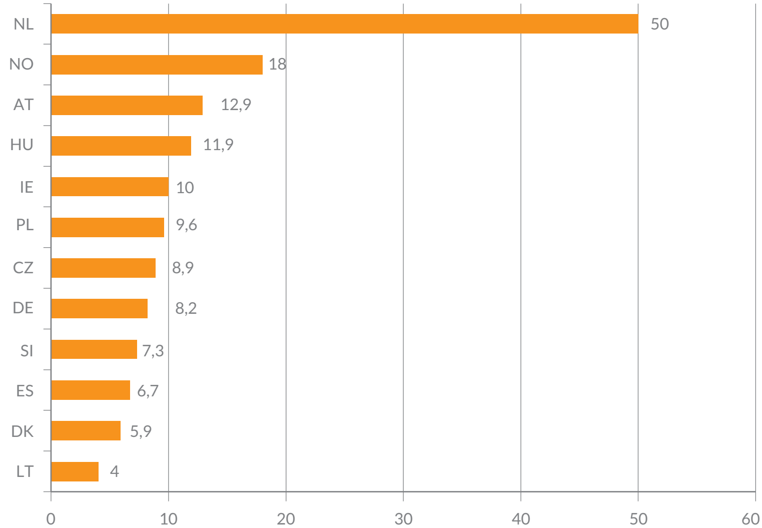
Source: based on "Road building in Poland. The facts and the myths, experience and perspectives," PwC report commissioned by GDDKiA, http://www.pwc.pl/pl/publikacje/budowa-drog-w-polsce.jhtml (21.03.2014).

It should be emphasised that Poland has managed its spending on the construction of road infrastructure in a very economical way. In 2008 one kilometre of an expressway cost us EUR 12.6 million on average, and of a motorway – EUR 15.1 million[234]. In 2012 the construction cost stood at EUR 8.7 million for one kilometre of an expressway, and EUR 9.6 million for one kilometre of a motor-

234 *Ibidem.*

way. This clearly shows that the price of building a kilometre of a motorway fell by 36%, and of an expressway by 31%.

Chart 76. Cost of building 1 km of a motorway abroad and in Poland (in EUR million)



Source: based on "Road building in Poland. The facts and the myths, experience and perspectives," PwC report commissioned by GDDKiA, http://www.pwc.pl/pl/publikacje/budowa-drog-w-polsce.jhtml (21.03.2014).

Flagship transport projects implemented with EU support

Construction of the A1 motorway, section Pyrzowice – Maciejów – Sośnica

Total project value: PLN 5.9 billion
EU co-funding: PLN 4.4 billion

Project's objectives: to construct a section of the A-1 motorway as part of Poland's and the Silesian Region's basic road network. The motorway section was designed to ensure comfort and safety of long-distance road traffic at high speeds, including by adapting the road section to the projected traffic.

Construction of the S-8 expressway, section Wrocław (Psie Pole) – Syców

Total project value: PLN 1.1 billion
EU co-funding: PLN 0.8 billion

Project's objectives: to enhance safety, to make Poland and national interregional links more accessible for transport.

Specific objectives:

- to build a safe road section ensuring comfort of long-distance road traffic at high speeds,

- to adapt the road section to the projected traffic,
- to adapt the road to the applicable legal regulations,
- to cater to the needs of the adjacent area, especially by constructing local traffic roads.

Construction of the S-8 expressway, section Syców – Kępno – Wieruszów – Walichnowy

Total project value: PLN 1.3 billion
Maximum EU co-funding: PLN 1.0 billion

Project's objectives: the construction of the S8 expressway made the region more accessible, improved the safety of road users and the traffic safety in the analysed area at large, cut the travel time, increased the number of roads capable of accommodating the 115 kN/axle load, improved traffic smoothness and capacity, mobilized into activity the existing and planned investment areas of the Wielkopolskie and Łódzkie Voivodeships, which will give the region an economic boost, improve the living conditions of its inhabitants, and enhance the quality of services provided to travellers and tourists. The project's ramifications are supraregional, national and international.

Construction of the S-7 expressway, section Grójec – Białobrzegi

Total project value: PLN 0.5 billion
Maximum EU co-funding: PLN 0.4 billion

Project's objectives: some of the aims of upgrading national road No. 7 along the Grójec – Białobrzegi section to meet parameters of an expressway were to create a safe road section ensuring comfort of long-distance transport at high speeds, and to adapt the road to the projected road traffic intensity. The modernisation was part of a more extensive programme of transforming national road No. 7 to meet parameters of an expressway.

Environmental protection

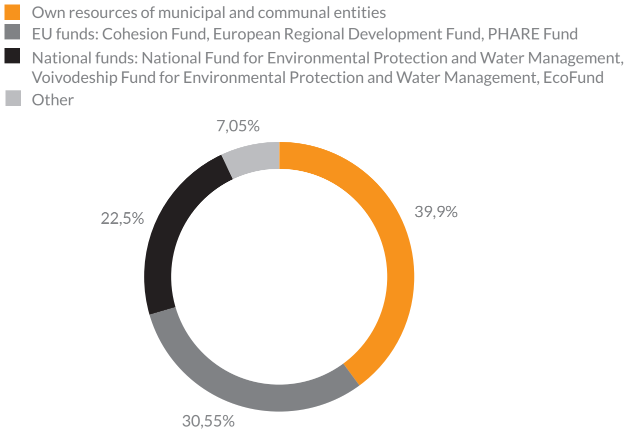
After Poland's accession to the EU, the volume of treated sewage increased, and the effectiveness of treatment improved. This change was made possible by investments in environmental protection infrastructure, especially the construction and modernisation of sewage treatment plants.

In 2003 there were 2 761 municipal sewage treatment plants in Poland[235]. By the end of 2013, EU funds had helped construct or modernize 683 sewage treatment plants[236]. Furthermore, over 36 000 km of sewers were built or modernised thanks to EU support[237].

235 Central Statistical Office, *Concise…*, *op.cit.*, p. 49.
236 Based on the survey *Ocena efektów inwestycji środowiskowych finansowanych w ramach NPR 2004–2006* and National Information System (KSI) data (SIMIK 07-13), according to the information of the Ministry of Infrastructure and Development, 21.03.2014.
237 *Ibidem*.

Sewage disposal and treatment have also improved in rural areas. Between 2004 and 2011 a total of 7 518 farmstead sewerages (household sewage treatment plants comprising a residential building and farm facilities) and 2 624 household sewage treatment plants (comprising only a residential building) were built in those areas[238].

Chart 77. Chief sources of investment in sewage treatment infrastructure (average from the years 2004–2011)



Source: based on Krajowy Program Oczyszczania Ścieków Komunalnych, Sprawozdanie z wykonania KPOŚK lata 2003–2011.

In 2003, 57.4% of Poles had access to the sewage system, while in 2012 this figure grew to 64.3%[239]. Annually almost 96% of sewage is treated (in 2004 – 91.02%, in 2006 – 92.13%, and in 2009 – 93.82%)[240].

Investments in constructing and modernising sewage treatment plants greatly improved the effectiveness of the treatment process. At the same time as the total amount of sewage for treatment slightly increased (by 4.2%) in 2003–2011, it was possible to decrease (almost by 20%) the volume of sewage that is not treated at all. The discussed period saw a considerable increase (by as much as 39.9%) in the volume of sewage treated through increased biogene removal. This led to a big fall in the concentration of such substances as nitrogen (two times less) and phosphorus (nearly three times less). Also reduced was the amount of other pollutants[241] that were released into the environment with treated sewage.

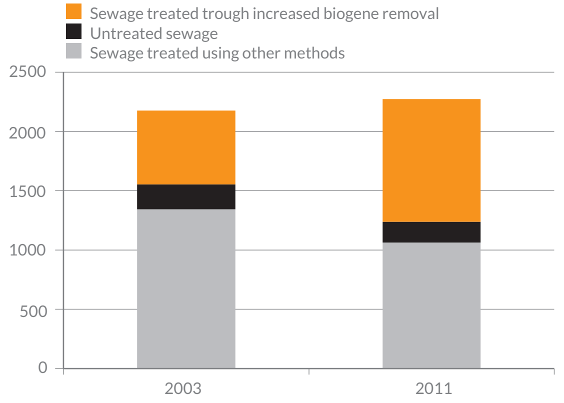
238 Own study based on: Ministry of Agriculture and Rural Development, *Sektorowy Program Operacyjny: Restrukturyzacja i modernizacja sektora żywnościowego oraz rozwój obszarów wiejskich 2004–2006*, Warszawa 2007, p. 27, and Ministry of Agriculture and Rural Development, *Sprawozdanie roczne z realizacji Programu Rozwoju Obszarów Wiejskich na lata 2007–2013 za 2011 rok*, Warszawa 2012, p. 183.

239 Based on: *Krajowy Program Oczyszczania Ścieków Komunalnych, Sprawozdanie z wykonania KPOŚK 2010–2011*, Warszawa 2013, p. 30.

240 Based on: *Krajowy Program Oczyszczania Ścieków Komunalnych, Sprawozdanie z wykonania KPOŚK 2010–2011*, Warszawa 2013, p. 11.

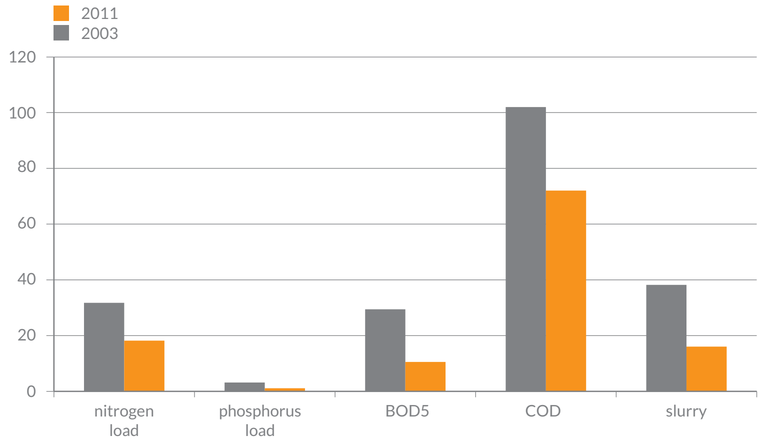
241 The BOD5 load (biochemical oxygen demand) fell almost three times, the COD (chemical oxygen demand) load was cut by 1/5, and the amount of total slurry decreased over two times.

Chart 78. Effectiveness of sewage treatment in 2003 and 2011 (hm^3)



Source: based on CSO publications Environment 2005 and Environment 2012.

Chart 79. Pollutant loads discharged into waters and the ground after sewage treatment in 2003 and 2011 (hm^3)



Source: based on Central Statistical Office publications Environment 2005 and Environment 2012.

Flagship sewage treatment projects implemented with EU funds

Financing the expansion of the "Czajka" sewage treatment plant in Warszawa
Phase I and II – Costs of modernisation: EUR 189 million, 62% of the investment's eligible costs, i.e. over EUR 110 million, are covered by the EU cohesion fund. The phases envisage modernising Warszawa's water supply and sewerage systems, and enhancing water quality and distribution.

Phase III – Estimated cost: over EUR 405 million. "Czajka" received financial support for implementation under the cohesion policy to the level of 62.5% of eligible costs, i.e. over EUR 248 million.

Phase IV – Total cost estimate of project implementation: EUR 192 million. EU funds cover over 85% of the investment value, i.e. EUR 164 million.

Outcome: the plant's expansion ended in 2012. Today the modernised "Czajka" can process 435,000 m^3 of sewage a day. The sewage treatment plant processes wastewater from Legionowo, Zielonka, Marki, Warszawa districts on the right river bank, and sludge from Wieliszewo (an area inhabited by 685,000 people).

Financing the construction of the "Pomorzany" sewage treatment plant in Szczecin
The total cost of project implementation was EUR 282.2 million. EU funds covered 66% of the investment value, i.e. EUR 186.2 million. The "Pomorzany" plant was part of the project "Improving water quality for Szczecin". Apart from the "Pomorzany" facility, the project also comprised the construction of the "Zdroje" sewage treatment plant, 200 km of new water lines and sewers, and the modernisation of 57 km of old water lines and mains.

Outcome: The plant can process wastewater from as many as 400,000 Szczecin inhabitants (practically the entire city).

Energy sector

After Poland's accession to the European Union, a thorough modernisation of energy infrastructure began in our country. Ever since then, the infrastructure has been connected to the neighbouring countries, a process that will continue in the coming years with the organisational and financial support of the EU. This should ensure Poland safe energy supplies and the possibility to freely trade in energy on the common European market.

Gas infrastructure

The gas sector depends on technical infrastructure that makes gas transport and storage possible. While Western Europe has a relatively dense network of intersystem connections between domestic markets, the map of transmission infrastructure in Central and Eastern Europe, including Poland, was largely influenced by history (gas transmission from the east to the west of Europe), and did not address all the needs of a modern economy or energy security requirements. An incorrect structure of the transmission network reinforced existing barriers to the energy market, and strengthened the dominant position of key external suppliers[242].

To ensure that the internal EU market, of which Poland will become a full member, is completely functional and operational, additional cross-border links must be built. They play a central role, enabling as they will a smooth flow of gas between Member States. Also, such links will ensure Poland access to competitive markets in Germany, the UK and the Netherlands. This should significantly diversify sources of gas supply to Poland, something that guarantees the country's energy security.

Since we joined the EU, Polish gas enterprises – supported by the government – have been actively using EU programmes aimed at developing gas

242 Approx. 60% of Poland's gas imports come from Russia. This figure is 82% for the Czech Republic, 85% for Slovakia, and 55% for Hungary.

infrastructure. The following three categories best illustrate the instruments and scale of support for gas infrastructure:

1) TEN-E (Trans-European Networks – Energy) is an EU programme aimed at expanding and modernising the European energy infrastructure. In 2007–2013 the scheme had a relatively small annual budget of approx. EUR 20 million, which was allocated to pre-investment work. However, the programme proved very helpful, especially for new Member States. TEN-E granted Poland EUR 7.32 million[243] to conduct research and feasibility studies of projects that connect the Polish network with Denmark, Lithuania and Slovakia. The funds also helped expand gas connections with the Czech Republic and Germany.
2) Cohesion policy funds in 2007–2013 were particularly important for constructing, expanding and modernising key national gas infrastructure, especially transmission lines and gas storage facilities. During that period, the Operational Programme Infrastructure and Environment allocated **EUR 1 722.32 million to the energy sector**, PLN 2.3 billion of which went towards gas infrastructure. The LNG terminal in Świnoujście is the chief project co-funded under this programme (PLN 456 million). Key network investments also comprise gas pipelines in north-eastern Poland and along the north-south axis in western Poland. Underground storage facilities for natural gas are being systematically expanded, too.
3) Following the economic crisis that hit Europe, in 2009 additional resources were allocated to gas-related investments under a special fund – the European Energy Programme for Recovery (EEPR). The support from this programme proved especially important for the construction of the LNG terminal in Świnoujście, which received EUR 79.6 million in co-funding.

Flagship gas infrastructure projects implemented with EU funds

Underground natural gas storage facilities in Strachocina, Wierzchowice, Kossakowo and Husów

A total of PLN 750 million was allocated to storage capacities in Strachocina, Wierzchowice, Kossakowo and Husów (Wierzchowice – PLN 512.8 million, Kossakowo – PLN 130.5 million, Strachocina – PLN 69.7 million, Husów – PLN 38.2 million). Since 2004 the storage capacity in Poland has grown by close to 300 million m^3, and is 1817.89 million m^3 at the moment.

LNG terminal in Świnoujście

The LNG terminal in Świnoujście, to be completed in 2014, is the first investment in our part of Europe to redefine Poland's energy security by boosting the diversification of gas supply sources and routes. It also opens Poland up to the global LNG market. What is more, the Świnoujście terminal is today the only EU project that can make a real contribution to diversifying gas supply sources of the entire region. In the future the facility will potentially be able to offer its re-gasification capacities to all Visegrad (the Czech Republic, Hungary and Slovakia) and Baltic countries (Lithuania, Latvia and Estonia).

243 The total value of projects was EUR 15.1 million.

Electricity infrastructure

A large part of Poland's electricity transmission grid is 40 or more years old; hence, the major challenge facing the Polish electric power system is to modernise the old infrastructure. Moreover, Poland has been seeing an increasing demand for so-called peak power, i.e. the ability to quickly generate as much energy as is needed to meet users' maximum demand during the day (usually in the late afternoon/evening). Also of importance are plans to connect new power plants to the transmission grid, including the future nuclear power plant and new renewable energy sources (RES), and the implementation of cross-border interconnections with the neighbouring countries. It is in urban agglomerations and in north-eastern Poland that the need to expand electricity infrastructure is greatest.

As of 2008 the Polish transmission network operator has been putting in place a project to link up the electric power systems of Poland and Lithuania. The scheme receives support from the cohesion policy and the TEN-E fund. By 2015 almost 1800 km of 400 kV lines will be added to the operator's transmission grid, while the transmission capacity will increase by almost 190 km of 220 kV lines.

In addition, special phase shifters[244] will be installed on the western border of Poland. They make it possible to limit the so-called loop flows[245], which are unplanned energy transfers that put a strain on Polish grids, and appear during peak generation of "green" energy from RES in northern Germany.

Changes in the Polish transmission network described above will make it possible to:

- meet the capacity and electric energy demand that is projected until 2015,
- connect an estimated 5 000 MW of RES to the electricity grid,
- connect an estimated 3 500 MW of conventional sources to the transmission grid,
- create conditions for feeding into the grid energy from new sources that are yet to be connected,

244 Phase shifters are special transformers for controlling energy flows. Once installed at Polish-German connections, they would allow uncontrolled energy flows from Germany to be reined in much better than at present. Usually the energy that wind power plants in northern Germany generate at high-capacity times cannot be consumed in Germany alone, and is therefore transmitted to southern Europe. Germany's transmission grid is in turn unable to transport this energy on its own, which is why the transmission systems of Poland, the Czech Republic, Slovakia and Hungary are switched in. For Poland this means that uncontrolled energy flows at the Polish-German border use up a bulk of physical transmission capacities of the Polish power grid connections. As a result, any potential electric power imports from Germany to Poland are blocked. At times, such flows can violate safe working criteria of the Polish Power System. Shifters on two interconnectors with Germany will increase Poland's import capacity by 500 MW, and export capacity by 1500 MW. The EU will contribute EUR 1.5 million to the construction of the shifters.

245 So-called energy loop flows between Germany and Poland are a physical phenomenon which occurs when a wave of (unasked for) energy sweeps into Poland in an uncontrolled manner from wind power plants in northern Germany. The energy clogs up the grid, then heads to the Czech Republic, and ends its journey in southern Germany. The reason for this is Germany's transmission grid, which has insufficient capacity to transport 'green' power from northern RES to the south.

Flagship electricity projects implemented with EU funds

Connections between electric power systems of Poland and Lithuania

Total co-funding of project tasks is PLN 725.4 million, with stage one of the project being evaluated at a total of PLN 1.7 billion.

Stage one comprises the following investments: construction of the 400/220/110 kV Ołtarzew station, construction of the 400 kV Ostrołęka-Narew line, expansion of the 220/110 kV Ostrołęka station to include a 400 kV switching station, expansion of the 400 kV switching station in the 400/110 kV Narew station, construction of the 400 kV Ełk Bis-Łomża line, construction of the 400/110 kV Ełk Bis station, construction of the 400 kV or 400/110 kV Łomża station, construction of the 400 kV Miłosna-Siedlce Ujrzanów line, construction of the 400/110 kV Siedlce Ujrzanów station, construction of the 400 kV Ełk Bis-Polish border (direction Alytus) line, construction of the 400 kV Stanisławów station.

A major part of the project on the Polish side is about expanding the national network. For example, PLN 120.1 million went towards the project "Construction of the 400kV Miłosna-Siedlce Ujrzanów line," PLN 254.4 million towards the project "Construction of the Ostrołęka-Narew line including the expansion of the Ostrołęka and Narew stations," and PLN 116.2 million towards the project "Connection 400/220/110 kV Ołtarzew."

Expansion of the Słupsk substation

The project involves connecting renewable energy sources in northern Poland, i.e. the Słupsk wind power plant, the Potęgowo wind power plant and the Drzeżewo IV wind power plant, with a total capacity of approx. 660 MW. The scheme received PLN 14.25 million from the Infrastructure and Environment Programme.

Development of renewable energy sources in Poland

Since Poland's accession to the EU, substantial investments have been made in infrastructure related to renewable energy sources. In 2004, 964 MW of energy was generated from RES in Poland, with 5 511 MW produced in late 2013. This represents an increase of 584%. The structure of the RES sector has also visibly changed in Poland, with a transition from hydropower to modern wind power and biofuels being underway. In 2004 renewable energy was predominantly generated in hydroelectric power plants. Today, it is wind power that is the fastest-growing RES. In the past decade the amount of energy generated from wind has risen by 8472%, i.e. from 40 MW to 3 390 MW annually. The data also point to a dynamic growth of modern renewable energy produced from biofuels. The capacity of power plants using biofuels jumped from 24MW to 455MW in 2012, an increase by almost 1 900%.

The total share of RES in energy generation expanded from 5.5% in 2004 to over 11% in 2012. This reinforces Poland's energy independence and eases the strain on the environment.

- implement cross-border energy flows between the Polish and Lithuanian systems; curb the so-called energy loop flows and ensure effective energy exchange with the German system,
- increase power reliability in major city areas.

Education without borders

How well societies are educated is increasingly important for the competitiveness of their economies and the overall success of countries on the international stage. That is why education is given an important role in the European Union's policy and long-term strategies of social and economic development (Lisbon Strategy and Europe 2020 strategy).

After joining the EU, Poland was involved in implementing the EU's social and economic strategy, and educational policy. Key educational objectives that the Union wants to achieve by 2020 are, among others, to reduce the number of school drop-outs to below 10%, and to raise the percentage of people aged 30–34 with a university degree to at least 40%.

Poland has set itself more ambitious goals: it wants to cut the drop-out rate to 4.5%, and increase the share of people aged 30–34 who have completed tertiary (or equivalent) education to 45%. When it comes to early school-leaving, Poland performed well even prior to joining the EU; in 2003 the drop-out rate was below the 10% target set in the Europe 2020 Strategy, and not much above the ambitious national goal. We have made much progress (in fact some of the best in the region) in popularising higher education attainment. In 2003, the above-mentioned score reached 17.2% in Poland. In 2012, the share of people aged 30–34 who had a university degree already stood at 39.1%, which was close to the target set by the strategy[246].

Furthermore, Poland has been doing better in all three categories of the OECD's Programme for International Student Assessment (PISA). In reading and interpretation skills we moved up from the OECD average in 2003 to one of the top positions in the EU in 2012 (third place after Finland and Ireland). In addition, Poland improved most in mathematics, and ranks among the best EU countries in PISA 2012 (together with the Netherlands, Estonia and Finland). When it comes to reasoning in natural sciences, Poland is third in the EU (after Finland and Estonia)[247]. In the global ranking, Poland came in 14th[248].

Although educational policy is primarily the competence of Member States, the fact that Poland has joined European cooperation in the field of education has been very beneficial both at the individual (with pupils, students, graduates and lecturers among key beneficiaries) and societal levels. For example, Poland took an active part in Member States' work to became actively involved in the quality of education and adapt it to the needs of the modern economy. Poland was also given access to EU educational programmes (including Erasmus, the most popular scheme among Polish students), and to Structural Funds that offer, inter alia, support for education.

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246 Eurostat data.
247 *OECD's Programme for International Student Assessment (PISA). Study results for Poland, 2012.*
248 *Snapshot of performance in mathematics, reading and science*, www.oecd.org/pisa/keyfindings/pisa-2012-results.htm.

After accession to the EU, Poland's educational system became more open to international contacts. Pupils, students and academic staff became more mobile, which in the long run ensured a greater participation in the exchange of knowledge, experiences and teaching methods. Students and academic staff benefited most from this approach. After 1 May 2004, Polish students gained access to universities in other Member States on the same terms as students from those countries. This means that Polish students pay the same tuition fees as local citizens, or pay nothing at all where education is free. After 2004, foreign universities became accessible to a larger group of people, yet Eurobarometer data show that only 13% of young Poles decide to spend time abroad for education or training purposes. In this category, Poland occupies one of the last places in the EU. The main reason is the relatively high cost of education abroad, which neither young Poles nor their families can afford. In the EU, 65% of students fund their stay abroad from private funds or savings[249].

As popular as Erasmus

One of the effects of integration with the EU that has received wide coverage is the opportunity to participate in educational exchange programmes. Erasmus is still the most recognisable and popular one with young Europeans. Between 2003/2004 and 2012/2013[250], the number of Polish higher education institutions holding the Erasmus University Charter more than doubled: from 151 to 324. This means that the number of students who study and take up placements abroad under Erasmus is systematically growing. Also increasing is the number of Polish lecturers teaching at European universities.

In the 2012/2013 academic year, 16 221 young Poles went to study in the EU. This is 158% more in comparison with the initial period of our membership in the EU, when within a year over six thousand people decided to study abroad under Erasmus. The total number of Polish students who took part in the programme during that period was approx. 120 000, most of whom chose universities in Spain, Germany, Italy, France, Portugal and the UK.

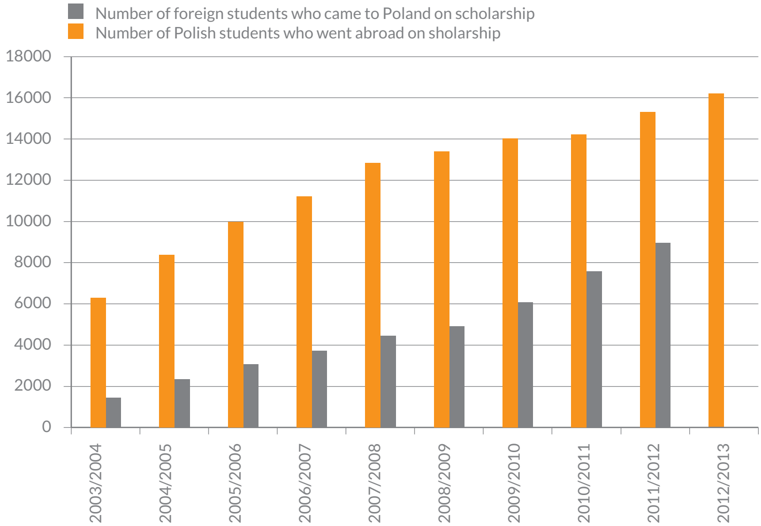
The years 2003/2004–2011/2012 also saw a six-fold increase in the number of students from other EU Member States who decided to study in Poland: from 1 500 at the outset to 9 000 in recent years. Poland's universities have admitted a total of 42 500 foreign students, mostly from Spain, Turkey, Germany, Portugal and France. Additionally, an interesting trend can be observed: the number of foreign students coming to Poland is growing at a faster pace than the number of Polish students going abroad. This proves that Poland can be an attractive destination not only for business or tourism, but also for education.

There is a steady trend of young Poles interested in studying abroad. Poland ranks high among European countries when it comes to the number of students who went abroad for a period of study or for job placements under Erasmus. We come 5th in the EU, behind Spain, France, Germany and Italy, and take first place in our region (see the table below).

249 *Flash Eurobarometer on Youth on the Move*, MEMO/11/292.

250 Data on participation in the Erasmus programme in the 2012/2013 academic year presented in this chapter are preliminary only (final data will be published mid-year).

Chart 80. Erasmus in figures – scholarships



* As from the 2007/08 academic year, the figures are a sum of incoming / outgoing students for studies and placements.

Source: statistics of the Foundation for the Development of the Education System.

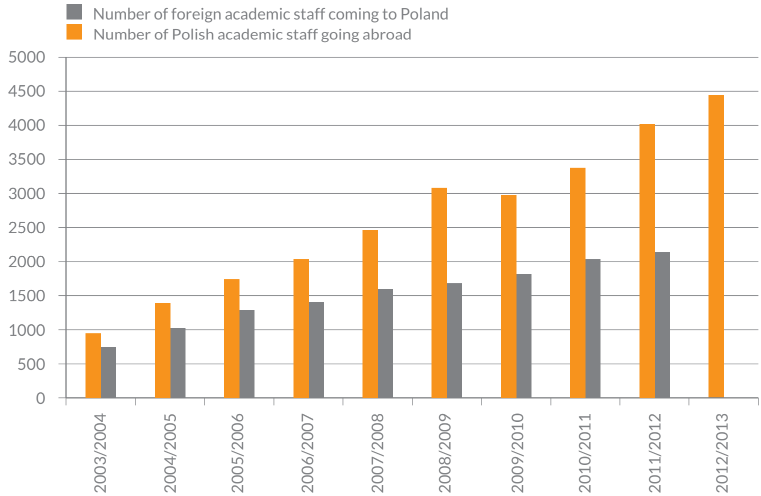
Table 11. Students from EU-10 going abroad under the Erasmus programme (study and placements) in the 2010/2011 and 2011/2012 academic years

Country	2010/11	2011/12	Growth per annum
PL	14234	15315	7,6%
CZ	6433	7004	8,9%
RO	4604	4578	–0,6%
HU	4164	4361	4,7%
LT	3417	3548	3,8%
SK	2458	2685	9,2%
LV	1959	2194	12,0%
BG	1837	1852	0,8%
SI	1480	1735	17,2%
EE	1028	1092	6,2%

Source: European Commission, press release of 8 July 2013 "Number of Erasmus students tops 3 million".

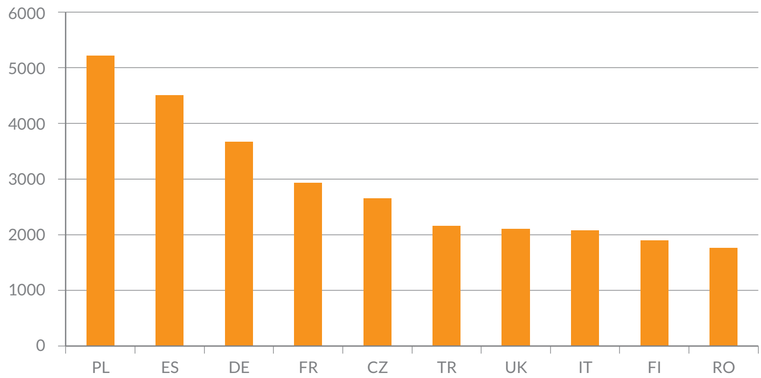
Polish teachers have also been benefiting from Erasmus. Access to the open education market of all EU Member States meant that in 2003/2004–2012/2013 more than 26 500 academic staff taught at foreign universities. This is a more than four-fold increase on 2003/2004: from 946 to 4 442. Moreover, there has been a growing interest in staff training, as over 10 000 Poles decided to take part in such training – an increase from 651 in the 2007/2008 academic year to 2 800 in 2012/2013[251].

Chart 81. Erasmus in figures – trips by academic staff (to give classes) to and from Poland



Source: Statistics of the Foundation for the Development of the Education System.

Chart 82. Number of academic staff going abroad under Erasmus (to give classes and participate in staff training): top 10 countries in 2010/2011



Source: Foundation for the Development of the Education System, Erasmus w Polsce w roku akademickim 2010/11, Warszawa 2012, p. 52.

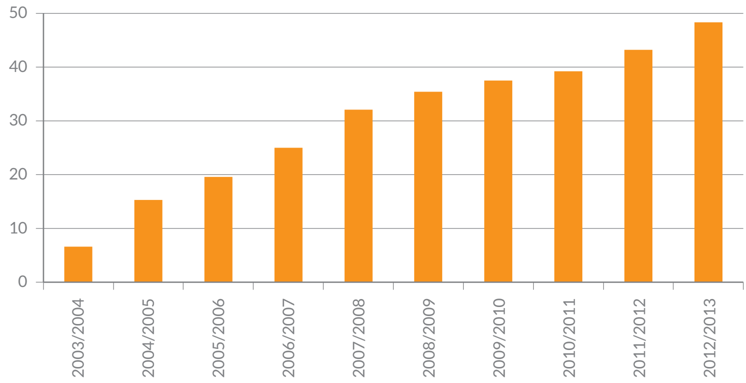
The number of academic staff coming to Poland was also on the rise during that period. In 2003/2004, 749 lecturers from EU countries visited Poland; in 2011/2012 this number stood at 2 138 (close to 14 000 people in total). The group

251 Based on the Central Statistical Office data – people who participated in the programme in the 2011/2012 academic year accounted for 0.9% of all students (an increase of 250% on 2003/2004), 1.6% of full-time students and 6.4% of academic staff (almost seven times more).

of people coming to Poland for staff training became larger, too, increasing from 155 in the 2007/2008 academic year to 473 in 2011/2012[252]. This gives a total of about 1 500 people.

In terms of the number of academic staff going abroad, Poland has ranked first in Europe in recent years.

Chart 83. Budget allocated to Poland for implementing the Erasmus programme (in EUR million)



Source: data by the Foundation for the Development of the Education System.

Today, Poland is a leader in using Erasmus funds; our average budget utilisation has been 99% in recent years[253]. The chart below illustrates the amount of allocated funds.

Using Structural Funds in education

Following Poland's accession to the EU, the education sector received financial support from the EU Structural Funds, i.e. the European Social Fund (ESF) and the European Regional Development Fund (ERDF).

The funds have made it possible to expand educational and scientific infrastructure through investments in new laboratories and modern lecture halls, among other things. EU funds also helped to adjust fields of study to the needs of the modern economy (e.g. by financing the so-called tailor-made programmes).

EU funds co-financed the construction and modernisation of **educational infrastructure**. ESF-funded projects concerned education at the pre-school, primary, lower secondary, upper secondary and tertiary levels. Among other things, the support made it possible to:

- create over 2 800 pre-school education centres, and assist more than 2 200 institutions in creating additional places for pre-school children;
- set up 11 700 internet multimedia information centres in libraries;
- equip over half of Polish schools (about twenty thousand) with computer labs – a total of around 250 000 work stations were installed;

252 Statistics published on the website of the Foundation for the Development of the Education System: http://www.erasmus.org.pl/odnosniki-podstawowe/statystyki.
253 M. Członkowska-Naumiuk, *Program Erasmus. Przegląd statystyk*, Foundation for the Development of the Education System.

- provide 565 psychology and education counselling centres with computer equipment;
- by late 2013, higher education institutions implemented 306 development schemes. Their aim was to support the creation of new fields of study and specialties within the existing fields; to foster post-graduate studies; to expand the educational offer; to improve the skills of academic staff; and to apply models of educational work quality management at higher education institutions[254].

In 2007–2013, the ERDF co-funded over a thousand investments in the modernisation and construction of educational infrastructure. Beneficiaries of this support included, inter alia, over 160 higher education institutions, which implemented 830 projects[255].

Some EU funds went towards **supporting research and development (R&D) activity.** In 2007–2013, the ERDF allocated PLN 15.4 billion to R&D activity and infrastructure projects in Poland. Besides this, the ESF contributed to financing, among other things, training in scientific research management and commercialisation of R&D results. The training was completed by nine thousand sector employees, i.e. 6% of all R&D sector employees[256].

Money from the European Social Fund was spent, among other things, on **raising the number of graduates of faculties that play a key role in the knowledge-based economy.** The so-called tailor-made fields of study allowed higher education institutions to launch scholarship schemes for the best students; organise internships and traineeships in companies, study visits, and compensatory courses for 1st-year students of sciences; and draw up new or change the existing curricula to make these fields of study more attractive. Since 2008, ever more students have been choosing tailor-made programmes in Poland. As a result, the percentage of candidates for mathematical, technical and natural sciences degrees went up from 25.1% in 2007 to 32.9% in 2012, in line with expectations[257].

Some European Social Fund resources were devoted to **raising qualifications of Polish teaching staff.** In 2004–2013, the project covered 243 000 teachers in general and vocational education, and practical training instructors. Thanks to EU grants, teachers could e.g. take up post-graduate studies in important and promising fields such as career counselling, ICT, foreign languages and distance continuing education. They also had the opportunity to qualify as examiners, and participate in internships and traineeships in companies[258].

Moreover, ESF co-financed **measures in vocational education.** The support helped change the structure of vocational education and modernise the core curriculum and vocational examinations[259].

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254 Based on information of the Ministry of Infrastructure and Development, 24 January 2014.
255 Based on information of the Ministry of Infrastructure and Development, 17 December 2013.
256 Materials by Ministry of Infrastructure and Development, January 2014.
257 *Ibidem*.
258 *Ibidem*.
259 *Ibidem*.

To illustrate the amount of funding allocated to the entire education sector in Poland, it is necessary to take into account a broader scope of available instruments. Thus, in the financial perspective 2007–2013, Poland's higher education institutions and scientific entities received over PLN 18.6 billion from the Structural Funds under four operational programmes[260] (as at 28.02.2014)[261].

Expenditures on higher education

Apart from the Structural Funds discussed above, the state budget is the main source of public investment in higher education. While nominal expenditures on this sector increased in 2003–2012, relative to GDP the investment has decreased since 2005: from 0.99% in 2005 to as little as 0.65% in 2012.

Table 12. Public expenditures on higher education in Poland (in %)

Year	Share of public spending in GDP
2003	0.84
2004	0.96
2005	0.99
2006	0.94
2007	0.93
2008	0.88
2009	0.88
2010	0.71
2011	0.67
2012	0.65 (preliminary estimate)

Source: Central Statistical Office, Higher Education Institutions and their Finances in 2012, Warszawa 2013 — http://www.stat.gov.pl/cps/rde/xbcr/gus/E_szkoly_wyzsze_2012.pdf (24.03.2014).

Investment expenditures in higher education institutions have increased over the last decade, the only exception being 2012 (see data in the table below).

Table 13. Investment expenditures in higher education institutions in Poland in 2003–2012 (in PLN million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total	**1478 .9**	**1785 .8**	**1958 .7**	**2036 .0**	**2246 .9**	**2394 .8**	**2624 .3**	**4950 .8**	**4963 .2**	**4411 .2**
Public higher education institutions	1142 .5	1452 .2	1690 .7	1823 .8	2008 .2	2065 .0	2275 .5	3847 .8	4640 .1	4264 .5
Non-public higher education institutions	336 .4	333 .6	268 .0	212 .2	238 .7	329 .8	348 .8	1103 .0	323 .1	146 .7

Source: Central Statistical Office, Higher Education Institutions and their Finances in 2012, Warszawa 2013, p. 178.

260 Operational Programme Human Capital, Operational Programme Innovative Economy, Operational Programme Infrastructure and Environment, Operational Programme Development of Eastern Poland.

261 Centre for Higher Education Research of the Jagiellonian University, *Wpływ sektora szkolnictwa wyższego na Produkt Krajowy Brutto. Conference materials*, Krakow 2012.

The table below, in turn, shows that the percentage of people using education services has barely changed in recent years (relative to the entire population).

Table 14. People using education services (%)

	2003	2005	2007	2009	2011	2013
Percentage of the total population	23.91	27.94	26.60	25.80	24.10	23.30

Source: based on Diagnoza społeczna 2013, ed. J. Czapiński, T. Panek, Warszawa, September 2013, p. 92.

(R)evolution in the agricultural sector

Prior to Poland's accession to the European Union, Eurosceptics were most concerned about the Polish agri-food sector, saying that Poland would be unable to face the competitive pressure, and our market would be inundated with cheaper food from the West. Polish farmers, the most Eurosceptic cohort on the eve of the membership referendum, feared that they would have to scale down their production, and hence suffer considerable losses of income.

Polish farmer as a beneficiary

The first decade of **Poland's integration is eloquent proof of how unjustified such fears were.** Instruments of the EU Common Agricultural Policy (CAP) and commercial policy have created a new economic and social quality in Poland. The Accession Treaty laid down conditions for implementing CAP and provided for a long, 10-year period for introducing full direct payments. Channelling support to rural development became one of the hallmarks of CAP (in 2007–2013, 40% of CAP funds were earmarked for this purpose, while the EU average was 23%).

Polish agriculture began the process of meeting EU requirements already prior to accession. What proved most expensive and complicated was to satisfy the conditions for producing and processing animal products. Once EU standards were achieved, however, Polish goods gained better access to the single market, and the competitiveness of Polish farming improved. Ten years after EU enlargement, Poland continues to increase its agri-food trade surplus with other EU countries (EUR 3.8 billion in 2013), and puts EU funds for rural development to good use. So far the European Commission has refunded more than 70% of rural development allocation for 2007- 2013. Integration with the EU has also allowed farmers to charge more for their products: since 2003, the prices for agricultural products have gone up by almost 25% in real terms.

Efficient use of EU funds and better market conditions **have nearly tripled farmers' incomes since 2003**. Moreover, prices of agricultural land have increased five-fold. For the most part, this was due to growing incomes of Polish farmers, rather than the mass buying of Polish land by foreigners. Poland's agricultural structure has been gradually changing, too, as the total average area of holdings increased from 6.59 ha in 2002 to 7.93 ha in 2010, and the average area of a farm's agricultural land expanded from 5.76 ha to 6.81 ha during the same period.

Modernisation of rural areas in Poland

Poland's membership of the EU has played a major role in modernising Polish agriculture. The most important changes concerned several issues:

- Agricultural policy instruments that had been used before were abandoned or adjusted to the common rules of state aid: farmers were covered by the system of direct payments and quotas were imposed on milk production (1st pillar of CAP). In return for full payments, Polish farmers must use cultivation and breeding methods that protect the environment and animal welfare (cross-compliance system). Rural areas benefited from considerable rural development funds (2nd pillar of CAP). Rural areas were also supported under other EU policies, especially the cohesion policy;
- Trade in agricultural products from the EU was fully liberalised by eliminating customs duties and quantitative restrictions (though production quotas are a kind of export barrier)[262];
- Processing plants adopted quality, sanitary and veterinary standards applicable in the EU, and in their holdings farmers put in place EU standards and requirements imposed by processing plants.

Poland has brought a great production potential into the EU. The table below shows Poland's ranking among EU countries in terms of the volume of key agricultural products.

Table 15. Standing of Polish agriculture in the EU in 2012

Production of some agricultural products	Rank in the EU
Apples	1
Rye	2
Potatoes	2
Sugar beets	3
Rapeseed	3
Wheat	4
Cow milk	4
Meat	5
Pigs	6
Cattle	7

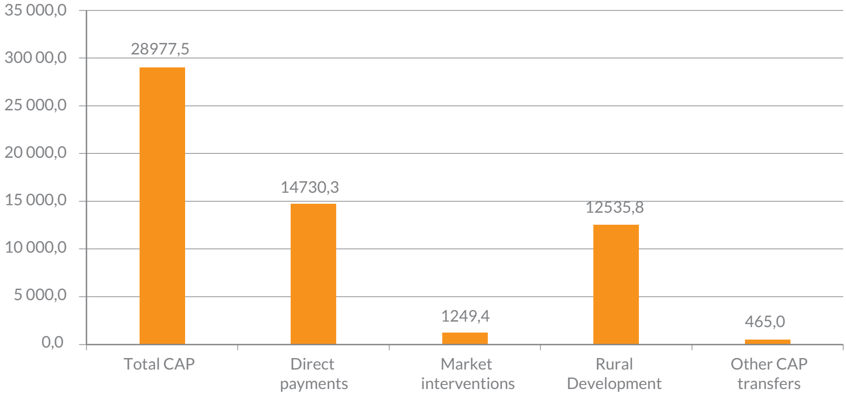
Source: Institute of Agricultural and Food Economics – National Research Institute.

From May 2004 to December 2013, rural areas in Poland received from the EU budget a total of EUR 29 billion. Direct payments made up over a half of this amount. CAP farming subsidies offered great support to Poland's rural areas, but the total value of payments was lower than for EU-15 countries. That is why

262 Tariff barriers on industrial products were lifted much earlier, i.e. between 1995 and 2000.

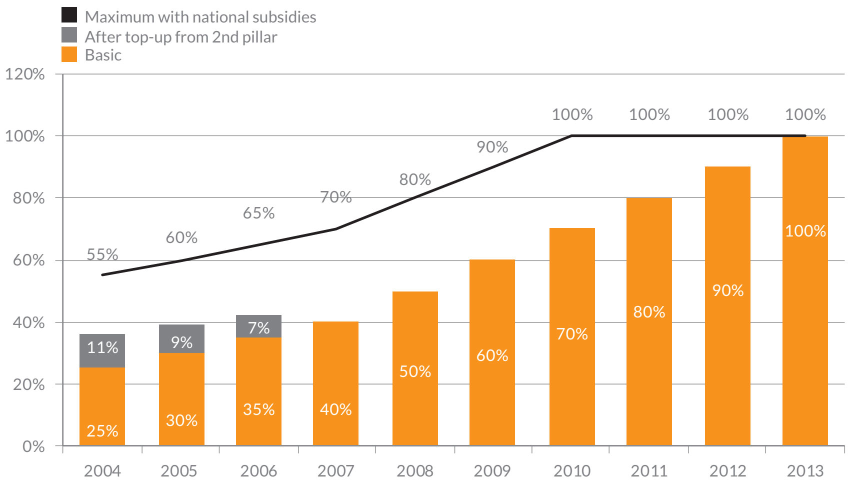
Poland negotiated the possibility of increasing subsidies each year, until 100% of what was agreed during accession negotiations could be reached in 2013[263]. It was guaranteed to new EU Member States that payments would increase thanks to rural development transfers[264] and funds from national budgets (so-called top-up payments).

Chart 84. CAP transfers between 1 May 2004 and December 2013, excluding national budget support (EUR million, current prices)



Source: Ministry of Finance.

Chart 85. Implementation schedule of direct payments in Poland: percentage of amounts agreed upon during accession negotiations



Source: Agency for Restructuring and Modernisation of Agriculture.

263 Calculated on the basis of historical production volumes, such as reference cereal yields, the area of arable farming (e.g. cereals, oil plants, protein plants), and the number of animals.
264 During the first three years of membership.

Direct subsidies are instrumental in ensuring a stable income for farmers, as the agricultural sector is often exposed to a much greater risk than other branches of the economy given changing weather conditions or animals' health (e.g. vulnerability to epidemics). With profitability of farms staying at a low level in the European Union, the payments have become an important part of farming income in many countries. Taken together, the EU's direct payments were equal to 19.1% of the overall agricultural output[265] in 2006. Subsidies are a form of compensation for European farmers, who produce food according to much stricter environmental, sanitary, hygienic and humanitarian (in terms of animal welfare) standards than their competitors in third countries, something which adds to the costs EU farmers incur.

Polish farmers received PLN 53.7 billion in direct payments from the EU budget (current prices) for 2004–2012. As payments for 2013 will be made by June 2014, they have not been indicated in the calculations presented below. From 2004 to 2012, direct payments were made to approx. 1.4 million farms, with one beneficiary receiving PLN 38 362[266] on average.

Rural development

In 2007–2013, Poland received EUR 13.4 billion (in current prices) from the EU budget for the implementation of the Rural Development Policy. Today, our country is the biggest beneficiary of this policy in the EU – we have received as much as 15% of the total EU subsidy amount. After adding the mandatory national co-funding, the overall value of public support under the Rural Development Policy in Poland comes out to more than EUR 17 billion. As much as 40% of these funds were allocated to supporting the competitiveness of the Polish agricultural sector, 34% were assigned to environment protection and 19% – to the diversification of the economy in rural areas.

Chart 86. Utilisation of rural development funds 2007–2013 (reimbursement from the EU budget as a percentage of allocations for 2007–2013)

Source: Ministry of Foreign Affairs based on unpublished European Commission data (as at 31.12.2013).

265 See also: L. Goraj, *Polskie rolnictwo w UE*, Institute of Agricultural and Food Economics – National Research Institute, 2008.

266 See also: http://www.arimr.gov.pl/uploads/media/20012014_Platn_bezp.7-13.pdf, access on 24.03.2014.

EU funding was also granted to the so-called LEADER axis, which supports the development of local rural communities that organise action groups and jointly implement projects using funds allocated to local development strategies. The largest EU funds that finance one-time activities will be allocated to payments for so-called Less Favoured Areas (almost EUR 2 billion), agro-environmental measures (EUR 1.8 billion), early retirement (EUR 1.6 billion) and the modernisation of agricultural holdings (EUR 1.3 billion).

To date Poland has received 73.57% of all the funds it negotiated for 2007–2013, i.e. EUR 9.857 million. Until 3 January 2014, decisions were issued and agreements concluded with beneficiaries for 91.22% of the total allocated funding.

The implemented rural development programme for 2007–2013 generated the following results (as at 30 June 2013)[267]:

- more than 41 thousand agricultural holdings were modernised;
- more than 23 thousand young farmers[268] obtained a one-time bonus of PLN 75,000 (at the beginning of the programme's implementation, the bonus amounted to PLN 50,000) for running an agricultural holding on their own.
- 6.5 thousand training sessions for farmers and forest owners were organised[269],
- the support covered 1 006 producer groups,
- every year, approximately 730 000 agricultural holdings located in mountainous regions and other areas with severe farming conditions received support,
- the agri-environment support[270] covered an area of more than 2.3 million ha (i.e. about 14% of the total agricultural land),
- an area of more than 29 thousand ha was afforested,
- 5.4 thousand ha of forests were restored or developed, 756 km of fire access roads were constructed or modernised,
- 24 000 km of water supply network and sewers and laterals were constructed, more than 29 000 farmstead sewage systems were installed, 199 water treatment plants were constructed, a municipal waste collection, segregation and disposal system was built that manages almost

267 Unpublished information of the Ministry of Agriculture and Rural Development on the monitoring of the Rural Development Programme for 2007–2014.

268 The maximum age criterion at the time of filing the application was 40 years. Aid was provided to a few per cent of farmers who met the criteria.

269 Training sessions regarded the minimum requirements of cross-compliance for agricultural holdings, use of microcomputers and computer software to facilitate the management of agricultural and forest holdings, economics and management of agricultural holdings or forestry production, popularisation of quality standards regarding agricultural and forestry production, establishment of new, market-oriented agricultural production lines, popularisation of environmental-friendly methods of agricultural production and, in particular, of integrated and organic farming, improvement of the quality and hygiene of production, dissemination of up-to-date technologies in agriculture and forestry.

270 The support is based on compensating farmers for the loss of income resulting from the application of more environmentally-friendly solutions than required by law.

243 000 tonnes of waste, the possibility of generating 189 MW of renewable energy was provided,

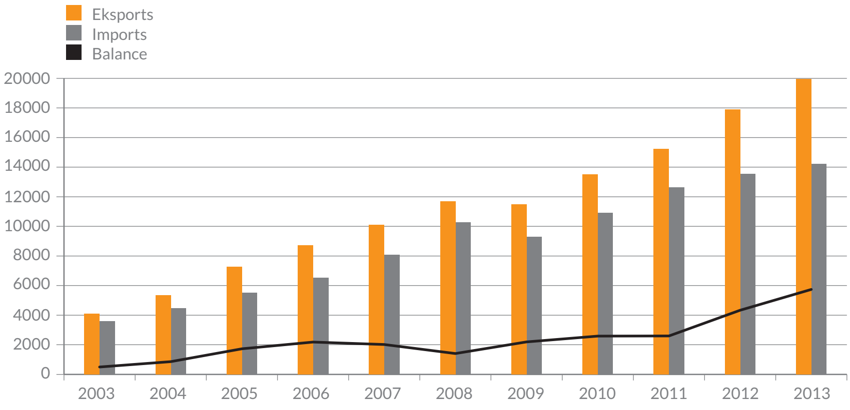
- more than 11 thousand people – farmers or members of their families – took up non-agricultural activities, mostly in the services sector.

Poland will receive EUR 32.1 billion (in current prices) from the EU budget 2014–2020 for the implementation of CAP[271]. This amount is EUR 1.6 billion higher in real terms than during the previous seven years. The new Multiannual Financial Framework (2014–2020) arrangements create an opportunity to continue the rapid development of rural areas and agriculture in Poland. Our country continues to be in the group of the biggest CAP beneficiaries, particularly in the second pillar (despite the approved reductions in this part of EU expenditures). The Polish government plans to allocate EUR 42.4 billion of EU and national funds to the development of rural areas and agriculture. The above-mentioned amount includes EUR 32.1 billion of CAP funds and EUR 5.2 billion of Cohesion Policy funds put aside for interventions in rural areas. To compare, funds allocated to the development of rural areas and agriculture in 2007–2013 amounted to EUR 39.2 billion.

Polish food grows in strength

The fears that Polish farmers voiced before Poland's accession turned out to be exaggerated as well as unfounded. Since accession, Poland's overall export of agri-food products has increased **fivefold**: from EUR 4.1 billion in 2003 to EUR 20 billion in 2013. Food from EU Member States did not come to threaten Polish farmers and agricultural exporters. On the contrary, Polish products quickly built a strong and sure position for themselves on the European market. In 2004–2013, the export of agri-food products from Poland to the EU grew by around 20% a year.

Chart 87. Polish exports of agri-food products in 2003–2013 (EUR million)

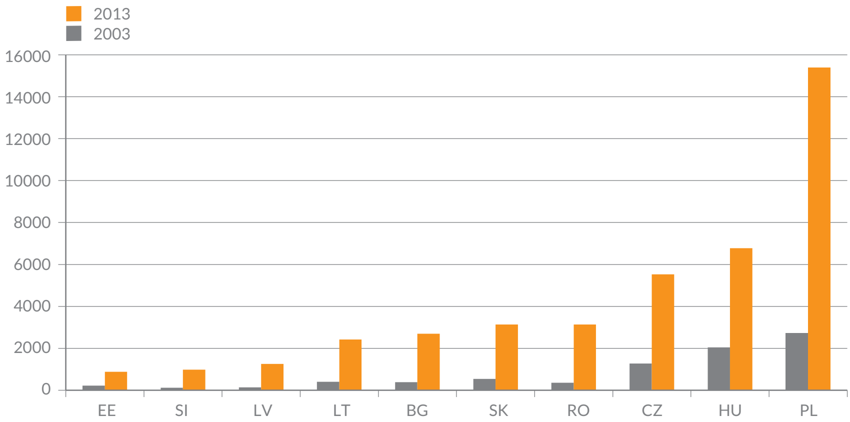


Source: Data provided by the Ministry Of Agriculture and Rural Development, Ministry of Finance.

271 During budget negotiations, Poland was given the right to transfer up to 25% of funds for rural development to direct payments. Poland will exercise this right so that the level of direct payments is not lower than EUR 240 per 1 ha in every year until 2020.

At present, more than three quarters of Polish exports from this sector go to the EU market, which in 2013 was worth around EUR 15.5 billion. Poland's trade surplus with EU Member States increased from EUR 0.5 billion in 2003 to EUR 3.8 billion in 2013.

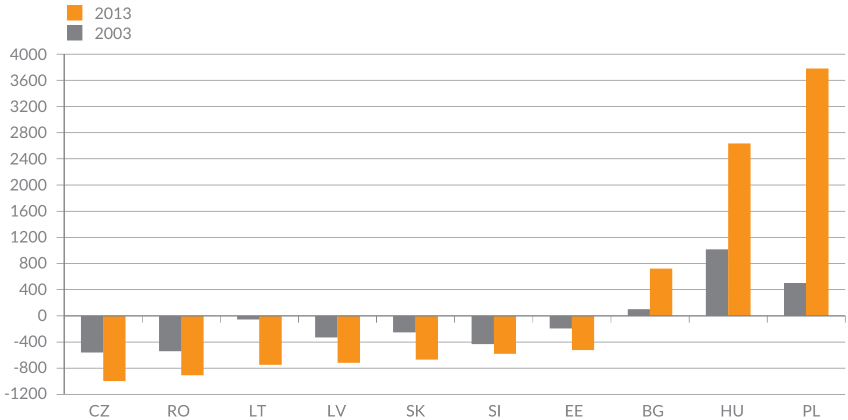
Chart 88. Export of agri-food products and food from the EU-10 states to the EU (2003 and 2013, EUR million)



Source: Eurostat (as at 14.03.2014).

Poland has the biggest trade surplus with the EU of all the EU10 states. Besides Poland, only Hungary can boast a significant trade surplus with the EU. Let us also note that after 2004, most countries of the region have seen their balance of trade with the EU deteriorate.

Chart 89. Agri-food trade balance for EU-10 states (2003 and 2013, EUR million)



Source: Eurostat (as at 14.03.2014).

In comparison with other countries of Central and Eastern Europe, Poland is the dominant producer and exporter of agri-food products. In 2004–2013, Poland accounted for 43% of exports (on average) of this region's countries to the EU. In 2003, Hungary – the second biggest exporter among the new Member States – exported goods worth not much less than Poland's (EUR 2.0 billion versus EUR 2.7 billion), but in 2013, Polish exports were almost twice as high as Hungary's.

Polish export products

The most frequently exported Polish agri-food products in 2013 included: meat and edible meat offal (16.4%), dairy products, eggs and honey (9.4%), tobacco and manufactured tobacco substitutes (7.7%), different food preparations (6.4%) and preparations of cereals, vegetables and fruit (ca. 6% each). A significant increase in exports of all these commodity groups was observed in comparison to 2003. In 2004–2013 the greatest increase was recorded in the exports of cereals to EU Member States (over 9000%) and tobacco (around 8000%). Within that period, their total share in agricultural exports to the EU increased from 0.2% to 4% for cereal and from 0.6% to 9% for tobacco products.

From among the states situated in the CEE region, Poland is the largest exporter of meat and edible meat offal. In 2013, more than a half (around 59%) of the region's exports to the EU originated from Poland as compared to only 36% in 2003. Moreover, Poland had around a 50% share of the EU's exports of such products as: fish and preparations of meat and fish, vegetables and fruit, preparations of vegetables and fruit. In addition, after 2004, Poland became the main European exporter of tobacco and tobacco products. Poland's share in the export of such products from the EU-10 in 2003 was less than 10% and in 2013 it grew to almost 50%.

Strict European standards and food safety requirements not only did not hinder Poland's agri-food trade, but also helped make Polish products more competitive on the EU market. The investment revival recorded by the food sector in 2002–2006, i.e. before Poland's accession, was mostly focused on adjusting the EU's sanitary and veterinary requirements. The above is true for 80% of investments in the meat and dairy industry. In the following years, investments were usually made to improve the quality of production and to market new products. The phase-in period for production plants whose products were intended for the national market (agreed on during accession negotiations) expired at the end of 2006. Plants that wanted to export their products to EU markets had to meet those requirements.

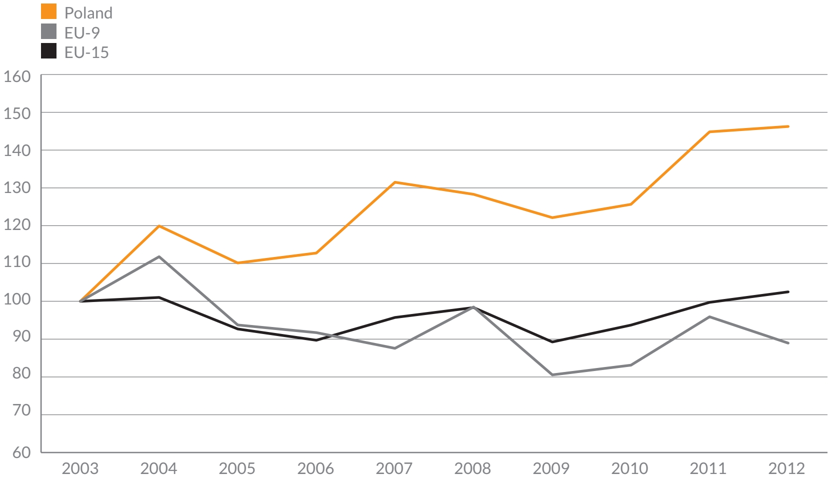
Although the mass media sometimes try to discredit the quality and safety of Polish products, a similar percentage of reports on irregularities under the EU's early warning RASFF system is recorded by the largest European food exporters. For example, in 2012, 181 such reports were filed with regard to Polish products; 362 cases were reported in Germany, 275 cases in France and 517 in Italy[272].

Increase of real value of agricultural production

Since 2003 Polish farmers have increased the real value of production by almost 50%, which could result both from a quantitative increase in

272 Source: http://ec.europa.eu/food/food/rapidalert/index_en.htm, accessed on 1.09.2013.

Chart 90. Real value of agricultural production in Poland, UE-15 and UE-9 (2003 = 100)



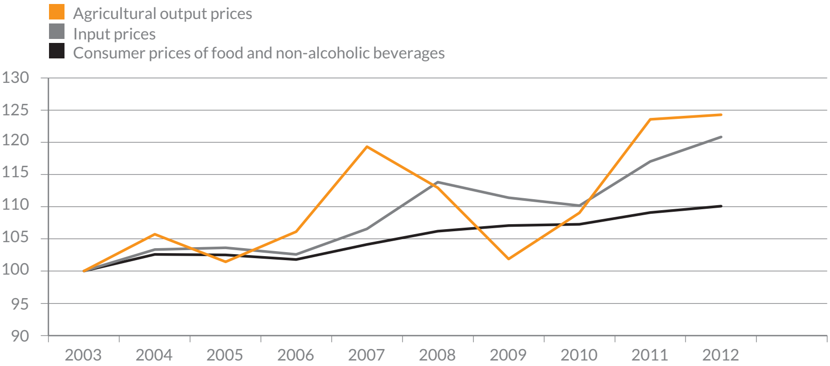
Source: own work based on Eurostat data (as at 10.01.2014).

production and a faster growth of agricultural product prices. Over that period, other Member States in our region reported a drop in the output value by 10% on average. Such situation might be attributed to worse foreign trade performance, and insufficient modernisation or worsening of farmers' position in comparison to other actors in the food chain. The real output value in the EU-15 states is maintained at a stable level and is currently slightly higher than in 2003.

Since 2003, the prices paid to farmers for their produce have grown 24.3% in real terms[273]. Prices of agricultural inputs (seeds, fertilisers, electrical power, fuel, etc.) have grown almost just as fast (nearly 21%). The latter are to a large extent connected to the prices of energy resources, which have also risen over the past few years. In addition, improvement of farmers' incomes encouraged suppliers of agricultural inputs to raise their prices. Higher prices generated greater incomes for farmers from the sale of their products, but also led to higher production costs. It is worth noting that sale prices received by farmers increased faster than prices of ready-food products intended for consumers. This means that the bargaining power of farmers was strengthened in relation to middlemen and processing companies.

273 To provide prices in real terms, Eurostat uses the HICP inflation index. Real increase of producer prices by 24% means that this was the rate at which they grew faster than consumer prices.

Chart 91. Index of real prices of agricultural output, input and food prices paid by consumers in Poland (2003 = 100)

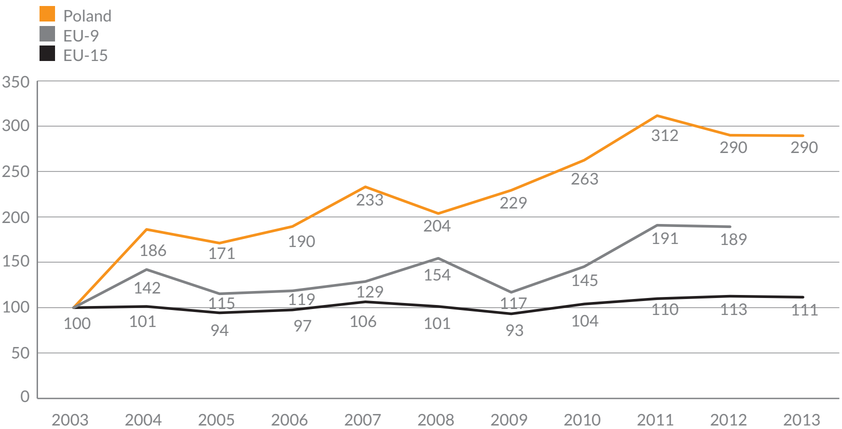


Source: MFA based on Eurostat data (as at: 10.01.2014).

Agricultural income fluctuation

These effects, namely higher agricultural output prices in Poland caused by the opening of the EU market, a good overall economic situation, payment of direct subsidies to farmers and the rural development policy have yielded higher real incomes for farmers. To measure their incomes, Eurostat uses an index of changes in real income from agricultural activities per one employed, including farm owners who do unpaid work. If it is assumed that in 2003 the index was 100, then ten years later it increased in Poland to 290. In the first year of membership alone the above-mentioned index doubled, which was related to the first payment of direct subsidies and an increase of agricultural product prices. To put that into context, farmers' incomes from the EU9 increased by 89% on average (by 2012), while in the EU-15, they grew only by 11% in relation to 2003. From 2009 to 2013 they remained stagnant.

Chart 92. Changes in agricultural income per 1 employed[274] (2003 = 100)



Source: MFA based on Eurostat data (as at 14.03.2014).

274 In equivalent of annual work unit

Higher productivity of agricultural holdings

The General Agricultural Census of 2010 confirmed that the above-mentioned positive changes in Polish agriculture were also reflected in the structure of agricultural holdings. Compared to the previous census of 2002, the main changes involved:

- A decrease in the number of agricultural holdings and an increase of their area and economic size;
- Changes in the structure of agricultural holdings: a 25% decrease in the number of the smallest holdings (0–5 ha) and a 17% decrease in the number of holdings with area of 5–20 ha, and the number of 20–50 ha holdings remaining unchanged. Concurrently, a 37% growth in the number of the biggest agricultural holdings with an area of 50 ha and more was recorded. In 2003, agricultural holdings with an area of 20 ha and more managed 42% of all agricultural land, while in 2010 as much as 48% (a change of 6 percentage points). Nevertheless, the percentage of agricultural holdings with an area of 15 ha and more accounts for only 9%, while the percentage of 0–5 ha holdings is still high and is close to 70%[275].

The average general area of holdings increased from 6.59 ha in 2002 to 7.93 ha in 2010 and the average area of agricultural land belonging to a holding increased from 5.76 to 6.81 in the corresponding period.

Table 16. Number of agricultural holdings larger than 1 ha by agricultural area in Poland in 2002 and 2010

Area groups	2002	2010	Change
1–2 ha	517 040	342 270	-174 770
2–5 ha	629 850	519 521	-110 329
5–10 ha	426 869	351 742	-75 127
10–15 ha	182 685	152 343	-30 342
15–30 ha	148 203	133 583	-14 620
30–100 ha	44 072	53 204	9 132
> 100 ha	7 422	9 942	2 520
Total	**1 956 141**	**1 562 605**	**-393 536**

Source: MFA based on the Central Statistical Office, Charakterystyka gospodarstw rolnych, Powszechny spis rolny 2010, Warszawa 2012.

The General Agricultural Census of 2010 also shows that still more than a half of agricultural holdings in Poland produce exclusively or mainly for their own needs, cutting down expenses on food and the costs of living for their families. This

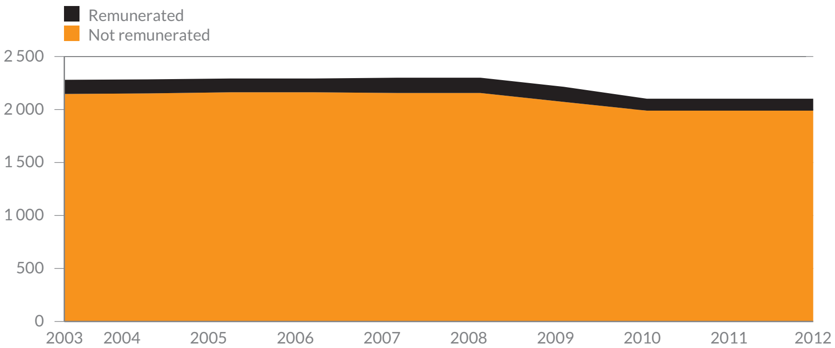
275 In 2012, the Central Statistical Office restricted the definition of an agricultural holding, which caused a drop in the number of the smallest holdings with an area of agricultural land below 1 ha. Such change in the definition makes it difficult to compare data from 2012 with the most recent data. Therefore, data from the first general census of agriculture were used as the reference point.

means that despite the beneficial structural changes that have occurred in Poland since EU accession, Poland's agriculture still has a huge potential to increase its productivity.

After EU accession, the number of holdings capable of development, i.e. competitive holdings, significantly increased. Before 2004, their number was estimated at about 25 000 and grew to 77 000 in 2006–2008 (the growth was mostly seen in the group of ESU 16 and greater[276]) representing a threefold increase. The share of this group of agricultural holdings in the national value of agricultural production increased even more – from 2–3% to 34–35%, i.e. over ten times. Even among 2–8 ESU holdings about 27% (149 thousand) had the potential to be competitive. In the case of holdings belonging to the group of 8–16 ESU, half of them (51% – 74 000) had the opportunity to develop. The total number of competitive holdings and holdings that can become competitive in a short period of time is estimated to be around 295 000. These holdings generated about 65% of the national agricultural production[277].

In the context of the ongoing concentration of processing and trade, the continuous improvement of the organisation of different branches, measured by the number of groups and agricultural producer organisations and by their share in the sale of agricultural products, is important. Joint sale offers greater bargaining power in negotiations with product buyers. At present, besides the fruit and vegetable sector to which separate EU regulations apply, there are more than 1300 groups of agricultural producers. Since 2004, their number has been growing steadily. In 2010, 157 new groups were registered, in 2011 – 224, and in 2013 – 389. Such groups are predominantly crated by cereal, oilseed crop, pig and poultry producers. In the fruit and vegetable sector there are 225 groups and 102 producer organisations. Together they have around 20% of the sector's market share.

Chart 93. Manpower in the Polish agriculture sector in thousands of annual work units



Source: MFA based on Eurostat data (as at: 10.01.2014).

The chart below presents labour input data concerning the Polish agricultural sector. In 2012, the labour input was slightly lower than in 2003. Labour on

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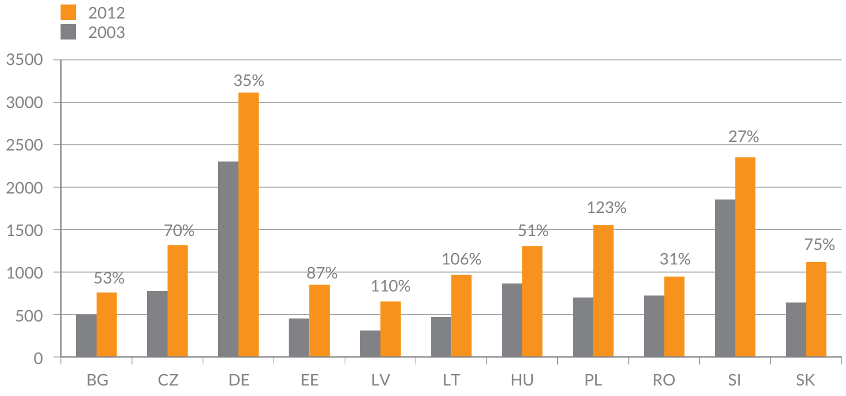
276 ESU – European Size Unit used to express the economic size (strength) of agricultural holdings, i.e. their profitability. 1 ESU = EUR 1200.

277 Information provided by the Ministry of Agriculture and Rural Development.

Polish agricultural holdings is mostly performed by their owners and families, with external employment remaining at a marginal level.

The next chart presents changes in farming productivity. In this case, productivity is defined as the value of crop and animal production per 1 ha of utilised agricultural area.

Chart 94. Farming productivity in Poland, the EU9, and Germany (2003 and 2012 and percentage change)



Source: Ministry of Foreign Affairs based on Eurostat data (as at 10.01.2014).

Since 2004, Poland has seen the highest increase in agricultural productivity in the EU – it has spiked by 123%. Today, Poland is at the level of EUR 1554/ha, which makes it the second most productive new EU Member State after Slovenia. At the same time, the value of Polish production from 1 ha of agricultural land is still less than 50% of the average production efficiency in Germany (EUR 3113/ha).

Competitive processing sector

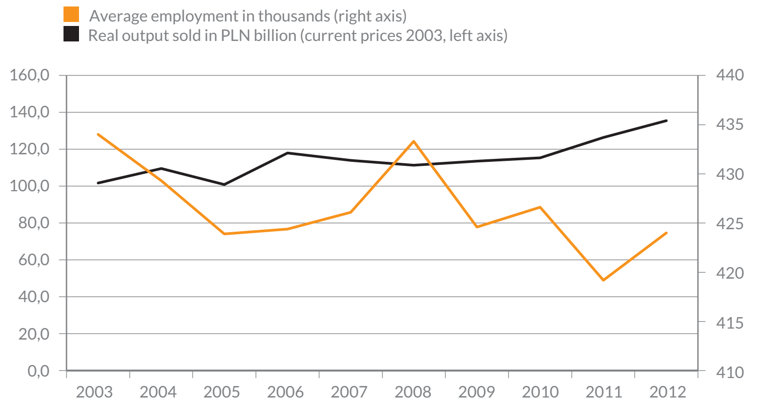
During the last decade, the Polish agri-food processing industry has been a competitive branch of Poland's economy. Its sales increased[278] from PLN 101.7 billion in 2003 to PLN 135.5 billion in 2012 in real terms. Employment during this period dropped slightly from 434 000 to 424 000 employees.

During the past 10 years, the food industry has become a profitable branch of the economy. The profitability indicator ratio ROE[279] increased from 5.3% in 2003 to 14.0% in 2012. In other years, it remained above 10%, except for the crisis year of 2008, when it fell to 8.4%. Lower prices of agricultural raw materials in relation to other countries was one of the factors that have contributed to high competitiveness and profitability. As differences in the prices of agricultural production between other EU Member States and Poland become smaller, this advantage will also become less significant.

278 With regard to CPI inflation. In terms of current prices, sales increased up to PLN 201.9 billion.

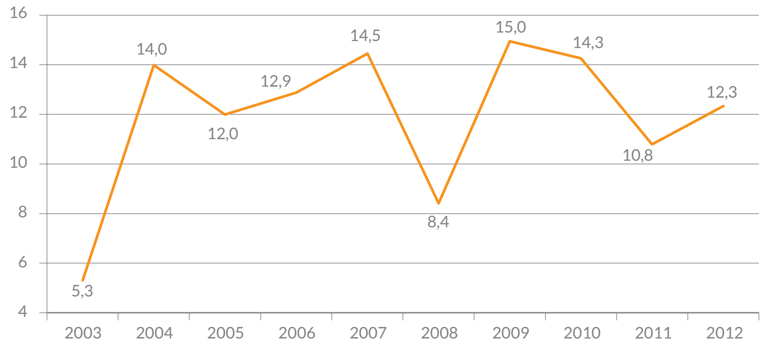
279 Return on equity, i.e. net profit divided by shareholders equity.

Chart 95. Food industry in Poland in 2003–2012 – actual sold production and employment



Source: Ministry of Foreign Affairs based on data provided by CSO (according to Agricultural Statistical Yearbooks 2012, 2010, 2009; Agricultural and Rural Statistical Yearbooks of 2008, 2007, "Pracujący w gospodarce narodowej w 2012 r.", CSO, Warszawa, 2013).

Chart 96. Profitability of Poland's food industry in 2003–2012 (ROE ratio, %)



Source: MFA based on data provided by the Institute of Agricultural and Food Economics.

Polish agricultural land in demand

Since Poland's EU accession, the demand for agricultural land has grown, making its prices significantly higher. This demand is increasing because of two factors: the first is the motivation to increase production by increasing the farming acreage of developing agricultural holdings and the second is the prospect of receiving direct payments for agricultural land. The potential opportunity of using farmland for purposes other than agricultural, especially in the case of land situated on the outskirts of towns and near major traffic routes is another factor.

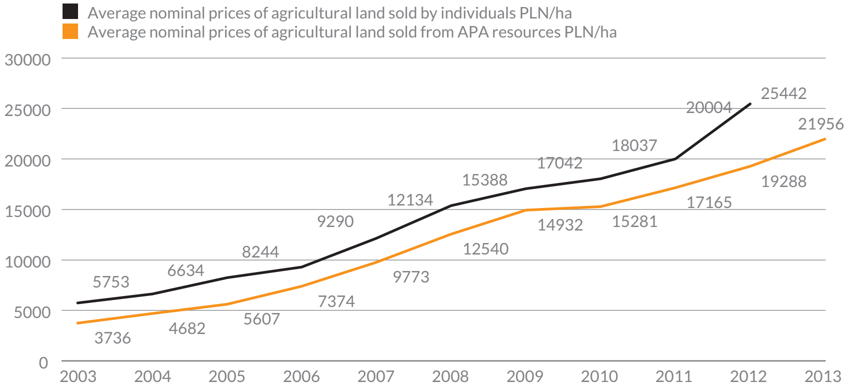
In the period 2003–2012, according to data provided by the Agricultural Property Agency, the prices of land sold by individuals and government agencies increased fivefold[280]. The price of agricultural land in Poland is still lower than in the EU-15 countries (including Poland's western neighbours) and is around EUR

280 The average price of agricultural land sold by the Agricultural Property Agency (APA) in the 3rd quarter of 2013 was PLN 21,956 /ha.

6080 per ha in private trading (as at 2012). In Germany, the average price of land this year was EUR 14 424 per ha (slightly less in new Länder: EUR 9593)[281].

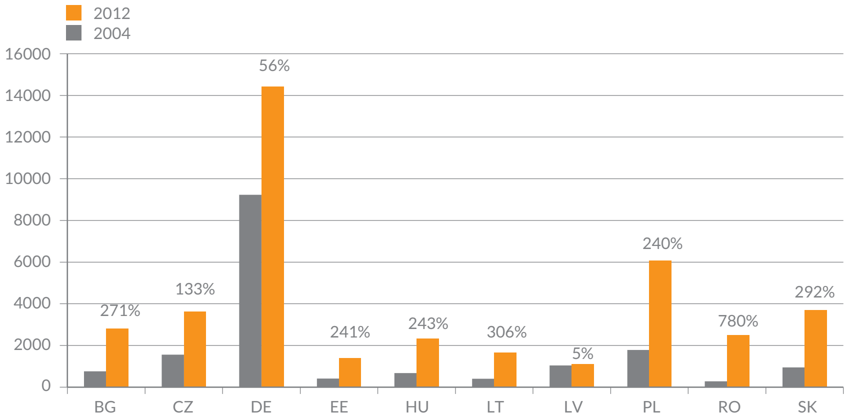
Although land prices in Poland have grown dynamically, the difference between Poland and some EU15 countries (the Netherlands, Belgium, Denmark and Germany) is still significant. Given this fact, Poland was right to negotiate a 12-year transition period in the Accession Treaty, pursuant to which the purchase of agricultural land by EU citizens requires a special permit issued by Poland's Minister of the Interior.

Chart 97. Average sale prices of land in 2003–2012 in private trading and from APA stock



Source: Agricultural Property Agency.

Chart 98. Prices of farm land in private trade in Poland and countries of the region in EUR (2004 and 2012, and percentage change)



Source: MFA based on Rynek ziemi rolniczej, stan i perspektywy, Institute of Agricultural and Food Economics – National Research Institute, no. 11 (2008) and 16 (2013).

281 Institute of Agricultural and Food Economics – National Research Institute, APA, Ministry of Agriculture and Rural Development, *Rynek ziemi rolniczej, stan i perspektywy*, Analizy Rynkowe, December2012.

Romania (780%) and Slovakia (292%) recorded the highest increases, relative to 2004, of the price of privately-owned agricultural land of all the new EU Member States. Yet, Poland remains the most expensive state in Central and Eastern Europe. Land prices in the Czech Republic and Slovakia increased to about EUR 4 000 per ha and in other EU9 countries to about EUR 2 000 per ha.

Data provided by the Ministry of the Interior indicate that in 2004–2012 foreigners from the European Economic Area purchased[282] 3 281 ha of agricultural and forest real property[283] in Poland, which represents 0.03% of the total agricultural land area. Additionally, in 2004–2012, foreigners from the EEA acquired or took over shares of commercial companies which own or hold the right of perpetual usufruct to agricultural and forestry land[284] whose area totals 25 256 ha[285].

Foreigners from EU Member States do not have to apply for a permit to the Ministry of the Interior if they purchase agricultural real property after a 3- or 7-year lease (depending on the Voivodeship in which the real property is located – in western and northern parts of Poland this period is longer)[286].

Rules governing trading in agricultural property are provided for by the 2003 Act on Shaping the Agricultural System. Under this act, the Agricultural Property Agency exercises the rights of a supervisory body over the entire trading in land by having the right of first refusal which it may exercise in relation to all the land that is up for sale.

In 2013, measures were adopted that increased the role of the Agricultural Chambers in the tendering procedure. The law was also amended to prevent violations occurring in the sale of land by so-called bogus buyers, i.e. persons planted to carry out fictitious transactions[287 288].

EU production quotas

Mechanisms that establish production quotas in the EU are designed to adjust supply to demand. They help farmers maintain stable prices for their

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282 With the permit of the Ministry of the Interior or if such permit was not required.

283 Based on information provided by the Ministry of the Interior.

284 A foreigner who acquires shares of a company that owns real property in Poland does not automatically become the real property's owner or the holder of perpetual usufruct to that property. The Polish legal order does not provide for indirect acquisition of real property. Polish law does not provide for indirect acquisition of real property. The company remains the owner or the holder of perpetual usufruct to such real estate.

285 Based on information provided by the Ministry of the Interior.

286 An additional requirement is that the farm has to be run personally by a foreigner legally residing in the territory of the Republic of Poland.

287 D. Stankiewicz, *Nabywanie gruntów rolnych przez cudzoziemców*, Analizy no. 3 (92), Parliamentary Bureau of Research, Warszawa, 8 April 2013, p. 4.

288 It was agreed that the Agricultural Property Agency will withdraw from a tender at the request of a tender commission member authorised by the Agriculture Chamber or following an objection by the Agricultural Chamber in connection with warranted doubts about the people who will participate in a tender. If a tender is cancelled twice, the Agency organises a limited tender for a short-term lease, but not shorter than one growing season. At a leaseholder's request approved by the Agricultural Chamber, the Agency may renew a contract that was entered into pursuant to the above procedure for a period longer than 3 years. The number of circumstances under which the Agency may exercise its right to repurchase has been extended to include situations in which the purchased property is used for purposes other than farming or when the agricultural activity on the acquired real property is not carried out by the purchaser.

products. Quoting instruments in the milk and sugar sectors are economically the most important. The deadline for phasing-out such quotas was agreed on in the framework of the 2004–2020 CAP reform negotiations. The deadline for the elimination of the milk quota mechanism is 1 April 2015, while for the sugar quota – in October 2017. Besides these two products, EU quotas were also applicable to potato starch and isoglucose.

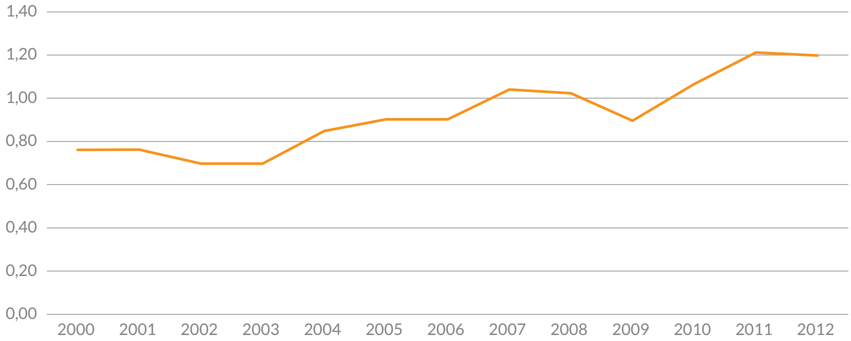
There are two types of milk quotas: the individual supply quota (the so-called wholesale quota), which is intended for producers selling milk to purchasers, and the individual quota for direct sales, i.e. the value fixed for producers who deliver milk directly to consumers. The Accession Treaty specifies a production limit for Poland at the level of 8.964 million tonnes, of which 8.5 million represent the wholesale quota and 464 000 tonnes – quota for direct producers. During successive CAP reforms Poland successfully negotiated a higher milk quota to over 10 million tonnes[289].

Polish producers exceeded the milk quota in 2005/2006 by 1.8%, which cost Poland EUR 64.4 million. The quota was also minimally exceeded in 2012/13 by 0.15%, which resulted in a penalty of EUR 4 million.

An indirect result of the quota system was higher specialisation and productivity of the Polish agriculture sector. The number of farmers keeping cows has decreased and the number of animals in an average herd and the production efficiency of cows has increased.

The chart below shows Polish milk prices gradually increasing, which is evidence of the effectiveness of EU milk quotas. Experts say, however, that in the past few years milk prices were more a reflection of global markets than of the EU quota mechanism[290].

Chart 99. Price of milk at purchasing centre PLN/1 litre



Source: Eurostat data (as at 10.01.2014).

In terms of sugar quotas, Poland was given the right to produce a total of 1.7 million tonnes. In 2006, after pressure from the World Trade Organisation, the European Commission reformed the sugar market. Earlier, European market prices

289 See also: W. Łopaciuk (ed.), *Wpływ Wspólnej Polityki Rolnej na rolnictwo*, Institute of Agricultural and Food Economics, 2011, p. 22.

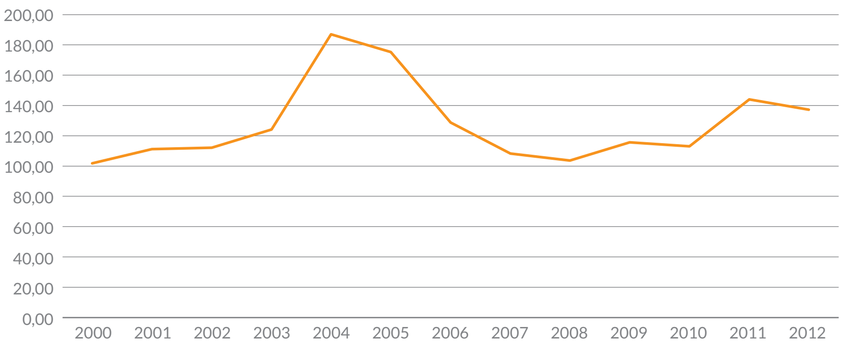
290 See also: P. Szajner, *Ocena wpływu likwidacji kwot mlecznych na konkurencyjność polskiego mleczarstwa w kontekście teorii ekonomii*, Scientific Journals of the Warszawa University of Life Sciences. Problemy Rolnictwa Światowego, 2012, vol. 12[27], no. 2, pp. 109–110.

were much higher than in other parts of the world due to high tariff barriers. Hence, the EU reform was also designed to lower sugar production in the whole of the EU. To this end, a system was established to encourage both sugar producers and sugar beet farmers to limit voluntarily their production. In exchange they were offered financial restructuring assistance. The reform resulted in a 24% reduction in the overall production quota of sugar in the EU to 13.3 million tonnes. The corresponding quota for Poland was decreased by 16% to 1.4 million tonnes.

The sugar market regulation reform had both positive and negative effects on the Polish sugar industry. One of the unquestionable advantages was speeding up the restructuring process and modernisation of the sugar industry in Poland. At present, sugar is produced in large (for Polish standards) modernised sugar refineries. Modernisation has also contributed to the effectiveness of the Polish processing industry and made Polish sugar refineries more competitive owing to lower production costs.

The negative outcomes of the reform include a significant fall in sugar production and sugar beet farming, which has transformed the Polish sugar industry into a net importer. Also, the closing of numerous sugar refineries has carried a high social cost which can be compensated only partially by means of restructuring aid[291].

Chart 100. Sugar beet price at purchasing centre PLN/1 tonne



Source: MFA based on Eurostat data (as at: 10.01.2014).

The above chart proves that the quota system contributed to an increase in prices of sugar beets in 2004–2006. After the 2006 reform when the European market opened up more to imports, prices dropped and reached the lowest level in 2008, only to start to grow moderately one month later. During negotiations on the future of CAP after 2013, a decision was taken to abolish the quota system, which will come into effect in October 2017. This decision led to protests by the association of sugar beet producers, but it was supported by the national food processing industry.

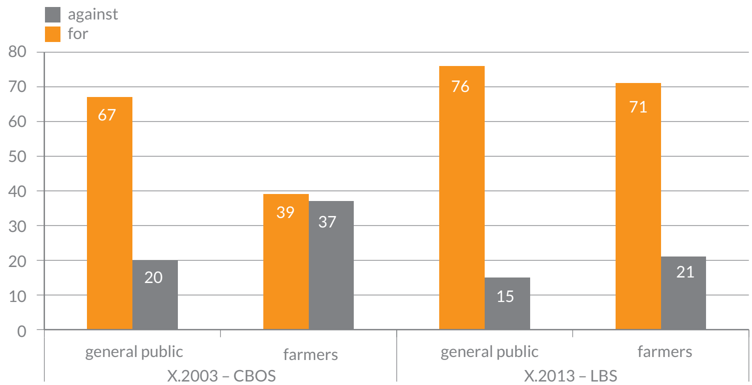
Polish farmers become Euroenthusiasts

Before EU accession, farmers were the most Eurosceptical social group in Poland. Only 39% of those polled in this group supported Poland's integration

291 See also: P. Szajner, *Ocena wpływu reformy systemu regulacji rynku cukru w Unii Europejskiej na polski przemysł cukrowniczy*, Scientific Journals of the Warszawa University of Life Science – Problemy Rolnictwa Światowego, vol. 8(23): 2009, p. 191.

with Europe, while 37% were strongly against it. After 10 years of EU membership, their attitude toward the EU has completely changed. Support among farmers for the EU has grown relatively higher than among the public as a whole. If you compare the results of surveys carried out in 2003 and in 2013, you will notice that farmers' support for the EU spiked and reached 71%, which is 37 percentage points more than in 2003. Another phenomenon that can be observed is a big drop in the number of people opposed to the EU, which now equals only 21%, which is 16 percentage points lower than in 2003. The results of current surveys conducted among Polish farmers are very similar to the results of surveys covering the entire population.

Chart 101. Support of farmers and the general public for Poland's EU membership (2003 and 2013)



Source: Ministry of Foreign Affairs based on data provided by the Public Opinion Research Centre and LBS.

Transformation of the fisheries sector

Poland's accession to the EU in 2004 was the starting point of a deep restructuring and modernisation of the Polish fisheries sector. It was included in the Common Fisheries Policy, which meant adopting EU legal regulations and new rules of protecting marine resources that led to significant changes.

Adjusting the management of fisheries to the requirements of protecting living organisms in the Baltic Sea was one of the toughest challenges facing Poland[292]. In 2004–2012 Poland largely reduced its fishing fleet (by 37%) and adjusted to numerous fishing-related technical restrictions. The restructuring of the fisheries impacted the quantity of fish catches in the Baltic Sea, which over the period 2004–2012 decreased by 15%. Despite this, the overall result

292 Before the Polish accession to the EU, fishery in the Baltic States was regulated by the Gdansk Convention on Fishing and Conservation of the Living Resources in the Baltic Sea and the Belts dated 1973 and later agreements concluded by countries belonging to the International Baltic Sea Fishery Commission – the executive body of the Convention. After the EU expansion in 2004, the Commission had two members: the EU and the Russian Federation. The Commission ended is activity on 31.12.2005 due to the withdrawal of the EU.

of changes in the sector was positive. Thanks to large investments (almost EUR 1 billion from European funds), the seaport infrastructure was expanded; funds were also invested in the modernisation of the fish processing industry and in the reorganisation of the fish market. As a result, in 2004–2012, the value of production in the fish processing sector increased as much as 190%, even though the fish catch decreased. In 2012, the overall number of jobs offered in the fisheries sector increased by almost 3 000 (by 12% in relation to 2003).

Financial support for fisheries

Poland's fishing industry received **EUR 936 million** of EU aid: EUR 201.8 million for 2004–2006 and EUR 734.1 million for 2007–2013. Together with state co-funding amounting to 25%, fisheries received a total public support of **EUR 1.3 billion**.

Poland utilised 94% of the first financial appropriation from the EU budget of 2004–2006. 4124 projects received funding amounting to PLN 1 billion[293]. For the sake of comparison, the use of funds by the Baltic States[294] was as follows: Estonia 91%, Latvia 104%[295], Lithuania 100%[296].

In 2007–2013, Poland became the largest beneficiary of European aid except for Spain, which received more than 26% of all funds, while Poland received 17%. During that time, Estonia received almost 2% (EUR 84.6 million), Latvia just under 3% (EUR 125 million) and Lithuania around 1.3% of funds (EUR 54.7 million)[297]. By end of 2013[298] Poland had implemented over 31.5 thousand projects and utilised 75% of its financial envelope[299] from the budget 2007–2013. This time, Poland had the best result in the region: by the end of 2013, the utilisation of funding in the Baltic States was as follows: Estonia 63%, Latvia 70%, Lithuania 60%[300].

Projects co-financed by the EU and implemented in Poland were designed to:

- develop water resources, aquaculture, coastal and inland fishing, processing industry and the fish market;
- ensure the organisation of the fisheries industry, sale promotion and innovative activities;
- modernise seaport infrastructure;

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293 Ministry of Agriculture and Rural Development, *Sprawozdanie końcowe z realizacji SPO Rybołówstwo i Przetwórstwo Ryb 2004–2006*, June 2010, p. 43.

294 In other chapters of this report, Poland's results are compared to the results of the EU9 States. For the purposes of this chapter it has been assumed that due to the geographical location of some landlocked states (CZ, SK, HU) or conducting fishing activities in other natural conditions (BG, RO, SI), Poland's results are compared to the results of Estonia, Latvia and Lithuania.

295 Surplus resulting from EUR exchange rate used for conversion of funds spent in Latvia in Latvian currency (LVL).

296 EC, *Ex-post evaluation of the FIFG 2000–2006, Final Report – Tome 1*, March 2010, p. 175.

297 EC, *Facts and Figures on the Common Fisheries Policy 2012*, 2012, pp. 48.

298 Ministry of Agriculture and Rural Development, *Informacja o postępach wdrażania PO Ryby 2007*–2013, December 2013.

299 At the same time, the value of concluded co-financing agreements amounted to 88% of funding, which shows that the final level of use of funds will be much higher.

300 According to data provided by the Ministries of Agriculture of Estonia and Lithuania. In the case of Latvia, data for the end of 2012 were taken from the *Sixth Annual Report on EDF Implementation (2012)* of the EC.

- reduce and modernise the fishing fleet;
- mitigate the effect of loss of employment by fishermen and activation of local communities;
- technical assistance.

In 2004–2013, almost PLN 657 million was invested in the expansion and modernisation of port infrastructure in several Polish ports and harbours. The projects provided for the modernisation of wharfs and port equipment, the construction of roads, breakwaters and fish storage facilities as well as the purchase of means of transportation[301]. In total, the processing industry benefitted from investments worth PLN 624 million. The aquaculture sector[302] received PLN 586 million. The EU funds were used to buy specialised means of transportation of fish and to modernise the infrastructure (existing facilities for breeding fish, inland ports) and ships. Support was also granted to traditional or environmentally-friendly practices and techniques of fish-breeding. The sum allocated to Fisheries Local Action Groups and projects that were selected to receive co-funding as well as Local Development Strategies of Fishing Areas amounted to almost PLN 773 million[303].

Reducing catch size

For Poland the EU Fisheries Policy meant that it had to adjust to the rules of protection of marine organisms that are common for all states with access to the sea. In practice, it meant observing the fishing quotas for particular fish species, protection periods and areas banned from fishing, use of particular fishing gears (e.g. the requirement to use a specific type of nets and mesh opening size, which is particularly important in catching salmon[304]). EU rules also set the maximum permitted engine power and boat tonnage.

Due to these actions, within 10 years of Poland's EU accession, the quantities of fish caught in the Baltic Sea and officially reported by ship owners (which constituted 67% of marine fishing) decreased by more than 15%. The above concerned the most important species fished, i.e. cod, herring, sprat and salmon. Growth was observed only in the case of flat fish and other types of fish, but it had no impact on the total catch.

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301 Ministry of Agriculture and Rural Development, *Ocena ex-post SPO „Rybołówstwo i przetwórstwo ryb 2004–2006" Raport końcowy*, May 2010, pp. 240; Ministry of Agriculture and Rural Development, *Ocena okresowa PO „Zrównoważony rozwój sektora rybołówstwa i nadbrzeżnych obszarów rybackich na lata 2007–2013" Raport końcowy*, May 2011, p. 219.

302 Due to its specificity, the Polish aquaculture sector is markedly different from typical European aquaculture. Poland has the largest acreage of carp ponds and the largest production potential as regards this species in Europe, which makes carp management the dominant aquaculture type. At the same time it remains almost unknown in Western European countries, where the dominant breeding species is trout. In Poland, other species of fish are bred as well: pike, tench, European catfish, barbel, vimba and asp. Changes in the sector that were implemented within recent years were mostly connected with the introduction of new technologies and, through that, with enlarging the production capacity within the known and new fish species, including their stocking material.

303 Based on data provided by the Ministry of Agriculture and Rural Development.

304 Regulation 812/2004 implemented a gradual ban on using driftnets for catching salmon to prevent incidental catching of porpoises (fully banned since 2008), which in 2004–2012 decreased the quantities caught by 80%.

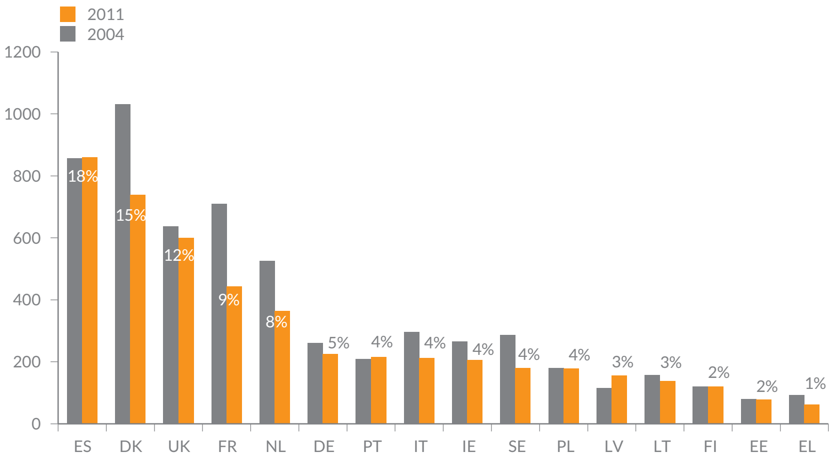
Table 17. Data on quantities of Poland's most important fish species caught in the Baltic Sea in 2003–2012 (in thousand tonnes)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2004/2012 (2003 = 100)
Cod	16029	15120	12784	15091	10968	10090	11176	12191	11861	14844	-7%
Herring	30703	28410	21819	20654	22087	17032	22528	24747	29881	27114	-12%
Sprat	84098	96658	74383	55946	60146	55422	84625	58843	56490	63119	-25%
Salmon	176	82	110	107	91	43	50	48	34	35	-80%
Flat fish	7343	8889	11252	9584	10850	9260	9799	11367	9839	10219	39%
Other	4219	4648	3992	3501	3648	2775	3190	2905	2662	5244	24%
Total	142568	153807	124340	104883	107790	94622	131368	110101	110767	120575	-15,4%

Source: Roczniki Statystyczne Gospodarki Morskiej 2004, 2007, 2009, 2013.

Based on Eurostat data[305], in 2011 Poland was the 11th EU Member State in terms of the size of catches. The EU as a whole caught a total of 4 806 million tonnes of fish, of which the Polish fleet's share amounted to almost 4%, i.e. 179 000 tonnes. For the sake of comparison, the Baltic States had the following statistics: Latvia caught slightly more than 3% (156 000 tonnes), Lithuania almost 3% (137 000 tonnes) and Estonia more than 1.5% (78 000 tonnes). Spain had the largest, almost 18% share of the total quantity of fish caught –860 000 tonnes. A comparison of the 2003 catch and the 2011 catch clearly shows that the majority of EU countries (except for Spain, Portugal and Latvia) recorded a decrease in their sizes[306].

Chart 102. Quantities of fish caught in selected states (2004 and 2011) and their percentage share in EU fishing in 2011



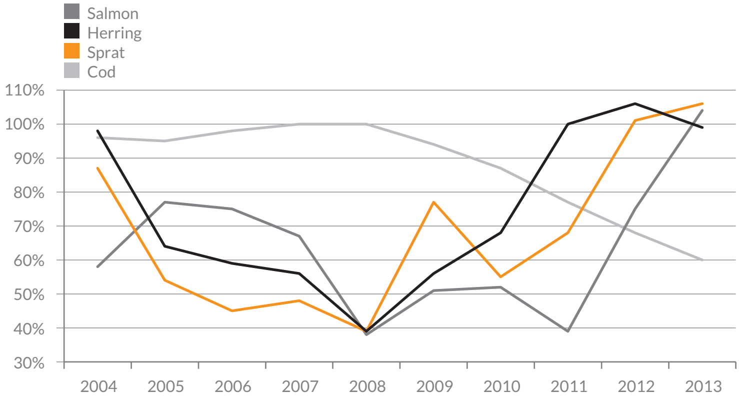
Source: Eurostat.

305 *Agriculture, forestry and fishery statistics, 2013 edition*, Eurostat, November 2013, p. 221. 2011 is the last year for which complete data on EU fish catches is available.

306 The share of BE, BG, RO, MT, CY, SI was below 1%, CZ, HU, AT, SK as states carrying out inland fishing only were excluded from the statistics. LU does not carry out any fishing activities.

Problematic fishing quotas[307]

Chart 103. Percentage utilisation of fishing quotas by Poland in 2004–2013[308]



Source: Institute of Agricultural and Food Economics (2004–2011) and Ministry of Agriculture and Rural Development (based on FIDES – Fishery Data Exchange System, 2012–2013).

During Poland's membership EU, the utilisation of fishing quotas of the most economically important Baltic Sea fish species has been changing. This applies to cod and pelagic fish species (herring and sprat). One of the reasons for these changes was the withdrawal from operation of fishing fleets by fishermen, using huge EU funding allocated to the adjustment of fishing fleets to marine resources. However, the number of ships fishing cod continued to exceed the fishing opportunities[309].

For many years, cod stocks were excessively fished out by fishermen (also from other countries of the Baltic Sea). After 2004, the scale of unreported catches also grew. In this situation, in order to protect the species, it was necessary to introduce catch limits and, in particular, to strictly adhere to the agreed fishing quotas. In the case of Poland, the EC banned fishing in the second half of

307 Establishment of fishing quotas is the most disputed and controversial part of the Common Fisheries Policy. Total allowable catches are catch limitations established every year for the most important stocks of fish caught by MS. The aim of establishing quotas is to ensure an optimum level of quantities caught so that stocks can replenish and the ecosystem remains undisturbed. The EC proposes quotas based on scientific advice on the condition of stocks; then, Member States jointly with the Commission take a decision on their distribution. Quotas are shared between EU MS under a system of so-called relative stability. The system ensures that quotas allocated to a MS are stable in relation to other quotas, even if the total quantity of fish that can be caught changes along with stock productivity.

308 Cod catches in 2007 and 2008 are difficult to estimate as in the second part of both of these years the European Commission banned fishing of this species, arguing that Poland had already exhausted its quota. Some fleet units ignored the ban and kept fishing cod, increasing the scale of unreported catches. Therefore, for the purposes of this document, it has been assumed that the fishing quota for cod in 2007 and 2008 was exhausted to 100%. Moreover, the chart does not cover the exhaustion of the catch quota for plaice (perceived as flat fish) as this species is caught on a very small scale in relation to overall catches.

309 *Ocena ex-post SPO „Rybołówstwo…”*, *op.cit.*, pp. 221–225; E. Kuzebski, B. Marciniak, *Mniej statków – więcej ryb? Społeczno-ekonomiczne skutki redukcji floty rybackiej na Morzu Bałtyckim*, WWF Polska, Gdynia 2009, pp. 53–54.

2007 and 2008. In 2009, Poland introduced the so-called three-course system for a period of three years. The system was based on attributing individual fishing quotas to 1/3 of the ships authorised to catch cod in each year during the three-year period. The size of such quotas was supposed to ensure the profitability of fishing. The other 2/3 of the fleet gave up cod fishing in exchange for high financial compensations from EU funds and was allowed to catch other fish species.

Although limits were lifted and fishing quotas and quantities of caught cod were increased, in 2013 only 60% of the fishing quota for cod was utilised. That was the lowest level in 20 years[310]. The fact that the allocated cod quota was not utilised by some ship owners stemmed from the lack of that species within traditional areas and periods of fishing. Some Polish fishermen and representatives of the fish processing industry emphasise that the deteriorating quality of cod results from the activity of factory trawlers that catch the sprat on which cod feed. In fact, the situation is more complex than it seems. One of the reasons for the decrease in caught cod quantities is their low profitability. The healthy condition of species is, on the other hand, dependent on natural conditions which are beyond human control, such as migration of sprat stocks to the north contrasted with the lack of corresponding cod migration, or unfavourable reproduction conditions[311].

In the case of herring and sprat, market conditions (low profitability of fishing these species), a lack of interest in fishing on the part of ship owners receiving EU financial aid and the removal of a significant group of large fishing vessels catching pelagic fish contributed to a significant decrease of the utilisation of herring and sprat quotas – from almost 100% in 2004 to less than 40% in 2008. However, the effectiveness of fishing pelagic fish has improved over the last period. The fishing of these species has become more profitable. The positive effects of modernising ships, using EU funds, are also visible. Thanks to these, fishing quotas for herring and sprat were utilised 100% in the past two years.

Fishing fleet reduction

At the time of accession to the EU, Poland had a developed fishing fleet, which was unsuitably large in relation to fish stocks in the Baltic Sea. It was necessary to reduce the size of fishing fleets in the Baltic so that it corresponded to natural conditions. Thanks to EU accession it was possible to solve this problem in a systematic way and to the benefit of fishermen. The main tool were programmes for scrapping fishing vessels in return for compensation from EU funds[312]

In 2004, the Polish fishing fleet numbered 1248 units[313] and dropped to 792 units (37% less) in 2012. This reduction affected floating vessels to a different extent, depending on the category of the vessel. The number of fishing vessels dropped by 65%, fishing ships by 22%, and deep-sea trawlers by 63%. With the help of the EU compensation system, 518 fishing ships were decommissioned

310 Marine Fishing Institute – National Research Institute, *Morska gospodarka rybna 2012*, Gdynia, June 2013, p. 1.

311 Marine Fishing Institute – National Research Institute, *Chudy dorsz – fakty i mity*, November 2013, pp. 5–7.

312 E. Kuzebski, B. Marciniak, *op.cit.*, p. 6; EC, *Common Fisheries Policy. Manual*, 2009, pp. 19–20.

313 Eurostat data for 2004 is different from Polish data as since 30.04.2004 Polish statistics have also included skiffs (around 130).

by 2012. Most of these activities were undertaken within the first three years of membership. Another visible increase in the number of decommissioned units, related to the three-course system, took place in 2009.

Reduction of the fleet was good for Poland's sea fishing in many ways. The most important effect was the reduction of human pressure on the Baltic Sea's natural resources[314]. The number of unreported catches has visibly dropped. Also, individual quotas for those ship owners who remained in the fishing industry increased, as did their incomes. The profitability of fishing and the effectiveness of fishing activities have improved as well[315].

Negative effects could be observed as well – these included, among others, problems relating to the utilisation of fishing quotas and the failure to lower the average age of the units that continued to operate. One of the problems was the loss of jobs in the fisheries sector. From 2004 to 2012, employment in this sector fell by 49%[316].

A comparison of limitations of the fishing potential in the Baltic Sea countries[317] shows that in 2005–2012 the most extensive reduction was undertaken in Lithuania, which decommissioned as much as half of its fleet (tonnage decreased by 64%). Other countries fishing in the Baltic Sea carried out smaller-scale reductions. The country that reduced its fleet to the smallest extent was Finland.

Table 18. Changes in size, gross tonnage and engine power of Poland's fishing fleet and other countries fishing in the Baltic Sea in 2004 and 2012 (2004=100)

	Fleet size			Gross tonnage (GT)			Engine power (kW)		
	2004	2012	2005/2012	2004	2012	2005/2012	2004	2012	2005/2012
Denmark	3406	2747	−19%	96002	64370	−33%	335653	228851	−32%
Estonia*	1051	1357	29%	24873	15149	−39%	63244	46325	−27%
Finland	3394	3240	−5%	18303	16130	−12%	179496	169972	−5%
Lithuania	302	148	−51%	75375	27187	−64%	77809	34389	−56%
Latvia	942	719	−24%	42102	33797	−20%	72521	51231	−29%
Germany	2163	1559	−28%	66293	64182	−3%	161990	147526	−9%
Poland	1248	792	−37%	45557	33337	−27%	146936	81789	−44%
Sweden	1600	1401	−12%	44590	30705	−31%	217914	173644	−20%

** Since 2011, Estonian law permits entry of units under 12 metres in length in the fleet register. In 2011 Estonia had 923 units; in 2012 this number increased by more than 430. Small units withdrawn in 2004–2008 without public support were entered in the register. A comparison of the size of the Estonian fleet in 2004 and 2011 shows a 12% decrease.*

Source: Eurostat (as at: 24.03.2014.).

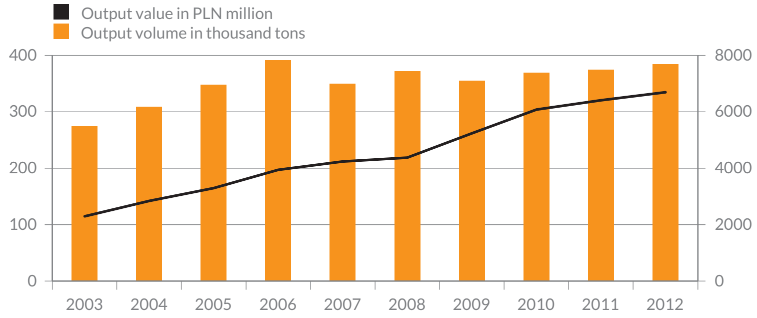
314 Fishing mortality of basic species (percentage of fish from a given stock that died as a result of performing fishing activities) decreased.
315 *Ocena ex-post SPO „Rybołówstwo…, op.cit.*, pp. 10–11, 90.
316 E. Kuzebski, B. Marciniak, *op.cit.*, pp. 52; *Ocena ex-post SPO „Rybołówstwo…", op.cit.*, p. 225.
317 It is worth recalling that most of these countries catch fish also on other fishing grounds.

Processing industry boom

European integration has had a positive impact on the dynamic development of the Polish fish processing industry. Financial support from the EU and its strict standards for infrastructure, technology, quality control and sanitary conditions were key factors that improved the conditions of production, processing, storage and distribution of Polish fish products, which, in turn, led to a marked improvement in their quality. As a result, the Polish processing industry became more competitive and won new trading partners in Poland and abroad[318]. Today, Polish processing plants are among the world's most modern facilities, especially when innovative solutions and advanced fish breeding technology are concerned[319]. The modernised processing industry could effectively compete for a greater European market share.

Since 2004, the value and production volume of fish processing plants have grown rapidly. Production volume in 2012 increased by 40% relative to 2003, while its value grew by over 190%[320]. The number of fish processing plants increased by 83%. By the end of 2013, 306 processing plants authorised to trade in fish products in the EU were listed in a register kept by the General Veterinary Inspectorate (of which 75 plants were authorised to export products to third countries[321]).

Chart 104. Output volume and value of fish processing plants in 2003–2012



Source: "Morska gospodarka rybna" 2004–2012 annual publications.

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318 *Ocena ex-post SPO „Rybołówstwo...", op.cit.*, p. 242

319 See http://www.arimr.gov.pl/pomoc-unijna/efekty-unijnej-pomocy-udzielanej-przez-arimr/efekty-wdrazania-po-ryby-na-lata-2007-2013.html (21.03.2014).

320 The processing industry also developed in the Baltic States. However, in that case, the development was on a smaller scale. The production volume in Latvia in 2004–2011 increased by 45% and its value – by 79%. In Estonia, production volume in 2003 and 2012 was on a similar level, while its value increased by 40%. The production volume in Lithuania in 2007–2012 increased by 13% and its value – by 66%.

321 At the time of Poland's accession to the EU, fish processing plants were divided into three groups: a) those authorised to trade in fish products on the EU market, b) those authorised to sell products on the Polish market that were in the so-called phase-in period until 2006, c) small processing plants admitted to selling products directly on local markets only. The General Veterinary Inspectorate's 2004 register listed 56 plants belonging to group b) and 100 plants to group c). By the end of 2013, 604 business entities could sell their products on the national market. These were mostly fish farms and companies selling freshwater fish. It is estimated that around 70 companies from this group were engaged in initial processing and the processing of fish.

Less fishermen, more processing industry employees

The evolution which has taken place in the fisheries sector since 2004 is also reflected in the change of its employment structure. The overall number of jobs in the fisheries industry increased by 2.9 thousand (by 12% in 2012 relative to 2003).

This favourable trend in the fish processing industry also covered employment. The industry's dynamic development was responsible for this. Good financial results recorded as early as in 2003 and a higher profitability of production plants led to the creation of 5.6 thousand new jobs. In 2012, the fish processing industry employed 18 thousand people. This represents as much as 67% of all the people employed in the fisheries sector – 26.9 thousand[322]. The increase in jobs available in the processing industry by 45% compensated for the 49% drop in employment in sea fishing. The reduction of the fishing fleet led to a loss of jobs for fishermen. From 2004 to 2012, employment fell by 49%[323] to 2.3 thousand jobs in 2012. Only trade continued to employ around 6 thousand.

Table 19. Employment in fishing industry in 2003–2013 (in thousands of people)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2003/2012 (2003 = 100)
Total	24	24.2	25.7	26	26.3	26.4	27.4	26.7	26.8	26.9	12%
Fish processing industry	12.4	13.5	15.9	17.1	17.5	18.1	18.8	18.5	17.8	18	45%
Sea fishing	4.5	4.3	3.2	2.9	2.8	2.7	2.5	2.4	2.3	2.3	−49%
Trade	6.8	6.2	6.3	5.8	5.8	5.6	6	5.8	6.7	6.6	−3%

Source: Annual issues of Morska gospodarka rybna published in 2004–2012.

Polish fish are in demand

European consumers have come to appreciate Polish fish and fish products. The value of fish exported to the EU has increased by more than 400% from EUR 236 million in 2003 to EUR 1.2 billion in 2013. Even though the import of fish and fish products has also grown (from EUR 72.5 million in 2003 to more than EUR 1 billion in 2013), Poland has managed to maintain a positive balance of trade in this sector. In 2013, Poland's trade surplus amounted to EUR 116 million[324], up by 30% from 2003.

Poland sells its fish and fish products mostly on the EU market. Today, the EU accounts for around 91% of Polish exports. Imports from the EU account for 74% of Poland's domestic demand[325]. In 2013, the total trade of the fisheries sector (on

322 In comparison with the Baltic States, employment in the fish industry in Estonia dropped by 59% and in Lithuania by 14% (in 2007–2013). No data are available for Latvia.

323 Fleet reduction led to lower employment in sea fishing also in the Baltic States. Estonia -64%, Lithuania -55% (in 2007–2012), Latvia -83% – according to national data.

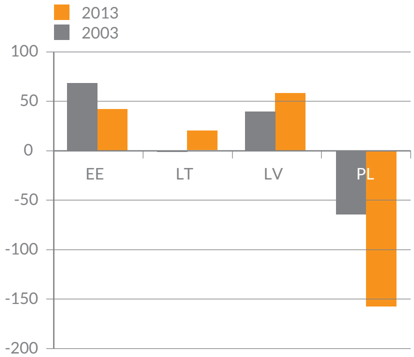
324 Foreign trade in fish, fish products and seafood is assigned the following custom tariff codes: 0301-0307, 1604-1605, 051191 and 23012000 and covers about 300 items. These are: fish, crustaceans and molluscs in different forms – from live fish to fresh, cold and frozen products as well as processed and canned products, fish meal and by-products.

325 After Poland acceded to the EU, it began to export mainly to other Member States, especially Germany, Denmark and France. Poland imports chiefly from the Czech Republic, Denmark, Germany, Sweden, the Netherlands, Norway and Iceland, and from such non-European countries as: China, Vietnam, Thailand, Chile, Peru and Argentina.

a global scale) closed with a deficit of EUR 157 million. Poland exported products totalling EUR 1.323 billion and imported products worth EUR 1.480 billion.

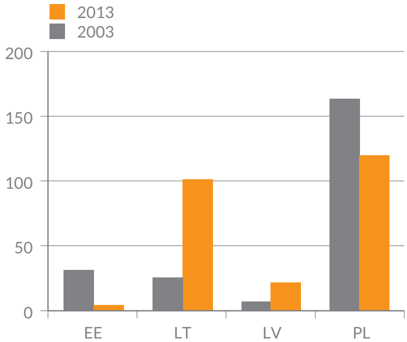
Like Poland, the Baltic States traded mostly with other EU countries. In 2013 Lithuania's exports to the EU accounted for 91% of its total exports; while Latvia's and Estonia's for just under 70%. The greatest share of other Member States in imports was recorded by Latvia and Estonia, 80% and 87%, respectively, of the overall import; while in Lithuania this share amounted to 66%. Unlike Poland, all Baltic States had a positive balance of trade in the fishing sector in terms of global trade. This resulted from their close trade relations with former USSR republics.

Chart 105. Balance of trade in fish and fish products for EE, LT, LV and PL (overall) in 2003 and 2013



Source: Eurostat (as at 17.03.2014).

Chart 106. Balance of trade with the EU in fish and fish products for EE, LT, LV and PL in 2003 and 2013



Source: Eurostat (as at 17.03.2014).

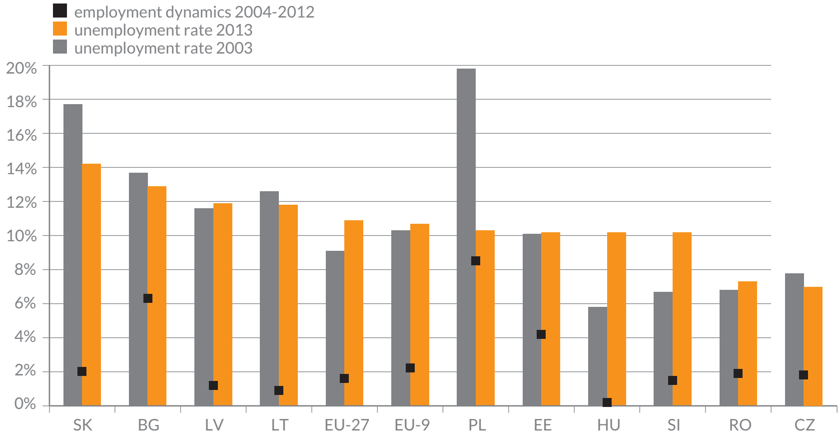
Poles on the European labour market

Changes on the Polish labour market

The accession of Poland to the European Union not only opened the European labour markets to Poles but also transformed the Polish labour market in a major way.

It is difficult to estimate the exact impact of EU accession on the labour market in Poland. The situation of employees and the capabilities of employers depend mostly on the overall economic situation, i.e. economic processes taking place at home and in the neighbourhood. Moreover, labour market indicators are shaped by the level of education, migration, the size of foreign investments, entrepreneurship, foreign trade, structural reforms and government labour market policies, among other things. Considering the above, the impact of EU integration on the labour market should be assessed with caution.

Chart 107. Unemployment rate in 2003 and 2013 and employment dynamics in 2004–2012 in the region



Source: based on Eurostat data Unemployment rate and employment – annual averages. Data for Estonia for 2012 (as at 24.03.2014).

Biggest fall in unemployment

A closer look at labour market indicators for the region of Central and Eastern Europe reveals diverse changes in the level of unemployment and employment dynamics since 2003. In 2004–2013, unemployment grew significantly, especially in Hungary and Slovenia. The situation in other countries of the region was either stable or unemployment was falling.

In comparison with other states in the region, Poland did very well, especially considering that before accession it ranked last when it came to the number of unemployed. Since 2003 Poland's unemployment rate dropped by almost half – from 19.8%

in 2003 to 10.3% in 2013. In 2004–2012 this coincided with increased labour market participation of people aged 15–64, by as much as 8.5%.

What is particularly important in the context of employment is the situation of young people. In Poland, unlike in the EU-9 countries, the general improvement of the situation on the labour market coincided with a fall in unemployment among young people. In 2004–2012 the unemployment of people under 25 dropped by 14.6 percentage points (from the initial value of 41.9% to 27.3%) and in 2008 it reached a historically low level of 17.2%. An unemployment rate twice as high among young labour market participants compared to the working-age population is common in the EU. The latest economic crisis has made this problem even more acute[326]. For example, in 2013, in Spain 55.7% of people under 25 were out of work, with the EU average for this period being 23.3% (9.5% for people aged 25–74). In 2004–2013, countries which had joined the EU together with Poland in 2004 – the EU9 – saw their youth unemployment grow, with the exception of Lithuania and Slovakia[327].

In the context of the region and the entire EU, the changes that have taken place on the Polish labour market within the last 10 years are positive. Such assessment is based on the country's high rate of economic growth in time of crisis, structural reforms and a moderate scale of economic slowdown after 2008. The economic downturn experienced by some EU Member States also played to Poland's advantage. In those countries unemployment grew, while selected professional groups became less active[328]. This helped to reduce, but not eliminate, the distance between Poland and other countries of the region and the entire EU in terms of the rate of employment. In 2012, the rate of labour market participation of people aged 15–64 in Poland was 59.7%, while the EU-9 average was 61.1% and the EU average – 64.2%[329]. In 2013, unemployment in Poland was at a level similar to the average of EU-9 countries and the entire European Union[330].

New jobs

In terms of job creation, in 2004–2012 Poland ranked second in the EU, preceded only by Germany. A total of 2 million net new jobs were created, which represented over 21% of all net new jobs in the entire EU. Considering the size of the population as a category, Poland ranked third behind Luxembourg and Cyprus. European structural funds, which in 2004–2013 helped generate about 800 000 new jobs in Poland, also contributed to job creation, besides high economic growth[331]. EU Structural Funds were also used to establish over 160 000 companies in 2004–2012.

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326 Ministry of Labour and Social Policy, Department of Labour Market, *Sytuacja na rynku pracy osób młodych w 2012 r.*, Warszawa 2013, p. 1.

327 Based on Eurostat data (as at 24.03.2014).

328 *Zatrudnienie w Polsce 2009. Przedsiębiorczość dla pracy,* ed. M. Bukowski, Ministry of Labour and Social Policy, Warszawa 2010, p. 15.

329 The labour market participation rate in Europe 2020 Strategy is studied for people aged 20–64. It is more favourable than for people aged 15–64.

330 Based on Eurostat data (as at 24.03.2014).

331 Based on the following studies: *Ocena wpływu realizacji polityki spójności na kształtowanie się wybranych wskaźników makroekonomicznych na poziomie krajowym i regionalnym za pomocą ilościowego modelu ekonomicznego – symulacje modelu EUImpactModIV*, Institute for Structural Research, update for February 2014, Warszawa and *Ocena wpływu realizacji polityki spójności na kształtowanie się wybranych wskaźników makroekonomicznych na poziomie krajowym i regionalnym za pomocą modeli makroekonomicznych Hermin*, Wrocław Regional Development Agency, update for February 2014, Wrocław.

The free movement of people and services in the internal market was another factor that had a positive impact on the Polish labour market. Thanks to it Polish SMEs were able to second as many as 230 000 employees a year to other Member States, which generated an additional 100 000 new jobs in Poland[332].

Before EU accession, fluctuating employment and unemployment levels represented one of Poland's most serious social and economic challenges. According to some theories, the high level of unemployment in Poland was supposed to be long-term and was to result from the Polish economy's non-adjustment to EU standards, the low quality of its education system and the low productivity of its labour force[333]. Fortunately, these concerns did not turn out to be true; EU accession coincided with an overall improvement in the labour market situation. In 2004–2008 Poland experienced a dynamic growth of employment and in 2008 unemployment fell to a record low level of 7.1%[334]. Unfortunately, this trend was reversed after the start of the financial crisis in the same year.

Escaping the crisis

Poland was relatively unharmed by the global economic crisis, which changed the situation in the whole of the EU for years to come, and whose impact on the Polish labour market in 2008–2012 was smaller than in 1998 when exports to Russia fell substantially. Until 2010, the unemployment rate grew by 2.6 percentage points and then became stable. According to Eurostat, unemployment in 2013 was above 10%[335].

Changes on the Polish labour market caused by the crisis took on a less severe form than in other countries of the EU and the region thanks mainly to the country's stable economic growth[336]. The labour market adjusted itself to a slowing economy in a sufficiently sustainable manner to avoid a sudden increase in long-term unemployment. However, the crisis did impact the employment level – directly in the construction sector and indirectly in industry. The situation of other vocational groups has remained mostly unchanged. This confirms that following Poland's integration with the EU, its enterprises and labour market regulations saw long-lasting and positive changes[337]. Even though there was a crisis, most enterprises decided to maintain the current employment level by reducing the hourly/weekly working time and flexibly adjusting employees' salaries, instead of opting for mass layoffs.

Following Poland's accession to the EU, the employment structure in different sectors of the economy improved as well. The number of people employed in the industry increased from 52.9% in 2003 to 56.7% in 2013 and in services, from 28.6% to 31.1% during the same period. In the third quarter of 2013, there were 4.9 million Poles employed in the industry sector and 8.9 million in the services sector[338]. At the same time the share of people employed in agriculture has fallen sys-

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332 Based on an EC report and Labour Mobility Initiative estimates.

333 *Zatrudnienie w Polsce 2005*, ed. M. Bukowski, Departament Analiz i Prognoz Ekonomicznych, Ministry of Economy and Labour, Warszawa 2005, pp. 96, 131, 218–225.

334 Based on Eurostat data (as at: 24.03.2014), according to CSO, the rate of unemployment was 8.8%.

335 Based on Eurostat data (as at 24.03.2014).

336 M. Bukowski (ed.), *Zatrudnienie…*, *op.cit*, p. 23.

337 *Ibidem*, pp. 11–15.

338 Based on CSO, *Aktywność ekonomiczna ludności. IV kwartał 2003 oraz Aktywność ekonomiczna ludności. III kwartał 2013.*

tematically from 18.5% to 12.2% during recent years. In the third quarter of 2013, this sector employed 1.9 million people.

Labour market flexibility

Reforms implemented in 2009 and 2010 which involved, among other things, a change in the structure of unemployment benefits and initiatives financed with EU funds under the Operational Programme Human Capital helped make the Polish labour market more flexible and mitigate the effects of the global financial crisis[339].

Unfortunately, greater labour market flexibility translated into higher uncertainty in the labour market. Over the past ten years, the number of employees on a fixed-term contract, mandate contract and contracts for specific work has increased from 19.4% to 26.9%, reaching the highest level in the whole EU[340]. This is a negative trend, one that weakens employers' motivation to invest in their employees and raise their qualifications and, in the longer term, worsens the social and economic situation of whole social groups[341] because employees on such contracts do not pay retirement contributions. This weakens the stability of the country's social security system.

On the other hand, every form of fixed-term employment increases the chances of finding stable employment later. This is all the more true given that often the only alternative to such forms of employment is unemployment[342].

Besides domestic reforms, improved global trade and public investments financed with EU Structural Funds also helped mitigate the crisis on the Polish labour market. Without EU support, the labour market adjustments could have been much deeper and could have led to higher and sudden growth of unemployment[343].

Activation of the unemployed

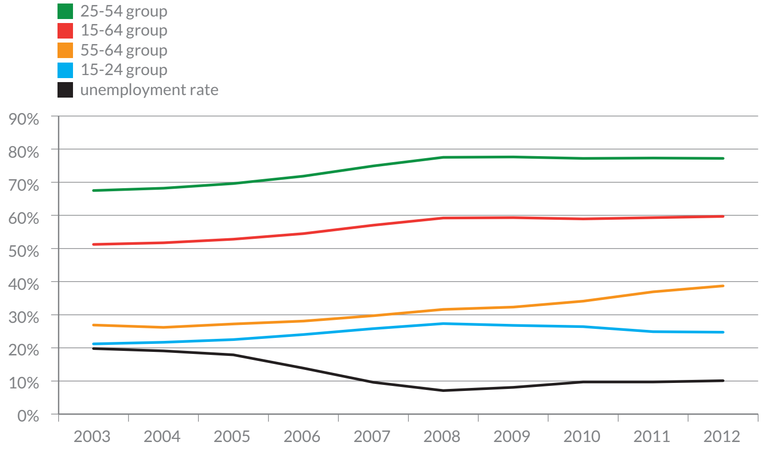
Structural Funds have had a positive effect on the Polish labour market, not only through increasing the number of infrastructural projects implemented in Poland, but also through special EU funds for promoting employment and supporting people looking for work. EU funds, in particular the European Social Fund (ESF), have contributed to job creation and preservation, to raising employee qualifications and to activation of the unemployed, including young people.

In 2004–2006, the ESF supported over 702 000 unemployed people. In 2007–2013, this number grew to almost 1.4 million. In relation to measures involving the co-financing of training courses for the unemployed, surveys conducted in 2007–2013 show that 56% of the respondents declared that they had found a job within 6 months of completing their training course. Surveys show that during the first two years after accession, 42% of the people attending

339 *Ibidem*, pp. 20–22.
340 Based on Eurostat data (as at 24.03.2014).
341 *Konkurencyjna Polska. Jak awansować w światowej lidze gospodarczej?*, ed. J. Hausner, Kraków 2013, p. 55.
342 *Diagnoza społeczna 2013. Warunki i jakość życia Polaków*, ed. J. Czapiński, T. Panek, Warszawa, September 2013, p. 136.
343 M. Bukowski (red.), *Zatrudnienie (...), op.cit,*, p. 39.

training courses found a job, 16% set up their own company and 14% continued their education. Later, in 2007–2013, more than a half, i.e. about 57% of the unemployed who were looking for work, found work within 6 months of completing the "Rynek otwarty dla wszystkich" programme[344].

Chart 108. Labour market participation by age groups and the rate of unemployment in 2003–2012



Source: Based on Eurostat data (as at 24.03.2014).

Poland successfully used EU funds to help its citizens develop vocational skills when the economic situation was good. After accession (except for the year 2010), the number of people aged 15–64 who entered the labour market grew steadily, reaching 59.7% (the EU average is 64.2%) in 2012. The rise in employment that occurred during the difficult time of the crisis was due to the growing vocational activity of Poles and higher employment in the services sector that balanced the crisis-induced unemployment in industry[345]. Higher labour market participation of the oldest age group, which increased from 12% to 38.7%, while in the EU it stands at 48.9%, also helped improve the Polish labour market. Employment of people aged 24–54 also went up – the activity of this group in Poland increased by almost 10% to 77.2%, which is the EU average[346].

Additionally, the government's decision to limit access to old-age benefits for people who have not reached retirement age and reforms that extend the retirement age and make it the same for women and men (67 years) had a positive impact on the level of employment of people at pre-retirement age. It also counteracted early retirement. Unfortunately, the reform did not fully cover farmers and employees of uniformed services[347].

344 *Information provided by the Ministry of Infrastructure and Development, December 2013.*
345 M. Bukowski (red.), *Zatrudnienie…*, *op.cit*, p. 39.
346 Based on Eurostat data (as at 24.03.2014).
347 *Zmiana technologiczna na polskim rynku pracy*, ed. M. Bukowski, J. Zawistowski, Departament Analiz Ekonomicznych i Prognoz, Ministry of Labour and Social Policy, Warszawa 2008, p. 137.

Challenges facing young people

In 2003–2012, the youngest age group recorded the lowest, i.e. only 3.5%, increase in labour market participation. Only 24.7% of people aged 15–24 were labour market participants, while the EU average stood much higher at 32.9%.

This situation is a source of concern: unemployment among the youngest leads to poverty, marginalisation and social exclusion. It is a serious social problem which affects all European Union Member States. For this reason, many labour market programmes are addressed to the youngest age group[348]. In Poland, Structural Funds, including the "Perspektywa dla młodych" programme, have played a crucial role in the vocational development of young people. EU assistance included: consultancy, training courses, career guidance services and job placement as well as one-time measures to help set up a business, subsidising employment, work placement programme and on-the-job training.

In 2004–2006, of the 341 300 youngest Poles who benefited from the above-mentioned EU aid schemes, 52% found a job within 6 months of completing an aid programme. In turn, in 2007–2013 about 42% of aid scheme participants found work, of which 11% set up their own company. Further studies showed that 46% of people under 25 admitted that their participation in an aid project increased their chances of finding permanent employment and 86% claimed that the knowledge they gained will prove useful in looking for a job[349].

Activating the unemployed

Although labour market participation rates have improved, as has the general situation on the Polish market, Poland still faces many challenges. One of them is activating the younger and older age groups. This is important also on account of the progressive ageing process of the Polish population[350]. The continuous decrease in unemployment, in addition to being the result of rapid economic growth (estimated at no less than 4% annually) follows from efficient labour market institutions and an adequate quality of human capital, i.e. employees. Low unemployment signifies a high standard of living across the population.

Employment in Poland is still heavily dependent on age and qualifications[351]. The time period during which the unemployed remain unemployed increases with age and is directly related to their education (the higher the education, the shorter they wait for employment)[352]. The lowest employment rate in Poland is attributed to the least educated. However, in terms of unemployment among people with higher education, Poland is moving closer to the EU average[353].

Poland still faces the problem of the high number of working-age people who are out of work, not looking for a job and who were struck off the register of unemployed. The inactivity rate in Poland dropped by just 0.5 million people – from 14.1 million in 2003 to 13.6 million in 2013[354].

348 Ministry of Labour and Social Policy, Department of Labour Market, *Sytuacja…*, *op.cit*, p. 12.
349 *Information provided by the Ministry of Infrastructure and Development*, December 2013.
350 *EC*, *Employment and Social Developments in Europe 2013*, p. 450.
351 *World Bank*, *EU11 Regular Economic Report*, December 2013 (report presentation).
352 Ministry of Labour and Social Policy, Department of Labour Market, *Sytuacja…*, *op.cit*, p. 3.
353 *Konkurencyjna Polska …*, ed. J. Hausner, *op.cit.*, p. 38.
354 Based on GUS data (as at 24.03.2014).

Yet another challenge is posed by the high level of territorial diversity of the unemployment rate, which is related to different levels of economic growth in different regions. By the end of 2013, the difference between the highest and the lowest unemployment rate in Polish voivodeships reached 12.1 percentage points (Wielkopolskie Voivodeship — 9.6%, Warmińsko-Mazurskie — 21.7%). At the poviat level, this gap was almost 35 percentage points wide (Poznań — 4.1%, Szydłowiecki Poviat — 38.9%)[355].

Post–accession migration of Poles to the European Union

Poland's accession to the European Union opened up the European labour market to Polish citizens. Free movement of persons and workers is considered one of the greatest benefits of EU accession.

Today, mostly due to its significant impact on the social and demographic situation in Poland, Polish migration is the subject of a lively public debate. The balance of costs and benefits of subsequent waves of migration is not unequivocal. The long-term impact of migration on Poland's economic situation (especially on economic growth, on the rate of unemployment and employment) and on the macro (state) and micro (family) demographic structure evades simple assessment.

How to measure migration?

Even before the 2004 EU enlargement, some western European societies voiced concern about an uncontrolled inflow of labour immigrants into their states. Therefore, many governments decided to introduce time limits on the freedom of movement for workers. In 2004, Poles were able to work only in three states of the "old" EU: the United Kingdom, Ireland and Sweden (but also in all the new Member States). Other states opened their markets later – Finland, Portugal, Spain, Italy and Greece in 2006, the Netherlands and Luxembourg – one year later, France in 2008, Belgium and Denmark in 2009; Germany and Austria, which both have the lowest unemployment rate in the EU, as late as in 2011. Integration with the EU also gave Poles the opportunity to work outside the EU in the European Economic Area countries: in Iceland (since 2006) and Norway (since 2009) and also in Switzerland (since 2011[356]).

Labour migration of Poles after 2004 wasn't a historically abstract phenomenon. At the time of Poland's accession to the EU, the number of emigrants working in the old EU states stood at around 0.5 million people[357]. It was predominantly (in over 90% cases) labour migration[358]. Nonetheless, the scale of intra-EU migration during the first three years after enlargement exceeded all the expectations and forecasts of both experts and politicians[359]. Let us note that pre-acces-

355 *Ibidem*.

356 In April 2012 Switzerland limited the access to the labour market for the new EU members; the Swiss labour market will be re-opened in 2014.

357 *National Census, 2002 r.*

358 A. Fihel (ed.), *"Recent Trends in International Migration", 2011*, pp. 64–65

359 Underestimations resulted from basing on experiences from previous accessions. Forecasts mostly concerned settlement migration, not temporary stays.

sion social surveys in Poland showed that Poles might emigrate in large numbers. A poll conducted by the Public Opinion Research Centre in 2001 showed that as many as 23% of respondents declared that after Poland's EU accession they would "certainly" or "probably" leave the country to work abroad[360].

The assessment of the scale of migration is a major point of dispute in today's debate. It is difficult to estimate how many Poles have actually and permanently emigrated from Poland. This is due mostly to the incomparability of the systems of registration of migrants (receiving and sending countries use different methodologies) and different interpretations of the available data. There are, of course, various estimates of the scale of the Polish emigration. Based on data on temporary stays abroad provided by the Central Statistical Office and the National Census[361], the number of Polish emigrants who have left Poland for one of the EU countries since 2004 can be estimated at 1.3 million people[362]. However, due to the fluid nature of migration and the relatively high number of people returning to Poland, these data do not present the whole picture. Other surveys estimate the number of people who unregistered their permanent residence in Poland and went abroad in the period of 2004–2012 at around 200 000[363]. The share of post-accession emigrants in the total Polish population is assumed to oscillate around 3.5%[364]. The 2 million Poles staying in EU Member States that the media sometimes report seems exaggerated.

At the beginning, the migration of Poles to the EU was irregular, especially just after EU enlargement. The first wave of migration in 2004–2007 was by far the biggest. After that, emigration gradually slowed down and remigration was on the rise. In 2010, the number of Polish emigrants in EU Member States decreased to 1.6 million (in 2007 it was 1.86 million) to increase slightly in 2012 to 1.72 million. A total of 2.4 million people left Poland to work in EU Member States after 2004, including remigrants and seasonal migrants[365]. The scale of Polish migration differed depending on the region in Poland. Statistically, the greatest number of Poles emigrated abroad from three voivodeships: Opolskie, Podkarpackie and Świętokrzyskie[366].

In terms of migration trends, Poland was not an exception in Central and Eastern Europe. Proportionally to the whole population, emigration on a greater scale was recorded in: Lithuania (11%)[367] and Latvia (about 5–7% of the

360 Survey report by the Public Opinion Research Centre, *Czy chcemy pracować w Unii Europejskiej – opinie Polaków, Czechów, Węgrów i Litwinów*, June 2001, p. 2.

361 The time criterion in CSO surveys: in surveys conducted by 2007 – stay longer than 2 months, since 2007 – more than 3 months.

362 *According to the Central Statistical Office, in 2012 1.7 million Poles temporarily resided abroad. However, we must remember that many Poles were also temporarily residing abroad at the time of accession – according to the census data from 2002, this number amounted to 451 thousand people.*

363 CSO, 2013

364 R. Jończy, *Nowa poakcesyjna emigracja z Polski – perspektywy i zagrożenia oraz możliwości przeciwdziałania (wnioski z badań przeprowadzonych na obszarze Śląska)*in: Duszczyk M., Lesińska M. (ed), *Współczesne migracje: dylematy Europy i Polski*, Warszawa: Centre of Migration Research of the University of Warsaw, pp. 71–72.

365 Wyjazdy zarobkowe za granicą, Public Opinion Research Centre, 2012, p. 2

366 National Census data from 2002 and 2011.

367 Data obtained from the Lithuanian Statistical Office.

population)[368]. Moreover, after 2009 the Baltic States experienced a second wave of emigration caused by the economic crisis. Mass emigration also affected the two youngest EU Members – Romania and Bulgaria and involved about 15%[369] of Romanians and 7% of Bulgarians[370]. Citizens of these states began to emigrate to the EU for work-related reasons still before the 2007 accession.

Table 20. Changes regarding the number of migrants temporarily[371] residing in the EU 27 states in thousands of people

Year	2002 (NC)	2004 (CSO)	2006 (CSO)	2009 (CSO)	2011 (NC)	2012 (CSO)
Number of emigrant	451	750	1 550	1 690	1 622	1 720

Source: Central Statistical Office data and National Census results.

Where did Poles go?

Before Poland's accession to the EU, Germany (37% of all emigrants) and the United States (20%) were the most common destinations chosen by Polish emigrants[372]. After 2004, Poles most willingly went to EU Member States: the UK (30%), Germany (23.5%), Ireland (5.5%), Italy (4.5%) and the Netherlands (4.5%) (CSO, 2012). At the same time, the rate of emigration to the US dropped to 12%. This change was caused by the immediate opening of labour markets in the UK and Ireland for new EU Member States, on the one hand, and the social and cultural factors, including a relatively good command of English among Poles, on the other. The UK and Ireland were destinations most often chosen by mostly young and well–educated people[373]. The labour market structure, in turn, consisting of temporary employment agencies that made finding a job rather easy, high wages and the availability of job offers in selected branches of the economy, made the Netherlands a popular destination for Polish emigrants.

After Poland's accession to the EU, Germany, our western neighbour, continued to be one of the more attractive destinations for emigrants. The number of Poles working in Germany has been systematically growing since 2011 (i.e. the official opening of Germany's labour market). However, Polish emigrants choosing Germany as their destination have a different profile – they are relatively older and less educated.

Contrary to pre-accession fears, Poles did very well in foreign labour markets. Employment rates for Polish emigrants have been high, especially when compared to other immigration groups. They often exceed the employment rates in Poland[374].

To illustrate the above, the unemployment rate in 2013 in most EU Member States was slightly higher than in 2004 – it increased from 9.3% to 10.5%. On

368 Z. Krisjane, *Labour Migration in Latvia after the EU Accession: Trends and Challenges*, 2013., p. 4.
369 *International Migration Outlook*, *2012*, p. 264
370 Eurostat data, 2011.
371 *The time criterion in CSO surveys: in surveys conducted by 2007 – a stay longer than 2 months, since 2007 – more than 3 months.*
372 Data from the National Census from 2002.
373 (Internal analysis) M. Anacka, A. Fihel, P. Kaczmarczyk, *Wpływ członkostwa w UE na krajowy rynek pracy i zjawisko migracji zarobkowej*, *Fundacja Ośrodek Badań nad Migracjami*, Warszawa, December 2013, p. 19.
374 (Internal analysis) M. Anacka, A. Fihel, P. Kaczmarczyk *op.cit.*,p. 30.

the other hand, at the peak of the Polish wave of emigration, i.e. by 2007, unemployment in the major part of Europe decreased to 7% and went up again to 10.5% during the peak of the economic crisis[375]. Those EU Member States that recorded a significant increase in unemployment (especially Greece and Spain) had never been the main migration destinations for Poles. During the whole decade after Poland's accession to the EU, the number of Polish migrants in Greece ranged from 13 000 to 20 000. The situation in Spain was slightly different. In 2009 there were 84 000 people working in Spain. Some of them left the country when the economic crisis became more severe and the labour market situation deteriorated in 2010. At present, there are 37 000 Polish emigrants temporarily staying in Spain[376].

Table 21. Changes regarding the number of migrants temporarily residing in the most important destination EU countries, in thousands of people

Destination	2002 (NC)	2004 (CSO)	2008 (CSO)	2012 (CSO)
UK	24	150	650	637
Germany	294	385	490	500
Ireland	2	15	180	118
Italy	39	59	88	97
Holandia	10	23	108	97

Source: CSO data and National Census results.

It should be emphasised that contrary to some mass media reports (especially tabloids in the UK and the Netherlands) Polish emigrants do not benefit from the social security systems of EU Member States more often than citizens born in those states. Research conducted by academics, among others, from the University of London confirms that the work of emigrants brings more benefits than losses to the budgets of those states (migrants are much less inclined to use social benefits than citizens of those states)[377].

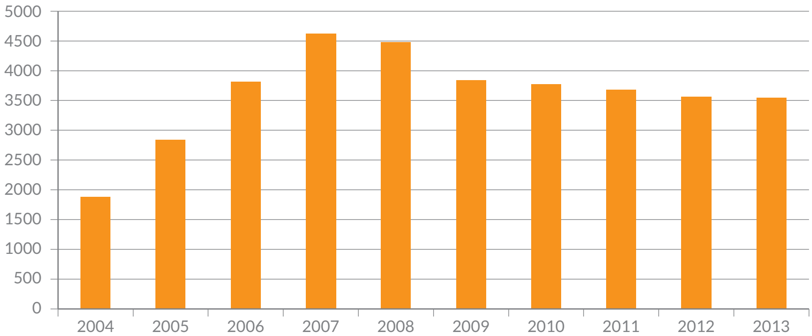
Financial transfers by migrants

An important positive outcome of Poland's accession to the EU and EU migration of Poles were money transfers made by migrants working in EU Member States to Poland. According to the National Bank of Poland estimates, from the second quarter of 2004 until the end of 2013, Polish migrants in EU Member States transferred a total of EUR 36 billion to Poland. During the first three years of EU membership, Poland saw large average increases in money transfers from the EU, amounting to around 33.6% year on year. In 2007, Polish emigrants transferred a record sum of EUR 4.6 billion to Poland. In the following years, the remittances began to fall slightly and later remained at 80% of the 2007 money transfers (in 2013 they amounted to EUR 3.6 billion).

375 Eurostat data for 2004–2012 (as at 08.01.2014)
376 CSO data, 2012.
377 Ch. Dustmann, T. Frattini, *The fiscal effects of immigration to the UK, Center for Research and Analysis of Migration,* CDP no. 22/13, November 2013., p. 27.

This change resulted from, among other things, decreasing labour migration after the crisis of 2008 and a partial deterioration of working and wage conditions in EU Member States. Despite fluctuations of the amounts of remittances, they are still a stable and important factor in Poland's economic growth, like the EU funds and direct foreign investments. Additionally, money remitted by Polish migrants to Poland was a crucial factor impacting the income of Poles (migrants' families) that stayed in the country. This was one of the reasons why even during the global economic crisis the level of consumption in Poland, i.e. the most robust economic growth factor, remained at a constant level[378].

Chart 109. Funds remitted to Poland by Poles working in the EU Member States from 1 April 2004 to 31 December 2013 (in EUR million)



Source: based on data provided by the National Bank of Poland.

Table 22. Changes in balance of fund transfers from and to the EU and transfers made by migrants in the EU states to Poland in 2004–2013 (in EUR billion)

€ million	2004	2007	2010	2013	2004–2013
Balance of EU-PL transfers	1.2	4.6	7.7	11.2	61.4
Transfers by emigrants to PL[379]	1.5	4.6	3.8	3.6	36.0

Source: based on data provided by the National Bank of Poland and the Ministry of Finance.

How did fund transfers made by Polish migrants benefit Poles and Poland?

In 2008, during the peak period of inflow of emigrants' earnings, Poland ranked 5th in the World Bank's global ranking which compared the main recipients of transfers. Countries that ranked higher than Poland included India, China, Mexico and the Philippines, i.e. countries that are more populated and inhabited by more migrants, who create a greater potential for transferring private funds. In 2007, migrants' earnings remitted from EU states constituted about 2.5% of Polish GDP in total. It was definitely the highest share of transfers in GDP among all countries of Central and Eastern Europe.

378 Based on data by the National Bank of Poland; L.Barbone, K. Piętka-Kosińska, I. Topińska, *Wpływ przepływów pieniężnych na polską gospodarkę w latach 1992–2012 – raport Western Union*, Centrum Analiz Ekonomiczno-Społecznych – CASE, June 2012., p. 18.

379 L. Barbone, K. Piętka-Kosińska, I. Topińska, *op.cit.*, p. 15.

During the first three years as of Poland's accession to the EU (i.e. when Poland was allocated EU funds from the budget for 2007–2013), the value of foreign earnings of emigrants remitted home was several dozen percentage points higher than the net financial flows between the EU budget and Poland. Private remittances significantly reduced Poland's negative balance of payments (i.e. the statement of revenues versus expenditures between the Polish economy and abroad)[380]. The transfers also contributed significantly to the stabilisation of the foreign exchange rate in 2008.

EU billions earned by emigrants also impacted the household budgets of many Poles. Most of this money went to inhabitants of small towns and rural areas, especially voivodeships situated in the west of Poland, i.e. those characterised by high migration intensity[381]. Migrants' transfers benefited about 1.2 million people, i.e. 2.5% of Polish households. The foreign remittances are estimated to account for 0.2% of the real increase of households' disposable income in 1996–2011.

An important effect of migrants' financial activity was a slight, but visible reduction of the income inequality in Poland and of the scale of poverty by almost 2%[382].

Official transfers of migrants' earnings represent only a part of all the private transfers sent home. The International Organisation for Migration estimates that they constitute between 33% and 67% of all remitted money. Therefore, the real impact of private transfers on the economic and social situation in Poland could be much greater.

Impact of migration on the Polish labour market

Emigration of Poles to EU Member States after 2004 has had a major impact on the Polish labour market. This impact should be analysed both in terms of employment and unemployment rates and in terms of the changing level of remuneration.

Emigration had a limited and relatively minor impact on the level of employment in Poland. According to surveys[383], labour migration did not directly contribute to a long-term[384] decrease in unemployment in Poland. There are several reasons for this, namely:

- Not all emigrants were vocationally active when they left Poland (some of them were school and college students);
- The positive trend brought by changes in the Polish labour market continued also when the scale of emigration became stable;

380 J. Brzozowski, M. Szarucki, *Ekonomiczne skutki transferowania zarobków przez emigrantów*, Gospodarka Narodowa no. 3/2010, p. 70.

381 L. Barbone, K. Piętka-Kosińska, I. Topińska, *op.cit.*, p. 26.

382 L. Barbone, K. Piętka-Kosińska, I. Topińska, *op.cit.*, pp. 30–33

383 (Internal analysis) M. Anacka, A. Fihel, P. Kaczmarczyk, *op.cit.*, p. 26;K.B. Budnik, *Migration flows and labour market in Poland*, "National Bank of Poland Working Paper" no. 44, Warszawa 2007.

384 *Migration had a major impact on unemployment in the short-term perspective: at the end of 2008 the unemployment rate in Poland was 9.5%, compared to 20% in the period immediately preceding accession.*

- The scale of observable phenomena is not comparable – in 2004–2008 unemployment fell by around 2 million people; during which time the size of emigration, albeit difficult to estimate, was lower.

From this we can conclude that the changes in the level of employment in Poland mainly derived from the changes in the labour market itself and that the good economic situation in 2004–2008 had the biggest impact on job creation[385]. Even though emigration did not cause a definitive and long-term decrease in unemployment, which before accession had been as high as 20%[386], it did visibly translate into vocational activity of different age groups. In 2003–2006, the number of unemployed young people (15–24 years of age) decreased by around 260 000[387].

Yet, emigration to EU Member States did change the vocational activity of Poles in the regions; in some of them, the change had serious consequences. In Opolskie, Świętokrzystkie and Podkarpackie Voivodeships, emigrants who went to work abroad constituted as much as 25–35% of the working age population. As a result, some sectors, the construction sector in particular, experienced labour shortages[388].

A major emigration-related problem is brain drain, i.e. the outflow of highly qualified workers from a country, with which Western countries are also familiar. As many as 16.5%[389]–20%[390] of migrants who left Poland have an academic degree. This percentage is much above the national average. Many of them decided to live in English-speaking countries: the UK and Ireland. However, researchers argue that in the context of the Polish labour market it is not necessarily a talent drain as Poland still has a surplus of educated labour[391].

Wage pressure, an emerging phenomenon, is often mentioned in the context of emigration. However, in the case of Poland, the shortage of workers caused by emigration did little to increase the level of earnings. Immediately after accession, in 2004–2006, salaries increased by just 2–4%[392]. This leads to the conclusion that both the short-term impact of migration on the level of employment and the medium-term impact on salaries were limited.

Demographic effects of migration

Labour migration has a crucial impact on the demographic structure of a society. For Poland, one of the most rapidly ageing countries in Europe with a low fertility rate and a relatively small immigration inflow, keeping young people in the country is extremely important. The structure of Polish emigration shows that as many as 70% of those that emigrated from Poland after 2004 are younger

385 M. Bukowski, G. Koloch, P.Lewandowski, *Labour market macrostructure in NMS – shocks and institutions*, [in:] *Employment in Poland 2007 – Safety on the flexible labour market*,ed. M. Bukowski, Ministry of Labour and Social Policy, Warszawa 2008.

386 *Eurostat data for 2003 – 19.8% (as at 08.01.2014)*

387 P. Kaczmarczyk, *Migracje Polaków po 2004 r. – analiza wpływu na sytuację społeczno-gospodarczą Polski; rekomendacje dla rządu RP*, p. 5.

388 National Bank of Poland, 2008

389 I. Grabowska-Lusińska, M. Okólski, *Emigracja ostatnia?*, Wyd. Naukowe Scholar, Warszawa 2009, pp. 100–101.

390 (Internal analysis) P. Kaczmarczyk, *op.cit.*, p. 2.

391 *Ibidem*, p. 7.

392 (Internal analysis) M. Anacka, A. Fihel, P. Kaczmarczyk, *op.cit.*, p. 38;

than 40[393]. Assuming that temporary migrants do not return to Poland, the age structure of the Polish population would deteriorate even more. This would have a negative impact on the economic stability of the country. Outflow of young, professionally active people lowers the chances for stable economic growth and preserving the social security system.

But the demographic forecast for Poland contains positive elements as well – the proportion of the youngest group, people under 16, in the age structure of society has increased. It may, to some extent, stabilise the social security system. This is particularly important as the emigration of young Poles further lowers the already low fertility rate. But we must dispel the myth that Polish women abroad have more children. A simple comparison of fertility rates of Polish female emigrants in England and Wales (2.13 in 2011)[394] and women in Poland (1.3 in the same year[395]) leads to wrong conclusions, because the age structure of these two populations is different[396].

The opportunity to work and live in the European Union prompted thousands of Polish men and women to leave Poland and their families: wives, husbands and children. Hence, emigration has had a major impact on Polish families and has often led to separation. Sociologists have even coined a new term: "Euro-Orphanhood." This phenomenon is very complex. On the one hand, the psychological and social effect of a parent's emigration on a child's development is no doubt negative; on the other hand, the key reason behind the emigration of parents is to improve the economic situations of their families. According to the Ministry of National Education, in 2010 there were 100 000 children in Poland whose parent or both parents went to work abroad.

The scale and nature of EU emigration of Polish families should be explained in more detail. Cases in which both parents went abroad represent only around 22% of all cases of labour migration. In the vast majority of cases, a child was looked after by one parent while the other went abroad. Such migration is "alternating" and very fluid in nature – periods of separation alternate with families living together. Even though "alternating" migrations disrupt family lives, they should not be assessed solely in negative terms, especially from the point of view of the economic well-being of the family.

The security of the family is definitely more at risk when children are placed in the permanent care of others. In 2007, at the peak period of labour migration, 1299 children whose parents emigrated for work were placed into foster care[397]. This is the actual scale of the rising number of "Euro-Orphans."

Emigration is also responsible for the growing number of Poles marrying foreigners – the formation of mixed marriages or, as the sociologists Ulrich Beck and Elisabeth Beck-Gernsheim put it – "world families."

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393 National Census, 2011 r.

394 O. Dormon, *Childbearing Among UK Born and Non-UK Born Women Living in the UK – 2011 Census Data*, Office for National Statistics, February 2014, p. 2

395 CSO data, 2012.

396 Polish female emigrants aged 20–39 represent 97% of all Polish women in the UK, while birth rate surveys in Poland are conducted on the basis a wider age group: 18–49 years of age. The "Polityka Insight" estimates calculations lead to a conclusion that "partial fertility rate for Polish women aged 25–34 is 0.112 for the Islands, while for women of the same age in Poland it is 0.095".

397 Data of the Ministry of Labour and Social Policy

According to 2012 Central Statistical Office data, the number of marriages entered into by Poles abroad was up by 10%. A large part of that number – around 16 000 – was mixed marriages. It should be noted that the above data represents solely marriages that were subsequently registered in Poland – estimating the actual scale of the phenomenon is very difficult. Mixed marriages often bring a cultural diversity to the family, as well as problems arising from the way the family functions on a multicultural level.

The growing number of divorces represents another negative aspect of emigration. Researchers from the Committee on Migration Studies of the Polish Academy of Sciences[398] point to a very clear impact of post-accession migration on Polish families. More than a half of the divorces in 1990–2011 (52% to be exact) occurred in 2004–2011. There are also clear geographical correlations – regions with the highest divorce rate are voivodeships with relatively high emigration indexes: Dolnośląskie, Lubuskie, Zachodnio–Pomorskie and Warmińsko-Mazurskie.

398 Committee on Migration Studies of the Polish Academy of Sciences, *Społeczne skutki poakcesyjnych migracji ludności Polski. Zarys struktury raportu, problematyki i wniosków końcowych*, December 2013, p. 4.

Poles are enthusiasts of Europe

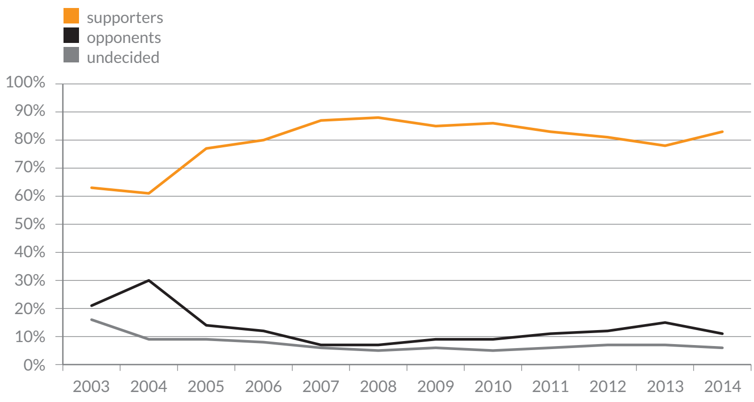
Almost a half of Poland's population considers accession to the European Union to be one of the most important successes achieved by our country in the last century. The historical significance of EU integration is evidenced by the fact that it is mentioned alongside such momentous events in Poland's history as the process of political transition or the regaining of independence in 1918[399].

Polish Euro-enthusiasm

Polish men and women consider Poland's accession to the Community to be something of a civilisational leap and the main stimulus behind important social and economic changes. Like other important historical events, the 2004 EU enlargement evoked two types of emotional responses in Poland: apprehension mixed with expectation. Poland's first ten years in the EU proved to be a great success: expectations were fulfilled, while most causes of apprehension turned out to be unfounded. Evidence of this can be found both in macroeconomic statistics and social surveys. Irrational fears harboured by the majority of Poles proved groundless, while our overall expectations of the European Union became more pragmatic.

In 2003 a great many Poles admitted that they did not expect to gain personal benefits from Poland's accession to the EU. They explained their "yes" vote in the referendum about EU accession through their desire to secure better prospects for their children and grandchildren. A decade later close to two-thirds of Poles admitted that they saw personal benefits in European integration. Among the most important gains that they mentioned were: the lifting of borders and free movement (work, travel), and greater possibilities for development and education (e.g. access to the Erasmus Programme for students).

Chart 110. Support for Poland's EU membership in 2003–2014 (in %)



Source: CBOS, 2003–2014.

399 *Opinion poll on the European Union*, Laboratorium Badań Społecznych, November 2013.

Poles' Euro-optimism was not even dampened by the economic crisis, which hit the EU with many problems and significantly eroded the public mood across Europe. Also, after 2009, some public opinion research institutes in Poland registered certain symptoms of a decrease in Polish Euro-enthusiasm. Yet, everything indicates that they were only temporary[400].

Support for the European Union grows in the polls

According to surveys conducted in 2004, support for the European Union in Poland ranged from around 60% to just under 90% three years later. A brief analysis of survey results shows that in 2004–2007 Poles' support for the EU grew steadily and systematically. In-depth analyses show that the main reason for such Euro-enthusiasm was the expectation of benefits to be gained from membership, as well as to the overall good economic situation, which led to more public optimism. Since 2008, when the economic situation changed, the perception of the European Union has become slightly different. All the same, Poles' support for EU integration continues to be at a higher level than during the period immediately before and after EU accession. Moreover, Poles are among Europe's leaders when it comes to satisfaction with the EU.

A slight fall in support for EU integration could be the result of EU membership losing its novelty. Earlier, Poles associated the EU with new, unknown possibilities: freedom of travel, the opportunity to work in other EU countries, etc. The worsening public mood across Europe caused by the protracted economic and financial crisis and the escalating media reports about the disastrous situation of some EU countries, Greece and Spain among them, also played a role. In late 2013 and early 2014, public support for EU membership in Poland went up again to as high as 83%[401]. Perhaps this high support for the European Union has to do with the situation in the East – in the context of the pro-European inspirations of Ukrainians, Poland's presence in the Community has gained a new quality.

According to studies by GfK Polonia, Poland's membership of the European Union was supported in December 2013 by as many as 83% of respondents, with only 14% against[402]. Surveys conducted by the Laboratory for Social Research (Laboratorium Badań Społecznych – LBS) show that if the accession referendum had been repeated in November 2013, 60% of respondents would have voted in favour of Poland's accession to the EU, and only 13% would have been opposed to accession[403]. It should be noted that the results of the actual accession referendum in 2003 were slightly more positive – 77% of Poles voted in favour of Poland's accession to the EU, while 23% voted against[404].

Benefits brought by the EU

Poles see the advantages stemming from EU membership, on a personal, regional and even national level. What is more, benefits from EU integration

400 *Stosunek Polaków do integracji europejskiej*, CBOS, BS/72/2013 and *Parlament Europejski. Społeczne zaufanie i (nie)wiedza*, Report of ISP, Warszawa 2013.

401 CBOS, *Ukraina między Rosją a Unią Europejską*, January 2014, available on the webpage: http://cbos.pl/SPISKOM.POL/2014/K_008_14.PDF (24.03.2014).

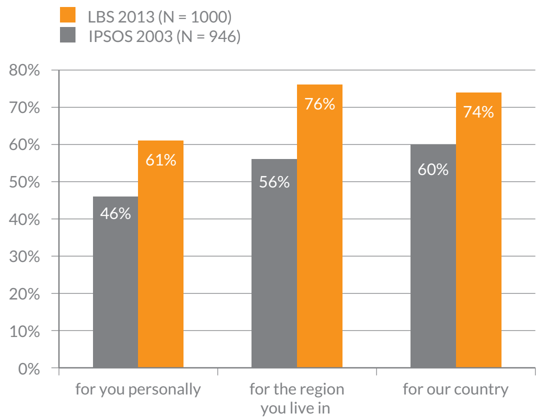
402 Omnibus GfK survey commisioned by the MFA, December 2013.

403 *Opinion poll on the European Union*, *op.cit.*

404 Data of PKW, referendum held on 7–8 June 2003, attendance equalling 59%.

exceed by as many as 20 percentage points expectations towards the EU expressed in 2003. Compared to 2003, the proportion of Poles who have a positive opinion about the EU's impact on their lives has increased by 15 percentage points (from 46% to 61%); the number of individuals who see positive changes at the regional level grew by 20 percentage points (from 56% to 76%), and at the national level, by 14 percentage points (from 60% to 74%). This jump in Euro-enthusiasm is most probably the result of the widely recognised effects of EU membership. In the immediate context, they are represented by the lifting of borders, and opportunities to study and train in different Member States. In the more distant context, they are illustrated by developments in infrastructure and the country's measurable economic benefits.

Chart 111. Perception of benefits of EU membership on personal, regional and national levels



Source: IPSOS, July 2003, commissioned by the MFA, LBS, November 2013, commissioned by the MFA. In 2003 the question was: Do you think Poland's accession to the European Union will be advantageous or not (...), in 2013 the question was: Do you think Poland's accession to the European Union is advantageous or not (...).

The decade of EU membership has effectively dispelled the concerns of the majority of Poles, giving way to the belief that the EU has had a positive impact on most areas of life in Poland, in particular those that earlier had raised the biggest doubts: the economy and agriculture.

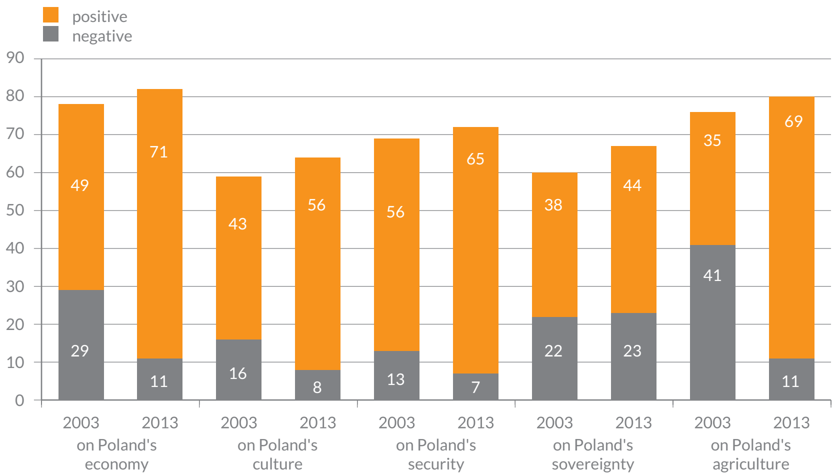
When asked about the potential impact membership could have on specific spheres of life, Poles were not overly optimistic in April 2003, i.e. a little over a year before joining the EU. More than forty per cent (41%) of respondents pointed to agriculture as being most likely to suffer as a result of membership. It was expected that the EU would have a positive impact on national security (56%), the economy (49%), culture (43%) and Poland's sovereignty (38%)[405].

Answers to the same question 10 years later illustrate the vast change in social attitudes. While support for the integration grew in each of the spheres of life surveyed, the percentage of those who are critical of changes in Poland decreased.

405 IPSOS Demoskop survey commissioned by the Office of the Committee for European Integration, April 2003.

The key difference concerns the way EU membership affects Polish agriculture. As many as 69% of respondents (two times more than in 2003) view changes in rural areas as advantageous. The number of Poles believing that the European Community had a positive impact on the Polish economy increased by 20 percentage points. The influence of the European Union on Poland's sovereignty was viewed relatively less favourably (1 percentage point more negative opinions, only 6 percentage points more positive opinions), but even here positive aspects are noticed almost twice more often than losses. Negative opinions may partly stem from the reluctance to comply with EU requirements, which can be seen as a restriction of freedom and of the right to make decisions (e.g. agricultural quotas or the concept of interference with national budgets). Moreover, the aspect of sovereignty features prominently in reports about penalties the European Commission imposes on Poland.

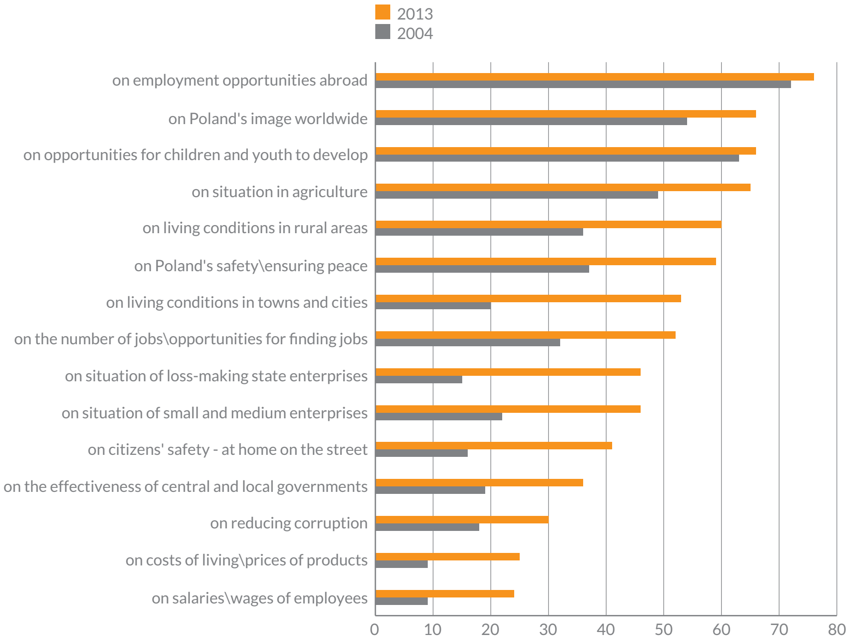
Chart 112. Opinions of Poles on the impact of joining the EU (2003 and 2013)



Source: IPSOS Demoskop (April 2003), LBS (November 2013). In 2003 the question was: whether EU membership would be favourable or unfavourable, in 2013: whether it is favourable or unfavourable.

By looking in more detail at the way advantages of the EU are perceived, it is possible to understand the dynamics of attitudes towards the EU in 2004–2013. Several months after accession, respondents were most likely to notice the beneficial impact of the Union on employment opportunities abroad (72%), development opportunities for children and youth (63%), and Poland's image around the world (49%). In the tenth year of membership positive opinions about the EU's influence on these domains became even stronger. In addition, in 2013 more respondents believed that the European Union was changing for the better Polish agriculture (increase by 16 percentage points), living conditions in rural areas (increase by 24 percentage points), Poland's security (increase by 22 percentage points), and living conditions in towns and cities (increase by 33 percentage points). On the other hand, a relatively large group of Poles (45%) held that the Union was negatively affecting living costs and prices. The chart below illustrates the dynamics of opinions on the EU's advantages in 2004–2013.

Chart 113. Opinions on consequences of joining the EU (2004 and 2013) – percentage of respondents saying the impact of Poland's accession to the EU is "very beneficial" and "rather beneficial"



Source: SMG/KRC commissioned by the Office of the Committee for European Integration, October 2004, LBS commissioned by the MFA, November 2013.

Poles as top Euro-enthusiasts

The fact that Poles can see actual benefits from Poland's accession translates into high support for the EU as such. Compared with most other EU Member States, Poles can even be described as strong Euro-enthusiasts.

This was confirmed by a survey of the US think-tank Pew Research Center conducted in 2013 in seven EU countries – Poland, the Czech Republic, Germany, France, Italy, the United Kingdom and Spain. According to the poll, the greatest support for the European Union was noted in Poland (68%), Germany (60%) and Italy (58%); in the remaining countries no more than 46%[406] of respondents were in favour of the Union. Following the global economic crisis, public sentiment in the entire EU, including Poland, has deteriorated, which is why satisfaction with the EU is several percentage points lower than in older surveys. That said, results from Poland are better than the EU average, and it seems unlikely that this trend should be reversed in the foreseeable future.

Results of a survey conducted by CBOS in cooperation with the Czech (CVVM Sociological Institute), Slovak (FOCUS) and Hungarian (TÁRKI) polling companies, show that of all the Visegrad countries Poles have the highest opinion on the outcomes of their country's membership in the EU. Almost four-fifths (78%)

406 See: http://www.pewglobal.org/2013/05/13/decreasing-faith-in-the-european-union/pg_13-05-10_ss_europeanunion-08/ (24.03.2014).

of all CBOS respondents believe that Poland has benefited from joining the Community, while close to three-fifths (58%) describe our presence in the EU as 'something good' for the country. 60% of Slovaks, 44% of Hungarians and 43% of Czechs can see similar benefits for their countries[407].

It is clear that for Poles the EU is no longer an abstract concept or institution, but rather a real point of reference. The majority of Poles say that apart from Polish identity, they also have a European one. While the EU average is 59%, as many as 67% of Poles feel themselves to be citizens of the Union (the average for new EU countries is 59.9%). Moreover, Poles know more about their rights as EU citizens than the EU average. While only 43% of EU citizens say they have such knowledge, in the EU-9 this figure stands at 45.7%, and in Poland at 56%. This is the fifth best result in the entire European Union, which is quite impressive given the fact that Poland has been an EU Member State for only ten years[408].

Union of all Polish people

Support for Poland's EU membership has been changing not only over time, but also within specific social groups. Key variables that affect attitudes towards the EU include: education, profession, age and income. Despite differences of as much as 27 percentage points, there are far more supporters of EU membership than opponents in all social, demographic and age groups, and among voters of various political parties. In extreme cases this difference can be nine-fold (see students below).

For methodological reasons it is difficult to analyse the support dynamics for Poland's EU membership by looking at the social groups that are most often examined (due to different classifications of specific social groups, among other things). It should be noted, however, that today supporters of European integration can be found in such social groups as people on old-age and disability pensions, housewives, or people with elementary education. In December 2013 Poland's EU membership was endorsed by as many as 89% of housewives, 81% of pensioners, and 78% of Poles with elementary education[409]. These data are quite impressive given earlier fears that the groups in question would have to pay the social cost of Poland's accession to the EU.

The public believes that it is politicians and owners of big farms who have benefited most from Poland's accession to the European Union. They are seen as beneficiaries of membership by 76% and 70% of respondents, respectively. Then come employees of state enterprises (57%), young people (56%), central and local government officials (56%), freelance workers (artists, lawyers and journalists) (41%), and owners of small production or service companies (40%). Interestingly enough, compared with 2004, the unemployed (35%, 19 percentage points more) and healthcare workers (37%, 19 percentage points more) are increasingly being viewed as beneficiaries of integration. At the same time, owners of smaller shops are believed to have lost out most on integration with the EU (57%, 6 percentage points more), and, to a lesser extent, pensioners (37%, 6 percentage points less)[410].

407 CBOS, *Polacy, Czesi, Słowacy i Węgrzy o integracji europejskiej*, June-July 2013, available at: http://www.cbos.pl/SPISKOM.POL/2013/K_137_13.PDF (24.03.2014).

408 Standard Eurobarometer 80, published in December 2013.

409 Omnibus GfK survey commissioned by the MFA, December 2013.

410 Opinion poll on the European Union, Laboratorium Badań Społecznych, *op.cit.*

Notably, the general opinion on the consequences integration has had for specific social groups overlaps with beliefs held by representatives of those groups. Farmers are the only exception. While the public tends to think that they have benefited most from Poland's EU membership, farmers themselves are more sceptical about the impact of the integration on their social group. It is worth mentioning that this group has seen the biggest – by 32 points – spike in support for Poland's EU membership over the past decade. In September 2003, almost as many farmers backed Poland's membership (39%), as opposed it (37%)[411]. Ten years later, 71% of them endorse accession, while only 21% are against. This brings farmers' support for the EU close to the general Polish average (76%).

Students in particular have become ardent advocates of Poland's EU membership. According to opinion polls from November 2013, an overwhelming 93% of them support EU membership. A result much above the average of 76%, it also means that only 7% of students do not support the EU at all. Polish students are aware that they have capitalised on Poland's joining the EU, an opinion shared by 81% of students, 76% of people aged 18–24, and 56% of all Poles[412].

Euro-enthusiasts also abound among entrepreneurs. A large majority of them recognise direct and broadly defined benefits of integration. In November 2013, the percentage in favour of membership among people running their own businesses stood at 86%, and was noticeably higher than the Polish average (76%). This group is also much more likely than the rest of respondents (63% to 49%, respectively) to favourably view the EU's internal market and its positive impact on doing business[413].

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411 *Stosunek do członkostwa Polski w Unii Europejskiej*, CBOS 2003, available at: http://www.cbos.pl/SPISKOM.POL/2003/K_153_03.PDF (24.03.2014).

412 Opinion poll on the European Union, *op.cit.*

413 *Ibidem.*

Alternative scenario for Poland?

Today, ten years into membership, it would be difficult to imagine our country outside the European Union. Many Poles take our presence in the EU for granted – they never pause to wonder what the world would be like now if Poland had not joined the Union. What is more, they fail to see the link between many positive changes of the past decade and Poland's membership of the EU.

To fully appreciate what has happened in Poland since 1 May 2004 we must confront this with an alternative scenario: Poland remaining outside the European Union. What would Poland be like today? Such a hypothetical analysis is necessary to paint the most objective scenario of "Poland outside the EU." In the scenario we try to identify factors which clearly contributed to improving the economic situation in Poland – both those that indirectly helped the economy grow faster, and the (luckily) few that had an adverse effect. The hypothetical scenario[414] was based on an economic model whereby, according to economic knowledge and facts, if Poland had not joined the EU:

- no transfers would have been made from the EU budget to Poland, and Poland would not have paid its membership contribution,
- fewer Poles would have migrated abroad, as the European market would not have been opened to Poles,
- the inflow of foreign direct investments would have been smaller[415],
- the export and import of goods and services would have been smaller[416].

Results obtained this way were compared with actual data and indices compiled in Poland during the past 10 years[417]. The analysis illustrated the

414 An attempt at outlining such scenario was made by the Institute for Modelling and Analysing Public Policies (IMAPP). P. Kowal, J. Kuskowski, J. Zawistowski, *Gospodarcze efekty członkostwa Polski w UE*, IMAPP, Warszawa, 2013 (commissioned by the Ministry of Foreign Affairs).

415 The analysis assumed that joining the EU speeded up the inflow of foreign investments, which in turn accelerated the accumulation of capital in Poland, and the convergence with developed countries. At the same time the analysis left out of account the fact that foreign investors had expected Poland to become an EU member, a sentiment that resulted in higher FDIs right before 2004 than if Poland had not planned to integrate with the EU. This means that the analysis passed over some effects of EU accession; FDI volume in the "Poland outside the EU" scenario may be slightly overrated, while the impact of Poland's membership in the EU is likely underrated.

416 The analysis only looks at the impact of EU membership on the size of net exports (difference between exports and imports). Consequently, the study takes no account of increased effectiveness as a result of a more open economy, and a better allocation of resources within the economy, as well as of advantages for consumers stemming from a wider diversity of goods and services on the market. Moreover, it was assumed that a considerable influx of EU funds and migrants' transfers would substantially boost imports (rather than increase currency reserves). This means that the analysis leaves out or simplifies some real effects that have occurred since Poland's accession to the EU.

417 2013 data are partly based on projections (IMAPP analysis was drawn up in late 2013), and slightly differ from actual data for 2013 that are presented in other parts of this publication.

scale of differences between Poland's development within the European Union, and the theoretical development outside the Union. Also, the exercise explored directions in which EU membership has affected our economy.

It should be noted that the impact of Poland's EU membership can be examined in different ways, as we are not talking here about a single event with a strictly defined beginning or end. While it is relatively easy to determine the volume and impact of transfers from the EU budget, expressing in numerical terms, say, the full impact of foreign direct investments or trade is a much more complex task. The model elaborated for the purposes of this analysis takes into account only direct effects of accession after 2004. In fact, integration with the single market and the ensuing benefits were gradual and began many years before 2004 (after the signing of the association agreement and trade agreements with the European Union in 1991). For this reason, very cautious assumptions were made here about the EU's impact on Poland.

This results from the fact that every economic model simplifies reality to some extent, and cannot reflect all economic connections. That is why the analysis focused on the most important effects brought about by the introduction of the single market.

Furthermore, the analysis did not address more complex and difficult to measure issues concerning legal, political or institutional aspects, which nonetheless changed Poland substantially. These changes significantly altered the perception of Poland, enhancing its image as a stable and predictable country, something that EU membership only confirmed. By the same token, estimates did not take into consideration the free movement of persons between countries, especially within the Schengen area, which was of key importance both for tourism, and for doing business in Poland and beyond. Looking back ten years, it beggars belief that things that we all take for granted today, such as the free movement of persons or the European legal order, were far from certain before accession.

If Poland had not joined the EU…

If Poland had not joined the EU, the economy would on average have grown around 0.7 percentage points more slowly each year between 2004 and 2013. In effect, by 2013 Poland's real GDP would have been over 6% lower. The aggregate GDP for the entire membership period would have been almost PLN 620 billion lower (which corresponds to over one-third of the GDP that was actually generated in 2013). In practice, this means that the annual income per capita would have been over PLN 4 350 lower.

Consequently, the gap between us and the average EU level of economic development (GDP per capita, PPS) would have narrowed not by 1/3, as it actually did, but by a mere 1/5. In this scenario, Poland's economic development today would be similar to that of Croatia[418].

A Poland outside of the EU would have had over half a million more jobless people in 2013, and the average monthly salary would have been PLN 113 (over 3%) lower.

418 However, if we compare Poland's economic development to the EU-15 average rather than the EU-27, the distance from the EU average will decrease by less.

The table below sums up both variants: Poland in the EU (actual) and Poland outside the EU (theoretical). In short, the investment rate in Poland would not have been 18.4%, as it was in 2013, but rather 17.5%. Instead of 67% of the EU average, GDP per capita would have stood at 59%. The average salary would have been PLN 3 500, rather than the PLN 3 614 as it was in late 2013. In 2013 we would not have exported PLN 639 billions' worth of goods, but instead PLN 478 billion. And what sounds especially optimistic, the unemployment rate (as measured by Eurostat) would not have been 10.3%, but as much as 14.2%! In other words, many more people would be jobless, we would be earning less, and the economy would be in a much worse shape (we are leaving aside here political advantages and those which are more difficult to measure economically, such as security and cooperation at the European level).

Table 23. Key simulation results for selected economic indicators

Indicator	Unit	2003	2013		
			Poland outside the EU	Poland in the EU	Cost of Poland's remaining outside the EU
Investment rate	% of GDP	18.2	17.5	18.4	–0.9 p.p.
GDP per capita	EU-27 = 100	49.0	59.6	68.0**	–8.4 p.p.
	EU-15 = 100	42.9	56.9	60.8	–3.9 p.p.
Average gross pay	in 2013 PLN	2967	3501	3614	–113
Exports	in billion of 2013 PLN	275	478	639	–160
Imports	in billion of 2013 PLN	350	475	648	–173
Employment in Poland	%	51.4	54.5	60.7	–6.2 p.p.
Unemployment rate*	%	19.7	14.2	10.3	+3.9 p.p.

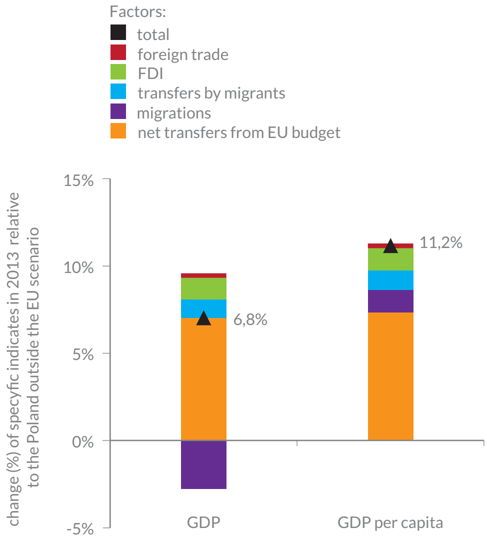
* Unemployment rate was estimated according to the Eurostat methodology.
** European Commission forecast – AMECO (verified data for 2012 was 66.9).

Source: own elaboration on the basis of P. Kowal, J. Kuskowski, J. Zawistowski, Gospodarcze efekty członkostwa Polski w UE, IMAPP; Eurostat; Central Statistical Office (as at 17 March 2014).

Why did Poland develop more quickly in the EU than it would have outside the EU?

The cautious and simplified assumptions underpinning the analysis suggest that it is financial transfers from the EU to Poland that have had an unequivocally positive impact on the economy. In the past 10 years transfers have had an average impact of 0.7 percentage points on the economic growth (the impact of transfers on growth dynamics is expected to wane in the future, as the volume of transfers will stop increasing every year, and the growing overall income of Poland will mean that the ratio of transfers to the GDP is bound to proportionally decrease).

Chart 114. Impact of specific factors on GDP and GDP per capita in 2013 relative to the Poland outside the EU scenario (% of deviation, triangles signify the net sum of all effects)



Source: P. Kowal, J. Kuskowski, J. Zawistowski, Gospodarcze efekty członkostwa Polski w UE, IMAPP.

Considerable importance should also be attached to the inflow of foreign investments to Poland, especially in the initial period shortly after joining the EU. In the first years of membership such investments quickly raised the volume of capital in Poland (2008 saw the most positive impact on GDP). The more rapid accumulation of capital, a result of FDI influx during the first years after Poland's accession, may have entailed a minimal reduction in the investment rate later on, but capital resources were higher than if Poland had not joined the EU[419].

Migrations had a negative impact on GDP, but a positive one on GDP per capita. On the one hand, migrations meant an outflow of labour force. On the other hand, the money migrants sent back home ('private transfers' in economic jargon) increased households' income in the country. The direct impact of a more open economy (intensified foreign trade) is in turn positive, albeit small[420]. The indirect impact is more difficult to pin down, as rising exports increased investments in Polish companies, helped Polish enterprises become more technologically advanced, and indirectly boosted their profits, which were then invested in the Polish economy. It is very difficult to clearly define these dependencies, which many Polish entrepreneurs and their employees are well aware of.

Except for migration, the changes that took place on the Polish labour market after 2004 are largely due to EU membership. As was mentioned before, if Poland had remained outside of the EU, the employment rate in Poland would on average have been 4.6 percentage points lower in the past ten years, with the unemployment rate higher by an average of over 5 percentage points (migrations account for 1.5 percentage points of this figure, while other factors are responsible

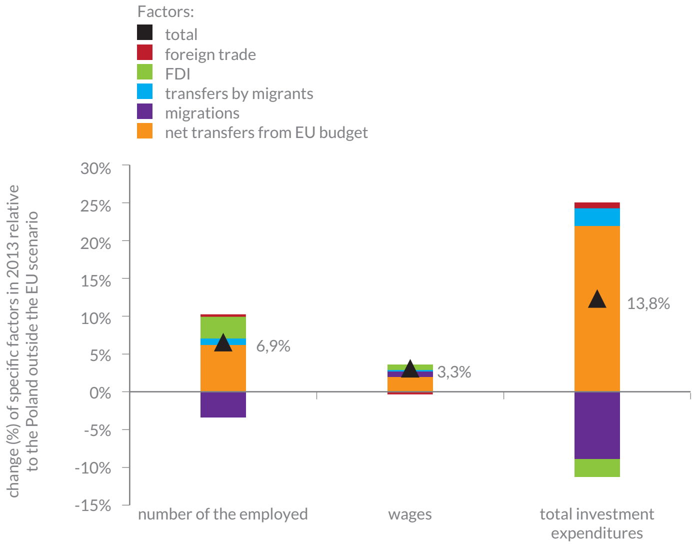
419 Thanks to FDIs, capital volume was approx. PLN 29 billion bigger in 2013.
420 The small scale is also due to IMAPP experts' assumption that the balance of payments is held in equilibrium by imports.

for the remaining 3.6 percentage points). Thanks to integration with the EU, employees' salaries grew faster (by approx. 2.6% on average). Better indices were made possible not only by foreign investments and the ensuing accumulation of capital, but also by better results of Polish companies, broader export orientation and, most importantly, enhanced productivity and the resulting higher wages of Polish employees.

In effect, EU membership led to far more investments in the Polish economy. Investment expenditures in 2013 were 13.8% higher than in the alternative scenario. In 2004–2013, investment expenditures in the economy at large would have been over PLN 200 billion lower if Poland had not joined the EU.

Still, it was changes in demand rather than in productivity or capital volume that contributed most to the positive impact EU membership has had on the Polish economy so far. Caused largely by the influx of money from abroad, the additional demand translated into higher employment of Poles and lower joblessness, which in turn helped increase production. Nevertheless, thanks to Poland's presence in the EU, some consequences of increased productivity of Poles will continue even after the sources of funds have begun to dry up.

Chart 115. Impact of specific factors on employment, wages, and investment expenditures in 2013 relative to the Poland outside the EU scenario (% of deviation, triangles signify the net sum of all effects)



Source: P. Kowal, J. Kuskowski, J. Zawistowski, Gospodarcze efekty członkostwa Polski w UE, IMAPP.

The estimates given above are consistent with many earlier studies and analyses which point to the fact that Poland's EU membership has changed the Polish economy for the better to an extent that would not have been possible if we had remained outside the EU. The positive impact of EU membership will continue in the coming years, but on a smaller scale than to date.

Revision of concerns expressed by Polish citizens before Poland’s accession to the EU

Effects of EU accession on prices

Concern:
PRICES OF GOODS AND SERVICES WILL INCREASE DRAMATICALLY

In the past decade, Poland has recorded the lowest inflation in Central and Eastern Europe after the Czech Republic and Slovenia. An inflationary impulse was recorded only in the first year of Poland's EU membership. However, it waned rapidly – in the following years, inflation gradually decreased.

In June 2013, we recorded a historically low inflation rate since the beginning of the 1989 democratic transition: the annualised monthly inflation rate was just 0.2 per cent, while the inflation rate for the full year remained at 0.8 per cent.

Concern:
POLAND WILL FACE MASS POVERTY, IMPOVERISHMENT OF SOCIETY AND DETERIORATION OF MATERIAL STATUS

The economic growth recorded in the first decade of Poland's EU membership has not only increased the standard of living of Polish citizens but also contributed to a significant reduction in poverty. In 2012, the population living below the poverty line decreased by almost 1.3 million compared with 2005. Moreover, the number of Polish citizens at risk of poverty or social exclusion dropped by 7 million. Since 2004, wealth disparities in Poland have been systematically decreasing.

Trade and foreign direct investment

Concern:
BECAUSE OF THE ABOLITION OF CUSTOMS DUTIES AND THE OBLIGATION TO COMPLY WITH EU REQUIREMENTS, POLISH EXPORTERS WILL LOSE IN COMPETITION WITH THE WEST

The reality has shown that Poland's accession to the EU was an opportunity rather than a threat to Polish entrepreneurs. Our country has made a good use of this opportunity.

Since the accession, Poland's trade volume has been growing steadily, and export has been increasing much faster than import (in 2004–2013, export to the EU increased by approximately 220 per cent, while import increased by approximately 160 per cent).

In 2013, export of goods to the EU reached the historical level of EUR 114 billion (compared with EUR 38.4 billion in 2003). EU accession has significantly improved Poland's balance of trade with EU Member States. As a result, the trade deficit (of approximately EUR 3.3 billion) recorded in 2003 turned into a record trade surplus (of approximately EUR 24 billion) ten years later. Poland owes this result to the dynamic growth in export to the EU, given that we have been regularly recording deficits in trade with non-EU countries.

Concern:

AS A RESULT OF THE ABOLITION OF CUSTOMS DUTIES IN TRADE WITH THE EU, THE NATIONAL BUDGET WILL DECREASE BY PLN 3.5 BILLION

Budget losses that Poland has experienced as a result of the abolition of customs duties (in 2004–2013, only 25 per cent of customs duties went to the national budget) are disproportionately smaller than profits made by Polish entrepreneurs and exporters. Poland's accession to the EU allowed for the abolition of all trade barriers (not only customs duties but also non-tariff trade barriers) which had prevented us from access to important trade partners' markets (such as Germany, Italy, France or the United Kingdom). The average tariff rate in the EU during that period was approximately 6 per cent for all products, including approximately 4 per cent for industrial products and approximately 16 per cent for agricultural products. Thanks to the abolition of trade barriers and price restrictions, and to our presence on the single market, Polish entrepreneurs have turned the trade deficit of -0.5 per cent of GDP before EU accession into a surplus of approximately 1 per cent of GDP. Since 2004, Poland has significantly increased its revenues from other sources, not only balancing but even exceeding previous revenues from customs duties.

Concern:

FOREIGN CAPITAL IS ORIENTED TOWARDS IMMEDIATE PROFIT AND RAW MATERIAL IMPORTS. THIS IS HOW SUPERMARKETS WORK. IT WILL RUIN SMALL-SCALE TRADE IN POLAND

The EU membership has increased Poland's investment attractiveness, which has resulted in a significant inflow of investments. Their total value exceeded EUR 100 billion. Consequently, in recent years, Poland has become one of the leading European producers and exporters in different sectors, such as the automotive, electronic, furniture and household appliances sectors.

The inflow of foreign capital has translated into rising employment rates and industrial production, as well as the much needed modernisation of our economy. Indeed, we have recorded an increase in production linkages with other countries, which aroused so many concerns before the accession. However, Poland is one of the Central and Eastern European countries that is least dependent on raw material imports. Small and medium-sized trading and manufacturing enterprises, the so-called small-scale enterprises, have made a good use of the foreign capital. By providing services to larger firms, they have managed to increase their revenues, employment and growth prospects.

The situation of Polish companies

Concern:

POLAND WILL BECOME A MARKET FOR EU MEMBER STATES' GOODS AND SERVICES. POLISH COMPANIES WILL BE ENDANGERED, SINCE THEY WILL BE LESS COMPETITIVE THAN THOSE FROM OTHER EU MEMBER STATES. THE POLISH MARKET WILL BE FLOODED BY PRODUCTS FROM THE EU. SMALL BUSINESSES WILL COLLAPSE

The situation and the financial performance of the entire sector show that Polish businesses have not only faced up to the challenge of EU accession, but even capitalised on it to develop. In 2003–2012, despite some fluctuations, the total income of Polish enterprises showed an upward trend. An analysis of data gathered between 2003 and 2013 demonstrates that Polish businesses' economic performance was improving faster than the EU average (148.2 per cent for Poland compared to 120.7 per cent for the EU-27).

The fear of the Polish economy being dominated after EU accession by big foreign companies that would force small Polish enterprises out of the market has also proved unfounded. In 2012, 99 per cent of all non-financial corporations were micro- and small enterprises (up to 49 employees), while only 0.2 per cent were big companies (more than 250 employees). Since 2003, the number of small and medium-sized enterprises has increased on average by 27 per cent. The number of micro-enterprises has increased by 3 per cent – since Poland's accession to the EU, more than 52 thousand micro-enterprises have been established.

To conclude, small enterprises have not only maintained their strong position on the local market, but were also one of the largest beneficiaries of EU accession. **The access to the single market translated into an expansion of exports and an increase in production.** For instance, more than a quarter of Polish companies have exported their products. In 2012, Polish companies derived as much as one fifth of their revenues from exports.

Concern:
SMALL AND MEDIUM-SIZED ENTERPRISES WILL HAVE TO INVEST IN NEW TECHNOLOGIES, RESEARCH AND THE HARMONISATION WITH EU STANDARDS. AS A RESULT, MANY OF THEM WILL COLLAPSE

Many companies were concerned over the necessity to increase their modernisation expenditures in order to deal with competition from the EU. Their fears have proved unfounded. Modernisation efforts have increased Polish companies' competitive potential on the single market. Moreover, most of them have been co-financed from EU funds.

In 2004–2013, Polish entrepreneurs carried out more than 62 thousand modernisation projects. The EU funding for these projects amounted to PLN 85 billion. The 2007–2013 financial perspective provided for financial support to a total of 27 thousand companies, including 25.6 thousand SMEs.

The EU rules on marketing goods and the CE labelling system have not hindered Polish companies from trading their products on the EU market, on the contrary – they have helped them. The obligation to comply with new standards has proved most advantageous to our exporters. They no longer have to differentiate between products intended for the domestic market and products intended for EU markets.

Since Poland's accession to the EU, Polish companies have also gained the possibility to use services provided by cheaper Polish notified bodies. Moreover, the domestic market is now better protected from unfair non-EU imports.

Settlements with the EU

Concern:
POLAND WILL BECOME A NET PAYER

Despite concerns expressed before EU accession, Poland has not become a net payer. Since the first year of our EU membership, we have received more from the EU budget than contributed to it. We have also become the biggest net beneficiary of EU funding of all EU Member States.

The ten-year balance of financial transfers between Poland and the EU is positive and amounts to EUR 61.4 billion. This means that for every euro contributed to the EU budget (in total EUR 30.9 billion), Poland received three euros (in total EUR 92.4 billion). In 2013, Poland received EUR 15.6 billion from the EU budget, which corresponded to 4.02 per cent of Poland's GDP.

EU funds

Concern:
POLAND WILL WASTE EU FUNDS

Thanks to funds from EU cohesion policy programmes, more than 160 thousand projects were carried out in Poland within the first decade of EU membership.

These funds allowed us to:

- build 673 kilometres of motorways,
- build or modernise 808 kilometres of expressways; build or modernise 36 thousand kilometres of sewage pipes and 683 sewage treatment plants,
- establish more than 150 thousand new companies,
- open new strategic university faculties that admitted 62.5 thousand students,
- organise or fund classes in kindergartens for more than 133 thousand children,
- grant subsidies to more than 500 thousand households to get access to the Internet.
- The high absorption of EU funds and the efficient use of EU cohesion policy funds result from the following conditions:
- we have capitalised on the pre-accession experience that included using PHARE, SAPARD and ISPA funds,
- we have decided to establish a separate ministry responsible for programming and implementing a large part of the cohesion policy funds,
- we have consistently focused on improving qualifications of central and local officials responsible for programming and implementing cohesion policy measures (also by using technical assistance measures),
- we have been gradually increasing local governments' responsibility for programming and implementing cohesion policy measures, and putting in place a legal framework for the development policy.

Concern:

POLAND WILL INCUR ENORMOUS COSTS ARISING FROM EU, ECB, EIB AND THE UK'S REBATE CONTRIBUTIONS, ADJUSTMENT PROGRAMMES AND STRUCTURAL FUNDS IMPLEMENTATION

By joining the EU, Poland has agreed to assume a number of financial commitments. Apart from the EU budget contributions, including rebate costs (EUR 2 billion), in particular the costs of the UK's rebate, Poland undertook to contribute EUR 17.7 million to the subscribed capital of the European Central Bank (EBC), EUR 92.5 million to the European Research Fund for Coal and Steel (ERFCS), EUR 705.1 million to the European Investment Bank (EIB) (we will contribute an additional EUR 103.5 million in two instalments by the end of 2015) and EUR 434.3 million to the European Development Fund (EDF).

However, these liabilities are much lower than financial transfers from the EU to Poland (a total of EUR 92.4 billion) and profits from cooperation with the EIB, which has granted a total of EUR 36.8 billion in loans for Polish investments since 2004 (Poland has been using the EIB's support since 1991).

In recent years, these funds have mainly been spent on investments in the following sectors: transport and telecommunications (49 per cent), support for SMEs (15 per cent), industry, services and agriculture (15 per cent), energy (8 per cent), urban development, including water and sewage management and solid waste management (8 per cent), education, research and development, and health care (5 per cent). Poland is the sixth biggest EBI beneficiary and the biggest EBI beneficiary among the new Member States.

Poland's contribution to EDF is a part of Poland's official development aid (in 2011 and 2012, it only corresponded to 10.5 per cent of the Polish aid). Its level is based on Poland's international commitments in the United Nations.

Agriculture and fisheries

Concern:

THE SITUATION OF RURAL AREAS WILL DETERIORATE CONSIDERABLY BECAUSE OF COMPETITION, CHEAP FOOD PRODUCTS FROM THE EU, HIGHER COSTS AND PRODUCTION LIMITS.

UNEMPLOYMENT WILL GO UP. EU SUPPLIERS WILL FORCE POLISH FARMERS OUT OF THE MARKET. FOREIGNERS WILL BUY UP POLISH LAND

Despite serious concerns expressed by the rural population (i.e. the most euro-sceptical part of the Polish society in 2004), total exports of Polish agri-foodstuffs have increased almost five-fold since EU accession. In 2003, exports of agri-foodstuffs from Poland to the EU amounted to EUR 2.7 billion, while in 2013 – already to EUR 15.5 billion. Although imports have been increasing just as rapidly, Poland has managed to maintain a positive balance of trade. The surplus increased to EUR 3.8 billion in 2013.

Since 2004, Polish farmers have managed to increase the real value of production by almost a half. Within a decade, the real agricultural income per capita has increased by 190 per cent.

Polish farmers have not suffered because of EU regulations and limits. Poland has managed to increase the milk quota referred to in the Accession Treaty from 8,964 thousand tonnes to more than 10,000 thousand tonnes. Moreover, the milk quota has fulfilled its role – it has increased buying-in prices and reduced price volatility.

Along with EU accession, Poland gained the right to produce a total of 1 672 thousand tonnes of sugar. In 2006, the European Commission gave in to WTO pressure to reform the sugar market. As a result, the EU production quota was decreased by 24 per cent, to 13.3 million tonnes. Poland's quota was reduced by 16 per cent, to 1 405 thousand tonnes. The milk quota will be abolished in April 2015, while the sugar quota – in October 2017. This means that both sectors will only be regulated by market forces. Since EU prices are higher than global prices, the future of the sugar industry and beet growing industry will depend on external tariff protection.

The second concern has also proved unfounded: between 2004 and 2012, foreigners from the European Economic Area bought 3 281 hectares of Polish agricultural properties and forests, which accounts for 0.03 per cent of Polish agricultural lands. Moreover, in 2004–2012, foreigners from the EEA bought or acquired shares in Polish enterprises owning or benefiting from perpetual usufruct of agricultural properties and forests of 25 256 hectares (which accounts for 0.2 per cent of Polish agricultural lands).

Concern:
BECAUSE OF SIGNIFICANT CUTS IN PRODUCTION, THE FISHERIES WILL DISAPPEAR IN POLAND.

EU MEMBER STATES WILL SEND THEIR POWERFUL FISHING VESSELS OF MORE THAN 30 METRES IN LENGTH INTO POLISH WATERS. POLAND HAS ONLY NINE SUCH VESSELS

All Member States have been covered by the fishing fleet reduction programme, not just Poland. All fishing units in the Baltic Sea are only allowed to fish cod, herring, sprat and salmon within the limits called the catch quotas. Landing control and first sale notes are applicable in the entire EU.

Indeed, between 2004 and 2012, Poland reduced its fishing fleet by 37 per cent and conformed with technical limits imposed on the fisheries sector, which decreased fishing in the Baltic Sea by more than 15 per cent.

The initial problems with applying catch quotas to sprat and herring were structural (see the section Transformation of the fisheries sector) and did not result from competition with fishermen from other EU Member States. Today, we fully apply EU catch quotas thanks to the modernisation of our fishing fleet.

According to data produced by the European Commission, in 2003–2010, the level of activity of Danish and Swedish fishing vessels of more than 24 metres in length was stable, and recently, it has decreased considerably. In 2012, Polish vessels of more than 24 metres in length landed more sprat than Danish and Swedish vessels together.

Thanks to EU funds, it has been possible to increase investments, which has allowed for a dynamic development of the fish processing industry. In 2004–2012, the volume of production increased by 40 per cent, while the value of production – by more than 190 per cent. Since 2004, the number of Polish fish processing plants has risen by 83 per cent.

At the same time, employment has been rising in this sector. Since 2003, 5.6 thousand jobs have been created in the fish processing industry. In 2012, the number of persons employed in this sector exceeded 18 thousand, which accounted for 67 per cent of employment in the entire fisheries sector. Consequently, if we consider employment in the fisheries sector as a whole, we will see that the employment increase by 45 per cent in the fish processing sector has compensated the employment decrease by 49 per cent in the sea-fishing sector.

Migration, labour market

Concern:
UNEMPLOYMENT WILL INCREASE DRAMATICALLY

Facts are simple: today's situation in the domestic labour market is much more favourable than before EU accession. According to Eurostat, unemployment decreased from 19.8 per cent to 10.3 per cent within ten years. In this period, it was the biggest unemployment decrease (expressed as percentage) in the region. At the same time, the employment rate increased from 51.2 per cent to 59.7 per cent. Two million jobs were created in Poland.

Concern:
MIGRATION WILL RESULT IN THE EROSION OF THE TRADITIONAL FAMILY. THE NUMBER OF "EURO-ORPHANS" WILL INCREASE

Migrations strongly influence the family structure. Economic migration often means that the family is (temporarily) separated. The Ministry of National Education has estimated that in 2010, the problem concerned approximately 100 thousand children. Usually, only one parent emigrates, while the other takes care of the child. Migrations of both parents are less frequent – they account for 22 per cent of parent migrations. The biggest danger to children is alternative care. However, the phenomenon is relatively minor in Poland.

Concern:
POLES WILL NOT FIND EMPLOYMENT IN EU MEMBER STATES BECAUSE UNEMPLOYMENT WILL INCREASE THERE

Poles have made a very good use of the opportunities offered by the opening of EU Member States' labour markets. Employment rates for Polish migrants are relatively high, in particular when compared with other groups of migrants. For example, the employment rate of Poles in the United Kingdom or the Netherlands is higher than that in Poland.

In 2013, EU Member States' unemployment rate was slightly higher than in 2004. In 2005–2009, it decreased, and it was only because of the global economic crisis that it rose. The EU Member States that recorded a significant increase in unemployment (Greece, Spain) were not Poles' main immigration destinations.

Society, national identity, politics

Concern:
NOT EVERYONE WILL BENEFIT FROM EU ACCESSION. IT WILL ONLY BE PROFITABLE TO THOSE WHO SPEAK FOREIGN LANGUAGES, YOUNG PEOPLE AND POLITICIANS

Benefits from EU membership have proved much more universal than expected a decade ago. All Poles have profited from EU accession, not just chosen social groups. Travelling around Europe without passport control, the possibility to work abroad thanks to the opening of EU labour markets, the possibility to study at foreign universities, the construction of new roads or the renovation of the existing ones, the opening of new kindergartens – those are just some of the benefits resulting from Poland's EU accession. Benefits that all Polish citizens can take advantage of.

But there are many more. Polish businessmen have been offered the opportunity to enter the EU common market (500 million consumers), while Polish farmers have received aid and subsidies, which has initiated the modernisation of the Polish countryside on an unprecedented scale.

Social surveys show that less than a year before EU accession (in June 2003) better prospects for the future generations of Poles, in particular young people, were the second most expected effect of EU integration. The first was the improvement of the country's socio-economic situation. The opinion that EU membership would prove beneficial to young people and future generations was expressed by more than one-fifth of respondents (22 per cent). Moreover, some of the respondents (4 per cent) expected that (the) integration would translate into better access to education, mostly thanks to the possibility to study abroad (BS/110/2003).

Today, 10 years after Poland's accession to the EU, surveys prove that Poles have benefited from the European integration much more than they expected. Already two-thirds (61 per cent) of respondents declare that they feel that EU accession has brought them advantages. After the first decade of EU membership, Poles mostly appreciate the abolition of borders, the better condition of the labour market and greater opportunities to study at home and abroad (Badanie opinii na temat Unii Europejskiej, Laboratorium Badań Społecznych, November 2013).

Concern:
OLD AGE AND DISABILITY PENSIONS WILL DECREASE. AS A RESULT, THE SITUATION OF ELDERLY PEOPLE WILL DETERIORATE

The European Union does not regulate this field of state activity. However, Poland's accession to the EU has had an indirect positive influence on old age and disability pensions: since the accession, social benefits have been increasing as a result of the general improvement of Poland's economic situation. In 2003, the base amount for calculating the level of old age and disability pensions was PLN 1862.62, while in 2013, it was already PLN 3080.80. This increase by 32 per cent above the inflation rate means that today a pensioner can buy one-third more products than before EU accession.

Concern:
POLES WILL BECOME SECOND-CLASS EU CITIZENS

Polish citizens are fully-fledged citizens of the European Union. Since the first day of Poland's EU membership, Poles have been able to travel freely, work freely (since 2011, also in countries which introduced labour market protection periods) and carry out economic activity in the entire EU. Polish citizens have also obtained the right to vote in local elections in their country of residence. The rights of Polish citizens (regardless of the country they live in) are now protected not only by the state but also by the European Commission and the Court of Justice, which have intervened many times in cases where the rights of Polish citizens were violated.

Concern:
POLAND WILL GIVE UP ITS INDEPENDENCE AND DECISION-MAKING SOVEREIGNTY TO EU INSTITUTIONS

Predictions of euro-sceptics that Poland will give up its independence and sovereignty to EU institutions have proved unfounded. Our country not only has remained independent but also has influence on EU policies and development goals. This has contributed to an unprecedented strengthening of Poland's geopolitical position.

Concern:
EUTHANASIA, ABORTION, SAME-SEX MARRIAGE AND HUMAN CLONING WILL BE LEGALISED

Concerns related to excessive liberalisation of moral norms as a consequence of EU accession have proved unfounded. The EU was expected to force Poland to legalise euthanasia, abortion, same-sex marriage and human cloning. The Act on family planning, protection of the human foetus and conditions for permissibility of abortion was last amended in 2002. Same-sex marriage has not been legalised and no provisions allowing for euthanasia or human cloning have been introduced in Poland.

At the same time, EU institutions have not undertaken any steps to impose any legal solutions relating to the aforementioned issues on EU Member States.

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List of Abbreviations

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CAP	Common Agricultural Policy
CBOS	Public Opinion Research Center
CF	Cohesion Fund
CFSP	Common Foreign and Security Policy
Council	Council of the European Union
CPI	Consumer Price Index
CPMP	Chancellery of the Prime Minister of Poland
CSO	Central Statistical Office
DLTC	Dominance of Long Term Contracts
EAEC	European Atomic Energy Community
EAGF	European Agricultural Guarantee Fund
EC	European Commission
ECA	European Court of Auditors
ECB	European Central Bank
ECC	European Consumer Centre
ECOFIN Council	Economic and Financial Affairs Council
ECSC	European Coal and Steel Community
EEA	European Economic Area
EEC	European Economic Community
EESC	European Economic and Social Committee
EFC	European Foundation Centre
EFTA	European Free Trade Association
EIB	European Investment Bank
EP	European Parliament
ERDF	European Regional Development Fund
ERO	Energy Regulatory Office
ESDP	European Security and Defense Policy
ESF	European Social Fund
ETS	Emissions Trading System
EU	European Union
EU-10	Cyprus, the Czech Republic, Estonia, Lithuania, Latvia, Malta, Poland, Slovakia, Slovenia, Hungary
EU-12	Bulgaria, Cyprus, the Czech Republic, Estonia, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia, Hungary
EU-15	Austria, Belgium, Denmark, Finland, France, Greece, Spain, the Netherlands, Ireland, Luxembourg, Germany, Portugal, Sweden, the United Kingdom, Italy
EU-17	Austria, Belgium, Finland, France, Spain, the Netherlands, Ireland, Luxembourg, Germany, Portugal, Italy, Greece, Slovenia, Cyprus, Malta, Slovakia, Estonia
EU-18	Austria, Belgium, Finland, France, Spain, the Netherlands, Ireland, Luxembourg, Germany, Portugal, Italy, Greece, Slovenia, Cyprus, Malta, Slovakia, Estonia, Latvia

EU-2	Bulgaria, Romania
EU-27	All Member States of the European Union without Croatia
EU-28	All Member States of the European Union
EU-8	the Czech Republic, Estonia, Lithuania, Latvia, Poland, Slovakia, Slovenia, Hungary
EU-9	Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Romania, Slovakia, Slovenia, Hungary
FDI	Foreign Direct Investment
FIFG	Financial Instrument for Fisheries Guidance
GDNRM	General Directorate for National Roads and Motorways
GDP	Gross domestic product
GNI	Gross National Income
V4	Visegrad Group
HCP	Human Capital Programme
IA	Impact Assessment
IAFE	Institute of Agricultural and Food Economics
IEP	Innovative Economy Programme
ISPA	Instrument for Structural Policies for Pre-Accession
KE	Knowledge economy
MAD	Ministry of Administration and Digitization
MARD	Ministry of Agriculture and Rural Development
MCNH	Ministry of Culture and National Heritage
ME	Ministry of Economy
MF	Ministry of Finance
MFF	Multiannual Financial Framework 2014–2020
MID	Ministry of Infrastructure and Development
MLSP	Ministry of Labour and Social Policy
MND	Ministry of National Defence
MNE	Ministry of National Education
MSHE	Ministry of Science and Higher Education
MT	Ministry of Treasury
NFP	New Financial Perspective 2007–2013
NPMWWT	National Programme for Municipal Water Waste Treatment
NRP	National Reform Programme
NSRF	National Strategic Reference Framework
OCCP	Office of Competition and Consumer Protection
OCEI	Office of the Committee for European Integration
OECD	Organization for Economic Co-operation and Development
OP DEP	Operational Programme Development of Eastern Poland
OPI&E	Operational Programme Infrastructure and Environment
PARP	Polish Agency for Enterprise Development
PCL	Polish Confederation Lewiatan

PFSA	Polish Financial Supervision Authority
PPO	Public Procurement Office
R&D Center	Research and Development Center
RDP	Rural Development Programme
RES	Renewable energy sources
RIA	Regulatory Impact Analysis
SAPARD	Special Accession Programme for Agriculture and Rural Development
TEC	Treaty Establishing the European Community
TFEU	Treaty on the Functioning of the European Union
TEU	Treaty on European Union
WSE	Warszawa Stock Exchange
WTO	World Trade Organization
EUR	Euro
PLN	Polish Zloty
USD	US Dollar
AT	Republic of Austria
BE	Kingdom of Belgium
BG	Republic of Bulgaria
CY	Republic of Cyprus
CZ	Czech Republic
DE	Federal Republic of Germany
DK	Kingdom of Denmark
EE	Republic of Estonia
EL	Hellenic Republic
ES	Kingdom of Spain
FI	Republic of Finland
FR	French Republic
HR	Republic of Croatia
HU	Hungary
IE	Ireland
IT	Italian Republic
LT	Republic of Lithuania
LU	Grand Duchy of Luxembourg
LV	Republic of Latvia
MT	Republic of Malta
NL	Kingdom of the Netherlands
PL	Republic of Poland
PT	Portuguese Republic
RO	Romania
SE	Kingdom of Sweden
SI	Republic of Slovenia
SK	Slovak Republic
UK	United Kingdom of Great Britain and Northern Ireland

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PL-EU

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