

POLAND IN THE EUROPEAN UNION
– EXPERIENCES OF THE FIRST YEAR OF MEMBERSHIP

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INTRODUCTION

On May 1st 2005 we are celebrating the first year of Poland's presence within the European Union. This provides an obvious opportunity to attempt a recapitulation of the first months of our membership in the European Union. Bearing in mind that preparations for the membership had started a long time before the accession date itself, one can assume with high probability that it will take a period of similar duration to enable more complete conclusions regarding social and economic consequences of the accession. Therefore, the present analysis can neither be complete nor reveal the scale of changes, which can be better assessed only in a longer time perspective. However, in an attempt to meet the growing demand on the part of the public opinion for information concerning effects and assessments of the accession, on the first anniversary of Poland's accession to the EU we tried to strike a balance of experiences from the first months of the membership.

It needs to be stressed that this paper is – by and large – a “photograph” of a specific period, registering major phenomena and trends, which either occurred after May 1st 2004, intensified thereafter or started to bring about specific results after this date. The first months of the membership were a typical period neither in the case of previous accessions nor in the case of Poland. An additional difficulty for us is the fact that the accession date does not overlap with beginning of a calendar year, which significantly limits the use of statistical data, usually based on annual cycles. Therefore, due to the specificity of the period covered by the analysis, mainly its short duration and placement in time – less than full 12 months between May 2004 and April this year – in many instances it is too early to talk of lasting trends, to identify unambiguously accession-related effects or back assessments and descriptions up with statistical data, which are frequently still unavailable or cannot be interpreted univocally. Moreover, the specific character of the last year is determined by the „effect of the first four months“ preceding the accession, consisting in intensification of certain processes as a result of certain actions stemming from fears of both the accession and its outcome (e.g. enhanced trade exchange or price rises). This poses methodological limitations,

stressed by all researchers cooperating in the drafting of this paper, including authors of sectoral analyses developed for this publication. This concerns both economic and social analyses, as well as public opinion polls.

Any assessment of the first year of membership needs to be based on an analysis of facts and data depicting the scale of changes, but it also needs to address expectations in place prior to the accession. Therefore, in aiming at as objective as possible assessment of the course of membership so far, we deemed that the best format would be to make a comparative analysis between present state of knowledge against forecasts formulated at least a dozen months ago on the basis of negotiated membership conditions and contained in the document published by UKIE (the Office of the Committee for European Integration) in April 2003: "*Balance of benefits and costs of Poland's accession to the European Union*"¹. It was not possible to consistently maintain this format across the entire document, given the fact that most of earlier projections were medium-term ones (in time perspective of at least several years) and they are difficult to verify just after a dozen months. However, it is striking that many of those forecasts have already started to materialize while confirming the anticipated change trends. The second method describing Polish realities in the EU after May 1st 2004 applied in the text is a listing of events of recent months compared against fears, expectations and priorities which accompanied us when acceding to the EU. Almost one year after that date, one can try to verify the pertinence of the priorities adopted by Poland in its negotiations for EU membership and attempt at a preliminary assessment of the negotiated membership conditions from the perspective of experiences of the first year of our presence in the Union. It needs to be noted that Poland has secured for itself the position of a net beneficiary in financial flows with the EU budget as of the end of 2004 and that the situation in agricultural sector has improved.

Verification of these forecasts as well as fears and expectations, was largely based on sectoral analyses contained in *Part II*. Those analyses were developed by independent institutions and external experts invited for cooperation. They contain an overview of the membership effects in sectors of key significance for the perceptions of membership. They include, *inter alia*, an impact of the accession on Polish economy, agriculture, labor market, trade exchange, SME sector or public finances. At the same time, the verification also covered issues not touched upon or merely mentioned in the published analyses.

Focusing on economic and social issues, we decided that the picture of the first months of membership would be hardly complete, if it did not cover information and

¹ *Balance of benefits and costs of Poland's accession to the European Union*, UKIE, Warsaw 2003.

assessments of Poland's impact on the decision-making process, shaping of policies and legal acts of the European Union on the forum of its institutions. It was largely due to Poland's efforts that the European Union became more open to Ukraine and unambiguously supported transformation in this country. During the recent months Poland exerted significant influence upon the course of the discussion on the shape of the New Financial Perspective, i.e. the Union's budget for the years 2007-2013, whose biggest beneficiary should be Poland. Moreover, following intense discussions with our active participation, the spring European Council brought about decisions concerning the shape of the Lisbon Strategy and a reform of the Stability and Growth Pact in line with Poland's expectations.

Proceeding to individual parts and chapters of this paper, one needs to stress that we avoided formulation of extreme opinions and assessments of membership. Many phenomena and trends taking place after May 1st 2004 may not be yet unambiguously defined in categories of pros and cons or costs and benefits of membership. Let us take a few examples. Rise in food prices adversely affected everyone, while price drop on some products was felt only by their consumers. At the same time, incomes of persons making living out of farming or trade in farming and food produce went up. Strengthening of the exchange rate of Polish zloty against other currencies is a definite sign of enhanced credibility of Polish economy after accession to the EU, but on the other hand, it can pose a problem for Polish exporters, who – in extreme cases – decided against increasing employment despite sales increase, since they were concerned about meeting the assumed profits. On the one hand, the mass-scale imports of second-hand cars constitute a problem due to adverse effects on natural environment and potential decline in safety on Polish roads, but on the other hand, it radically improved availability of vehicles to indigent consumers and provided a source of employment and income for small businesses importing those cars and providing support and maintenance services, and a significant source of proceeds for municipalities through registrations charges. And finally the key issue for assessment of our membership and our preparation for it; an assessment which one will be unable to make for a long time to come. Here we mean of course absorption by Poland of EU financial aid and putting it into use in bridging the development gap separating us from those numerous Member States that have benefited for a long time from the Community's – and now from the Union's – support. A full assessment of the impact of this assistance on the enhancement processes in Polish economy, infrastructure and environment protection system will not be possible earlier than in a few or at least a dozen years' time.

One of the most obvious facts that needs to be noted at the very beginning, is that many fears expressed before accession did not materialize; mainly those relating to flooding of the Polish market with cheap food from the EU, mass-scale bankruptcies of

SMEs, deterioration of the situation of farmers or buy-out of real estate by foreigners. Sometimes quite opposite processes – usually consistent with experts' forecasts – took place in those areas.

As an example, not only Polish market has not been flooded with supplies of farm produce from the EU, but Polish food has become a driving force of Polish exports and it conquered markets of the Member States. As a result, public mood and perception of the European Union and our membership therein have changed. The fears have sometimes given way to conviction of enhanced opportunities. For example Polish SMEs, after experiences of the first months of our presence in the Union, mostly support membership, seeing it as providing development opportunities to them. The largest growth of the support for accession was noted in farming and food production sectors, where it went up from mere 20% to over 70% in just a few months. Unexpectedly, there is a growing interest among Polish citizens and businesses in purchasing real estate and enterprises west of Polish border, mainly in Eastern Landers of the Federal Republic of Germany, since the real estate there turn out to be cheaper than Polish properties². Poles settling in those lands to some extent contribute to solving of the problems resulting in recent years from huge migration of eastern Germany residents to richer western lands. It is also worthwhile reminding here that before accession no one realized that some facilities would be so significant from the point of view of citizens, for example, the fact that after May 1st 2004 an identity card permits us to travels across almost entire territory of the Community. We take it for granted now and fail to associate this fact with membership in the European Union.

At the same time, there have been certain adverse outcomes after accession, both the envisaged ones, e.g. some inflation rise, and unpredicted ones, like the aforementioned drastic growth in the imports of second-hand cars (throughout 2004 and in the first months of this years over 1 million of them came into Poland). Price adjustments for farm and food products – which contributed most to membership-driven inflation rise – happened so fast and on such a scale that this year one should rather expect stabilization or – in some cases – even a drop in prices. As regards second-hand cars, works have been undertaken on legal solutions limiting their influx on the current scale.

² Due to the change, as of May 1st 2004, of regulations concerning purchase of land by foreigners, and particularly by citizens and corporate entities from member states of the European Economic Area, figures concerning purchase of real estate of 2004 cannot be directly compared with the data of the previous reporting period. Detailed information on this topic is included in the annual report from the Minister of Interior and Administration on the implementation of the Act of 24 March 1920 on Acquisition of Immovable Properties by Foreign Persons.

Given the aforementioned examples, it seems justified to make a statement that might serve as a motto of this publication, that after May 1st 2004 nothing happened that radically and adversely surprised Polish businesses or Polish farmers (and definitely nothing that surprised them in a decidedly negative way).

It turned out that the dozen years of preparations yielded effects. In many areas we are well prepared for membership and we are able to take advantage of the opportunities and possibilities it offers. This is evidenced by such facts as dynamic development of Polish exports and the scale of interest in financial support from the Common Agricultural Policy funds or structural funds, which is frequently exceeding the amounts available during the three forthcoming years.

It seems that, amongst other things, it is in the aforementioned phenomena and trends in the economy, social life or financial issues that one should look for reasons why the “accession shock”, experienced by states of previous accessions and by some states acceding to the EU at the same time as we did, was virtually absent in Poland. This is corroborated by the present level of social support for membership. It is also significant that in comparison with the pre-accession period, now Poles are capable of listing reasons for joining the EU and think that discontinuance of accession efforts would be most disadvantageous for the economy and agriculture.

**EXPERIENCES OF THE FIRST YEAR OF MEMBERSHIP –
MAJOR ELEMENTS**

Developed in the Department of Analyses and Strategies of the Office of the Committee for European Integration on the basis of studies contained in the second part of the general report assessing the first year of Poland's membership in the EU published in Polish (Part II – Sectoral Analyses), information and data from ministries, state government agencies and the National Bank of Poland as well as own analyses. The document presented hereby represents the translation of the first part (Experiences of the First Year of Membership – Main Elements) of the general report. Some footnotes may refer to the second part of the general report (containing sectoral analyses) – available only in Polish.

Chapter I

BALANCE OF COSTS AND BENEFITS OF POLAND'S ACCESSION TO THE EUROPEAN UNION **– FIRST ATTEMPT AT VERIFICATION OF FORECASTS, REVIEW OF CONCLUSIONS FROM SECTORAL REPORTS**

In line with the methodological assumption adopted in the introduction, this chapter of the paper confronts first accession outcomes with the forecasts formulated in the document *Balance of benefits and costs of Poland's accession to the European Union*³, published by UKIE in April 2003. The presented results were largely based on sectoral analyses contained in *Part II*. At the same time, as in the entire *Part I*, certain threads were added, the ones not covered by those analyses or merely mentioned therein. Regarding 2003 forecasts, it is necessary to make a reservation that those forecasts were mainly long- and medium-term ones and so their verification is currently possible only to a limited extent. This does not affect the fact that even today we can talk about emerging phenomena of macroeconomic character trends recorded – *inter alia* – in SME sector, agriculture and on the labor market, which had been anticipated at least a dozen months prior to the accession. The most important of them have been presented and confronted below.

Economic growth, exchange rate of Polish currency, inflation⁴

Despite disadvantageous external economic conditions of Poland's accession to the EU – such as low dynamics of EU states' development or a significant rise in world prices of raw materials and the resulting increase in production costs and prices – Polish economy

³ Hereinafter referred to as „*Balance...*”

⁴ For a more detailed overview see: M. W. Orłowski, chapter “The first year of Poland's membership in the European Union – a macroeconomic perspective”.

cope exceptionally well with merging into EU structures and smooth transition into the Internal Market. Although it is difficult to provide an unambiguous and precise answer to a question what part of changes observed in the Polish economy in 2004 can be ascribed directly and clearly to the process of Poland's integration with the EU and what part needs to be ascribed to membership-independent factors, one can assume that in the recent months the "Union effect" has been an element advantageously affecting the development of Poland's economic situation.

Much points to the fact that the macroeconomic scenario of enhanced economic growth rate after accession proves correct, as anticipated in the *Balance...* GDP growth in 2004 was the highest since 1997 and according to GUS (the Central Statistical Office) data, it amounted to 5.3% in real terms. The major Union effects in Polish economy last year must be the enhanced economic activity during the months preceding Poland's accession to the EU, dynamic growth of Polish exports, particularly in the sectors selling agro-food produce – resulting in a decrease in the foreign trade balance – and a distinct improvement of trust for Poland as a country with a stable economic position⁵.

The scenario of putting economy on fast growth track is confirmed by current forecasts of market analysts, the Ministry of Finance and the European Commission. Analysts estimate that the GDP growth rate in 2005 will amount to 3.9–4.8%. According to estimates of the Ministry of Finance⁶, the GDP growth in the years 2005–2006 should amount respectively to 5% and 4.8% per annum. Moreover, the current, so-called spring forecasts of the European Commission for the years 2005–2006 confirm that Polish economy is on a fast growth track – having GDP growth rates estimated respectively at: 4.4% and 4.5%, Poland is supposed to be, after Baltic states and next to Ireland and Slovakia, one of the fastest developing EU member. Maintenance of this positive trend in the forthcoming years should contribute – as stressed in the *Balance...* – to bridging of the development gap and differences in affluence levels between Poland and old Member States.

As expected before accession, there has been a distinct strengthening of Polish currency. Average monthly NBP (the National Bank of Poland) exchange rates of zloty to EUR and USD dropped respectively from the level of 4.76 PLN/EUR and 3.96 PLN/USD in April 2004 down to the level of 3.98 PLN/EUR and 3.06 PLN/USD in February this year. This happened mainly due to a significant inflow of portfolio capital, related to

⁵ It is worthwhile noting by the way that the conviction of Poland's macroeconomic stability positively affected the credibility of domestic loans and resulted in March 2005 in raising of long-term rating from stable to positive by international rating agencies: *Fitch and Standard&Poor's*.

⁶ Data after: *Update of the convergence program*, adopted by the Council of Ministers on 30 November 2004 and assumptions for the budgetary act for 2005. In April this year the Minister of Finance announced a correction to the GDP growth forecast to the level of 4.5–5%.

reinforcement of confidence among foreign investors and the resulted increase in demand for Polish treasury bonds or stocks, but also as a result of creation of more favourable conditions for expansion of Polish exports. Those factors, through increased demand for Polish currency, could have constituted the effect creating favourable conditions for the strengthening of Polish currency, although the effect itself is difficult to be identified unambiguously. Nevertheless, the appreciation of Polish currency, resulting – *inter alia* – from enhanced credibility of Polish economy as a result of accession, has become a reason for uneasiness on the part of Polish exporters. At the same time, the significant increase in the value of Polish currency has not so far turned out to be a barrier for exports of domestic goods. This does not constitute a significant problem for SMEs sector businesses participating in international trade, which are potentially most at the exchange rate risk. After a period of strengthening of Polish currency, there was a temporary weakening thereof in March this year. Weakening of the Polish currency resulted both from political factors pertaining to possibility of earlier parliamentary elections in Poland as well as economic factors relating to the anticipated rises in US interest rates and forecasts of lowering of interest rates by the Monetary Policy Council. Finally, in March, the average exchange rates of the NBP of PLN against Euro and USD settled respectively at 4.02 PLN/EUR and 3.05 PLN/USD. At the current stage, opinions of market analysts regarding future changes of exchange rate of Polish currency against Euro and USD are divided. Most probably, in short term, the PLN exchange rate will be significantly affected by domestic political situation in the period of the forthcoming parliamentary elections.

Inflation level observed in the first months after Poland's accession to the EU exceeded the range of price rises forecast in the *Balance...* and was much higher than in other countries acceding to the Union in the same period. The *Balance...* forecast that year-on-year inflation will fluctuate within 3–4%, and convergence of domestic prices and EU average will be spread in time. Meanwhile, changes if inflation level recorded in 2004 turned out to be much more dynamic. Inflation made a leap from 2.2% in April to 4.4–4.6% in the subsequent months of 2004, exceeding the forecast threshold of 4%, and then fell in early 2005 to the level of 3.6–3.7%, i.e. the level covered by previous forecasts. The greatest leap in prices was in May and June 2004 and largely resulted from a significant interest in Polish agro-food products recorded after May 1st on the part of foreign recipients. It need to be stressed, however, that the higher level of inflation resulted not only from accession-related factors but also from general trends of world economy, including a rise in prices for raw materials, mainly oil. When formulating forecasts at least a dozen months ago, one did not anticipate such a huge increase of inflationary expectations within the society, which in the first four months of 2004 resulted in “pre-accession consumption boom”, particularly in the groups of goods, whose price rises had been most feared in connection with the accession (e.g. in automotive sector or food products).

Moreover, we had not anticipated such a significant growth in demand for domestic agro-food products from foreign customers, which as a consequence of limited capacity to increase supply swiftly translated into surprisingly fast convergence of prices on agro-food products between Poland and the EU⁷. In aggregate, the prices for food and non-alcoholic beverages rose in 2004 as a whole on average by 6.3% and were one of major pro-inflationary factors (food price rises after May 1st significantly exceeded annual average level and fluctuated across individual months between 7.7–9.3%). Price rise in this area was so high and violent that the convergence process can be deemed as almost complete (this concerns in particular pork, to a lesser degree milk or butter). Any possible further price rise in the agro-food product group will be also limited by a drop in production prices, possible due to lowering of cereal prices and strong zloty. In combination with slow expiration of inflationary expectations and a certain stabilization on the world-wide raw material markets, this should translate into a significant inflation drop this year, which – according to forecasts – can even go down to the level of approx. 2%⁸. The first premises confirming accuracy of the forecasts can be the most recent inflation figures from the Central Statistical Office, which show that annual inflation dropped to the level of 3.7% in January, followed by 3.6% in February this year.

Investments, stock exchange

Membership scenarios designed for the *Balance...* were based on the assumption that Poland's accession to the EU would improve financial credibility and investment-related attractiveness of the country, at the same time leading to enhanced inflow of foreign capital into Poland. At present a full assessment of integration's impact on FDIs is precluded – *inter alia* – by an absence of data from the Polish Information and Foreign Investment Agency concerning the inflow of FDIs in 2004. Nevertheless, much indicates that 2004 was characterized by a significant growth of FDIs compared to previous years – according to NBP figures concerning a balance of payments, investments – calculated on a transaction basis, increased by approx. 50% and amounted to over 6 billion USD. Another effect of an efficient inclusion into the integration process in 2004 proved to be a powerful growth in trust from financial markets in Polish economic policy and the

⁷ It needs to be stressed that the increase in foreign demand occurred when supply of agro-food products was at exceptionally low level. This stemmed mainly from bad crops that inflicted Poland in 2003 and resulted in a rise in prices for feeding stuffs, which largely contributed to a slope in profitability of animal breeding and its subsequent limitation. Additionally, the decline in supply was affected by intervention measures carried out by the Agricultural Market Agency in early 2004. For more details see: the Agricultural Market Agency, *Market Reports*. <http://www.arr.gov.pl>

resulting increase in demand for Polish treasury papers and a drop in the long-term interest rates. Although the forecasts of the *Balance...* did not concern directly the impact integration had upon the situation on the Warsaw Stock Exchange (WSE), the observed increase in 2004 in the interest of foreign investors (both from Europe and the US) in Polish stock market requires a comment. In 2004 indices of WSE (WIG, WIG-20) displayed a distinct upward tendency (annual increase of 27% and 24% respectively). Those tendencies were also maintained in the first two months of 2005, when the publication of good financial results of the largest domestic companies and banks became a major factor stimulating further demand among foreign investors for Polish securities. WIG-20 index exceeded the level of 2000 points, while WIG, by exceeding the ceiling of 28,500 points, broke a historical record.

As a member of the European Union, Poland attracts investors – *inter alia* – by the size of domestic market incomparable with any other of the new Member States. Such positive tendencies in Polish economy as those surfacing in the recent months and the newest positive assessments of the Polish economy presented by international institutions result in increased confidence among foreign investors and stimulate location of capital in our country, which is visible, for example, by developments on the securities market. Investors are interested in companies from CEECs, hoping that the good macroeconomic situation will translate into an increase in companies' profits, and hence in the value of their stocks. In 2005 an additional impulse generating inflow of capital will be the privatization of the Warsaw Stock Exchange. An important element to be noted is the fact that as a result of the accession to the EU, a growing percentage of foreign SMEs are interested in investing in Poland. Polish services sector also enjoys a growing interest – more and more accounting centers or customer service call centers are being opened in Poland.

Trade exchange⁹

So far in the first year of membership, a forecast, assumed in the *Balance...*, that trade balance would deteriorate after Poland's accession to the EU did not materialize. In 2004 the export dynamics continued to visibly exceed the import growth rate. The exports rose significantly also for the goods whose future exports had aroused greatest fears, i.e. mainly meat and milk products. Similarly to some other phenomena relating to the accession, the "effect of the first four months" occurred also in case of trade exchange. The greatest sales dynamics were observed in the pre-accession months – in the period of January–April 2004

⁹ For more details see: chapter *Analysis of the consequences of membership for trade exchange*, developed by the Foreign Trade Research Institute.

exports rose – against a parallel period of 2003, by 44.3%, while it went up by 35% during May–December period (imports went up respectively by 39.7% and 24.8%). The increase of turnover in foreign trade exchange during the months preceding Poland's accession to the EU was largely motivated by fears resulting from the accession (both of psychological nature and those pertaining e.g. to granting of European tax identification numbers, introduction of new reporting rules, fears concerning the compliance with the Union norms and standards by May 1st or expectations of the VAT rates increase). On the other hand, expansion of Polish exports after the accession has resulted first and foremost from the scale of external demand for Polish goods – except for agro-food products, the access conditions to the Member States' markets have not principally changed – and in many cases confirms their competitiveness on the international market.

Positive trends in Polish trade continue in 2005. In January–February period, compared to a parallel period of 2004, exports went up by almost 33%, and imports by over 23%. Negative balance settled at the level of 0.9 billion USD (last year -1.5 billion USD). The trade balance with the EU-24 countries was positive and amounted to over 1 billion USD. The aggregate negative trade balance resulted mainly from a significant deficit in trade exchange with developing countries (in excess of -1.3 billion USD).

There was a thesis formulated in the *Balance...* that despite the growing productivity of Polish businesses the import dynamics will exceed export dynamics after accession, mainly due to real appreciation of Polish zloty and more aggressive market strategies of multinationals. It was envisaged that restructuring of Polish enterprises would allow for improvement of the dynamics of Polish exports not earlier than in the years 2010 – 2014. Meanwhile, from May to December 2004 the negative foreign trade balance went down by almost 1.4 billion USD compared to a respective period of the previous year and the negative balance of trade with EU-15 countries went down by as much as 2.3 billion USD. The greater than expected export dynamics accompanied by a significant appreciation of zloty can indicate that the process of adjustments and restructuring to EU requirements in many enterprises was most probably completed or already much advanced even before the formal accession date. It means that businesses much earlier and better than expected in the *Balance...* became ready for enhanced competition after incorporation of Polish economy into the Internal Market. A good example is the agro-food sector, whose products proved to be a strength of Polish exports. As a consequence of lifting of custom tariffs and extra-tariff barriers, after May 1st 2004 the growth rate of the exports of agro-food products exceeded 60% for EU-15 and 50% for EU-9.

Exports of Polish goods rose dynamically also in groups of individual industrial goods (including, in particular, the automotive, machinery and equipment sector). However, one needs to note that in this case the greatest restructuring changes took place as early

as in the 1990s after the establishment of a free trade zone for those goods, mainly due to a significant scale of foreign investments. Hence the classic, static trade results of integration surfaced in those sectors much earlier.

Certain acceleration of import growth rate, as recorded in the first months of 2004, was mainly speculative in nature, motivated, *inter alia*, by the willingness to avoid higher VAT rates (for goods imported from the EU, e.g. new cars) or higher customs barriers (for goods imported from third countries, e.g. agro-food products). In general, however, import dynamics after Poland's accession to the EU remained at almost unaltered level. This means that there was no "liberalization shock", which was envisaged in the forecasts before the accession. On the other hand, one needs to bear in mind that there exist also other potential factors stimulating import growth after accession to the EU. As pointed out in the *Balance...*, certain boom in imports should result from spending of the EU funds, e.g. for investment purposes. This will happen when domestic investment needs exceed country's own capacities. The effect of the impact of structural funds on investment import growth can show in subsequent years, as the scale of EU financing increases.

Among the Poland's main trade partners the highest dynamics was recorded last year in export to Russia (in contrast to earlier fears), Great Britain, Czech Republic and Italy, and in imports – from China, Czech Republic, Sweden, the Netherlands and Spain. An increase in share of third countries in the Poland's trade needs to be stressed. An increase of imports from third countries after the accession was stimulated by lowering of customs tariffs for industrial goods as a result of adoption by Poland of a common customs tariff. The faster dynamics of the value of industrial goods imports from third countries than with EU-15 and EU-9 countries in the period of May-December 2004 also largely resulted from a rise in oil and metal prices. Larger dynamics of exports to those countries was stimulated first of all by the internal demand and in case of Russia it was reinforced by the appreciation of rouble.

Fears had been expressed before the accession that after May 1st 2004, due – amongst other things – to prior introduction of visa regimes, the economic relations with East European states would worsen. Meanwhile, the prospects of the accession and bringing EU borders closer to the states of the former Soviet Union on the accession brought enhanced interest among Polish enterprises in investments in Russia and Ukraine. In 2004 their value amounted to total of over 100 million zloty (approx. 50 million zloty in Russia and almost 60 million zloty in Ukraine)¹⁰. This interest results

¹⁰ The quoted NBP data constitute an incomplete picture of the scale of Polish investments in those states, since – in contrast to figures from previous years – do not cover information on in-kind contribution and re-invested profits.

– amongst other things – from the fact that both countries have large and absorptive domestic markets and cheaper labor force, but also from the willingness on the part of Polish businesses and entrepreneurs to be ahead of any potential competitors from the old Member States wishing to take advantage of direct neighborhood of those countries to the Union. Polish businesses, enjoying the advantage of having better knowledge of the market and its proximity, cope well against strong competition from business entities from the old Member States and non-EU states.

In 2004 the exports of Polish goods to Ukraine increased by approx. 30% against the level of 2003, reaching the level of about 2 billion USD. An extremely high – almost 89% – increase of exports to Russia made its value exceed 2.8 billion USD (given the size of the Russian market, this value is short of the potential and expectations). Russia ranked the seventh among the largest recipients of Polish goods.

In 2004 there was a significant increase in sales of goods in cosmetics, audio and video as well as household equipment sectors to Russia, which can be related to expansion of the retail network in this country. The scale of export growth could have also partly resulted from renouncement of indirect exports of goods into Russian market through Lithuania and Latvia¹¹. Until May 1st 2004 facilitations in trade turnover and simplified procedures applied by the Baltic states in trade with Russia inclined Polish exporters to use those countries as intermediaries in exports to Russia.

In Poland's trade exchange with eastern neighbors, one can also discern a direct "Union effect". Growth in exports to Russia and Ukraine can be partly related to coverage of Polish producers by export subsidies for trade in agro-food goods, which after May 1st have significantly equalized chances of Polish businesses to compete against other EU companies on eastern markets. In the period of May-December 2004 the expenditure borne by the Agricultural Market Agency for export refunds for individual groups of Polish agro-food goods amounted to approx. 120 million PLN. This growth in Polish exports took place despite large obstacles in the exports of agro-food goods to Russia and absence of changes in trade regime¹². Due to relatively low production costs (against costs in the old EU states) and market proximity resulting in lower transport costs, Polish producers – particularly those from dairy and meat sectors – hope for a significant development of trade exchange with Russia. The issue of phytosanitary checks and withholding of Polish exports of milk and meat thus remain

¹¹ For more details see: the Ministry of Economy and Labor (2005), *Assessment of the situation in Poland's foreign trade after 11 months of 2004*, the Department of Economic Analyses and Forecasts.

¹² For more details see: the Ministry of Economy and Labor (2005), *Assessment of the situation in Poland's foreign trade after 11 months of 2004*, the Department of Economic Analyses and Forecasts.

a significant factor that might hamper development of trade relations with Russia in the forthcoming months. The agreement reached in March this year between the EU and Russia on the introduction of uniform – across all EU Member States – certificates in food exports from the Union to Russia can prove itself to be of great importance for that issue.

New trade conditions after the accession also include coverage by the Community anti-dumping system, which prevents unfair competition from third countries. For example, due to – *inter alia* – Poland's motion, a discussion has begun recently on the European Union forum about conditions for trade in textile goods with China, whose liberalization made it difficult for many Polish firms to maintain their production level.

SMEs¹³

The pre-accession *Balance...* devoted much space to an analysis of the accession results for SME sector due to – *inter alia* – the particular role it plays in Polish economy, significance of this sector in the European Union and fears that were expressed concerning the very future of Polish SMEs in confrontation with the enhanced post-accession competition from companies from old and new Member States. Although the general trend started in mid 1990s regarding the decreasing number of business entities continued last year, there are no unambiguous premises to link this fact to the accession effects.

Forecasts formulated before the accession pointed out, amongst other things, to an expected – in the post-accession period – effect of concentration determined by fragmentation of SME sector in Poland and enhanced competition eliminating the weakest entities from the market. Moreover, this process was to benefit from improvement of operating conditions on an enlarged European market and deepening of the domestic market. So far those projections have not fully turned true. On the one hand, the competition growth and the resulting concentration pressure have been noted by the SME sector¹⁴. In the performed studies, entrepreneurs reported an increase in the number of competitors and decline in profits. On the other hand, the effects of concentration and possible withdrawal from

¹³ For more details see: Institute of Market Economics, chapter *SME sector after accession - assessment attempt*.

¹⁴ PKPP Lewiatan *Competitiveness of SME sector 2005* – results of this year's edition of competitiveness studies in SME sector, performed annually by PKPP Lewiatan, available at: www.prywatni.pl.

the market were relieved mainly by good business outlook in 2004, which in many cases allowed for an increase in sales and expansion of product range with new services and products. Theoretically the first symptoms of the concentration processes in 2004 can be discerned in the data indicating a decline in the total number of start-ups and existing firms in SME sector and in particular among micro-businesses (0–9 employees). At the same time, one needs to take note of the fact that this phenomenon is accompanied by an increase in the number of small enterprises (10–49 employees). Although after just a few months of membership it is difficult to explicitly assess the character and permanence of those phenomena, it is beyond any doubt that an effect of concentration can be a further improvement in competitive position of businesses from SME sector, which presently – in experts' opinions – is too dispersed. One should expect this process to proceed both in the industrial sector and in trade or transport.

When analyzing the processes that took place within the SME sector after the accession to the EU, it is worthwhile to put a particular attention to the transport sector. Elimination of customs barriers brought about improvement of rolling stock's efficiency, accompanied by lowering of costs of cargo freight by exporters, thus resulting in improved profitability of Polish businesses in international transport. This situation benefited both from lifting of physical checks and elimination of administrative and customs formalities, as well as from elimination of costs relating to acquisition of required authorizations¹⁵. On the other hand, savings of transport firms resulting from lifting of borders are partly reduced, *inter alia*, by additional charge in force since 1 January 2005 for transit on German motorways. It is estimated that due to introduction of the so-called MAUT tax, transport costs to, from and through the territory of Germany rose on average by 5–7%. At the same time, one needs to take note of the fact that Poland's accession to the EU and the accompanying liberalization of road transport made Union market open up for small and medium-sized transport businesses, which earlier operated solely on the domestic market due to lack of proper authorizations. Moreover, it was not only the market of old EU Member States but also of new Member States to open up, resulting in launching of new international connections by transport firms. The growing share of incomes in virtue of road transport services in statistics of the balance of payments indicates growth in the significance of such services, particularly in the turnover with the EU states¹⁶.

¹⁵ Moreover, the entrepreneurs have the possibility to obtain information on the barriers to free movement of goods existing on the territory of a given Member State. National Contact Points that are in place in all Member States (Polish Contact Point was established in the Ministry of Economy and Labour, www.blokady.mgpiips.gov.pl) provide all the parties concerned with ongoing information on such events as: blockages of roads and ports, demonstrations against imports of goods from other Member States or a destruction of goods already imported.

¹⁶ NBP, *The Balance of Payments of the Republic of Poland for the third quarter of 2004*, 2005.

The intensified enhancement and efforts on the part of transport firms aimed at a quality improvement and an extension of the scope of offered services, visible in 2004, were targeted at coping with competition on the international market and resulted from the probability of undertaking business operations on the Internal Market envisaged by the entrepreneurs. This does not mean, however, that entry into the EU market will be equally easy for all firms. Many experts point out that as a result of hitherto adjustments the road transport market in Poland has become saturated and competitive pressure has significantly increased. As a result of an over-supply of haulage services the transport rates go down, which can lead to certain changes in the transport sector in short term, including a liquidation of some small businesses.

In reference to some other forecasts contained in the *Balance...*, much indicates to a start of materialization of the projections concerning asymmetrical, to the benefit of Poland's western regions and largest agglomerations, development of the SME sector after the accession. Last year, in the regions adjacent to the western border and in Mazovian region, an increase in the number of SMEs was recorded. Beyond any doubt, the accession to the EU favors the development of metropolitan functions, which stimulates entrepreneurship, hence the increase in the number of enterprises in Mazovian region. On the other hand, an increase in the number of enterprises in some voivodships located at the western border (lubuskie and zachodniopomorskie) can be understood as a response to a growing demand for goods and services offered in the crossborder zone. Poland's accession to the EU resulted in a visible boom in crossborder trade on Poland's western and southern borders. It is estimated that the scale of goods turnover on the fairs adjacent to the border, which went through a stagnation period noted also in months just before accession, went up last year by as much as several dozen percent.

Among the nine voivodships, which recorded a drop in the number of SME sector entities during recent months, almost half were located at the eastern border of the country. At the current stage it is still difficult to assess, to what extent the SME sector situation in the eastern part of the country is actually a part of the scenario assumed before the accession stipulating a slower – compared to other regions – development of this area, even more so in the context of record growth of exports to Russia and high level of turnover with Ukraine. One can expect that due to the inflow of significant EU funds the western voivodships in Poland will improve their chances for the creation of favorable conditions in their area (e.g. development of infrastructure) for the expansion of European corporations on East European markets. The SME sector should as well take advantage of that situation.

One year of membership allows for a preliminary verification of the forecasts of the *Balance...* concerning the sectors that benefited most from the accession. Sectors

dominated by SME sector that recorded in 2004 an improvement in profitability from sales include: manufacturing of timber and timber products, straw and wicker products, manufacturing of clothing and fur products, as well as furniture. At the same time, so far projections have not been corroborated concerning difficult situation in such sectors as: textile industry, manufacturing of leather and leather produce, manufacturing of products from other non-metallic raw materials, manufacturing of metal products, which also recorded growth or good profitability from sales. Moreover, an improved profitability of food and beverages manufacturing sector needs to be stressed since there had been fears that this sector would not cope with competitive pressures on the Internal Market. The success of this sector directly results from the accession effect, in particular from the possibility of the free access that Polish goods have to the EU Member States markets and an increase in prices of food product domestically. In the case of other sectors, the generally favorable economic situation in 2004, both worldwide and domestically, had a much greater influence on their good standing than the accession to the EU. At the same time, the obtained good results confirm that the integration process of those sectors with European economy – as opposed to food sector – had largely taken place earlier.

In the context of the capacity to compete against other entities after the accession, a significant fear reported by SMEs was the necessity to adjust to Community regulations, particularly the technical requirements (certificates), environmental requirements or work health and safety requirements, entailing also certain financial efforts. Available studies¹⁷ indicate that almost 3/4 of all firms did not have to make any special adjustments of their products to EU requirements. This means that they did not incur any additional costs in connection with the accession to the EU and hence the adjustment aspect did not significantly influence their competitive position. However, studies made by the Polish Confederation of Private Employers suggest that not all entities have made full adjustments in this respect yet; this may indicate that either adjustment costs are spread in time or that certain investments are withheld until a support from structural funds is acquired.

It is worthwhile pointing out that enhanced competitiveness after the accession also has not significantly affected perceptions of the sources of building competitive advantage. SMEs have been building their competitive advantage taking into account mainly the price and much less the quality of the offered products and services¹⁸. It is still hardly popular among SMEs to attain a competitive edge through innovativeness. This is evidenced by investment structure, which continued in 2004 and focused on improving manufacturing and servicing capacities.

¹⁷ Professor J. J. Michalek *Perceptions of the impact of changes in technical regulations on the operations of domestic economic entities after accession to the EU*, a study commissioned by UKIE, December 2004.

¹⁸ PKPP Lewiatan, *op. cit.*

Significant expectations among SMEs pertaining to accession concerned improvement of institutional environment and stable economic and legal order. In the opinion of entrepreneurs, the situation in this regard is not improving. What is more, the year 2004 – in their opinion – brought more problems in this respect than there had been before. According to research results, an opinion prevails among entrepreneurs that accession brought a leap in the volume of new legal regulations concerning economic activity, which complicated the existing system, while the adjustment period was short and related to many interpretative vagueness of new regulations. New provisions of the act on goods and services tax and implementing regulations thereto, fundamentally changing the methods of documenting and settling intra-Community transactions, posed particular difficulties to entrepreneurs. This, in turn, indicates the importance of skilled and efficient implementation of Community regulations by the national administration as an integration element.

The *Balance...* envisages that domestic investments in the years 2005 – 2007 will rise at the annual rate of 12–14%. In 2004, however, they rose by mere 5.1%, which may point to a moderate progress in this respect. Moreover, the significant difference as regards figures concerning investments in large enterprises (9.2%) and in the economy altogether may indicate that the SME sector withholds the commencement of investment measures. A majority from among 51% SMEs that declared they did not make any investments in 2004 pointed to unutilized technical resources and partly to an absence of domestic demand or an anticipation of improvement in the economic situation¹⁹. Nevertheless, polling surveys of NBP²⁰ revealed high level of optimism of entrepreneurs as regards investment plans for the current year. A percentage of firms declaring undertaking of investment measures in 2005 has been the highest since 1998.

The *Balance...* stressed that the accession would significantly increase the capacity to obtain support from structural funds compared to the pre-accession funds (PHARE). The first months after the accession showed that despite a generally high interest in structural funds only 3.6% of business entities felt greater – than in previous years (pre-accession funds) – possibilities to take advantage of the Union support. Nevertheless, entrepreneurs declared that EU funds are the second – after bank loans – source to finance investments. Over one fourth of the polled declared willingness to apply for assistance from structural funds this year. Entrepreneurs pointed to a mismatch between the Community support and their needs. In their opinion, a decisive majority of the funds should serve the purpose of direct support to investments. There has been hardly any interest in guarantee funds and funds for consulting and training²¹.

¹⁹ PKPP Lewiatan, *op. cit.*

²⁰ NBP, *Initial information on condition of enterprise sector with particular account taken of the economic situation in 1st quarter of 2005*, the Department of Macroeconomic and Structural Analyses, 2005.

²¹ PKPP Lewiatan, *op. cit.*

Figures confirm the thesis of the significance of structural funds for investments in SME sector. The greatest interest after May 1st 2004 was aroused by the funds available within the framework of an action 2.3 *Improvement of SME competitiveness through investments*. Due to the fact that the deadline for a submission of applications under this action expired in December 2004, one can expect commencement of projects' implementation (project launch does not necessarily entail payment), i.e. investment growth this year. Moreover, the possibility of broad use by SME sector of EU funds should, by decreasing the loan-related risk, improve its credibility – in the opinion of commercial banks – and, at the same time, facilitate the access to additional financing sources.

Upon the accession the market of public procurements opened up to Polish enterprises in 24 EU states with annual value estimated at almost 16% of EU's GDP. Available data indicate that after May 1st 2004, 21 Polish contractors have been granted public procurements in other Member States (as of 1 April 2005). At the same time, so far no fears expressed before the accession that Polish entities would be ousted from public procurement market by foreign firms, have materialized. The position of Polish firms and contractors on the domestic market of public procurements is not threatened by entities from other Member States. Among 3296 public procurements awarded in 2004 on the Polish market, 43 were or will be attended to by foreign contractors. Among 2777 public procurements awarded in the first quarter this year, 48 contracts were awarded to foreign firms. However, one cannot rule out an evolution of this state of affairs in the future and a growth of interest in procurements on the part of businesses from the Member States.

The beneficial effects of the accession felt in the enterprise sector translate indirectly into a banking sector, where a significant improvement of business outlook has been recorded. In 2004 the financial result (net) of the banking sector amounted to 7.3 billion zloty, which indicates a threefold increase against the last year's level. Financial results of cooperative banks last year proved record-breaking – their net profit amounted to more than 60% against the previous year's results, which was mainly related to the provision of services to farmers and unprecedented increase in the number of newly opened accounts. In the months preceding Poland's accession to the EU, interest among farmers in purchase of new machinery created boom for investment loans. Immediately afterwards, the procedural requirements related to direct payments system led to a mass scale opening of personal accounts. It is estimated that currently 80% of farmers have accounts in cooperative banks. Given the number of 1.4 million persons applying for direct payments, one can suspect it translates into a significant number of accounts. Good economic situation in the banking sector should translate into its further development, an extension of the offer for customers and an access to new products.

In more distant future, the positive effects of the Poland's accession to the EU should translate into development of the banking sector in two ways. The first one will be related to general improvement of the country's economic situation resulting from the accession and the growing optimism among consumers and producers, which will result in enhanced demand for banking services. The other one will be related to an access to EU funds for business entities. Due to the rule of refunding the investment costs under EU programs implemented with the support from structural funds and the necessity to bring in the so-called own contribution, a demand for bank loans should rise. Inclination among both households and enterprises to raise loans and incur debts gradually goes up – an increase in demand for the long-term loans and consumer loans has been recorded²². Although the effects of this growing demands are not yet fully visible in the economy, but a release of loans allocated to financing of investments covered by subsidies from EU funds begins to be noticeable among factors affecting growth in demand for loans.

Labor market, migrations for employment²³

In the pre-accession period the issue of the Poland's EU membership impact on the labor market situation was a topic not only of heated public debates but also of forecasts and scientific analysis. The *Balance...* pointed out that membership is just one of many factors to have impact on an unemployment level. At the same time, it was stressed that this impact will be beneficial. It was pointed out, however, that the process of improvement in labor market situation will be long and a radically positive change in the labor market situation cannot be expected earlier than in time perspective of several years (it was forecast that in 2014 the unemployment rate will amount to approx. 12%). Simultaneously, it was explicitly stated that under the scenario of isolation and rejection of the accession no improvement on the labor market could have been hoped for.

An assessment of the impact of Poland's accession to the EU on the labor market needs to take account of multiple conditions and areas. Similarly to other branches, it is impossible to separate results of the integration itself from other factors, which influence the labor market situation in various ways, including the currently observed stabilization and the recorded gradual improvement of the situation on the Polish labor market. It also need to be borne in mind that a key element influencing the labor

²² NBP, *Situation on the credit market. 1st quarter 2005*, 2005.

²³ For more details see: M. Boni, chapter Impact of Poland's accession to the EU on labor market situation.

market in Poland is the specific demographic situation resulting from the post-war demographic lows and highs. Moreover, an indispensable factor for limiting unemployment is a proper policy at central and local levels, restricting barriers to development of entrepreneurship and stimulating undertaking of employment. In this context, Poland's membership in the European Union is only a significant catalyst which needs to be complemented with other measures.

Last year the situation on Polish labor market was clearly affected by a high rate of economic growth and the associated good results of Polish exports, as well as all phenomena accompanying the so-called accession boom (including an enhancement of pro-investment orientation among enterprises). The very direction of this impact did not show itself directly – in a radical improvement in the volume of employed persons or a drop in the number of the unemployed. Hence some commentators characterize relationship between economic growth and labor market in Poland through employment-less growth formula. But it is a fact that after a few years of a distinct unemployment rise and permanent drop in the number of working persons, observed since 1998 (second wave of unemployment in Poland), in 2003 the situation started to stabilize, and in 2004 unemployment dropped slightly and employment went up slowly (drop in registered unemployment from 20% as of the end of 2003 down to 19.1% as of the end of 2004, although there were months with unemployment level of 18.6%). One can assume that this trend – apart from temporary, seasonal disturbances, mainly in January and February (unemployment rate in February 2005 rose to 19.4%, but it should go down in subsequent months), has continued in 2005. It needs to be stressed that from the point of view of the labor market situation 2004 was the best year for Poland since 1997.

Economic processes dynamized the labor market, its fluctuations, flows of labor resources and in some sectors, e.g. in agriculture, limited the rate of employment drop, leading even to a seasonal, large increase in the number of jobs. This was possible due to – *inter alia* – improvement in the profitability of farming production, which in turn results from covering Polish farmers with CAP mechanisms. Paradoxically, from the point of view of the processes of inter-sectoral movements, a rise in employment in agriculture is disadvantageous, since it deepens the share of the employed in this sector compared to those employed in manufacturing and services industries. One should assume, however, that when labor market situation improves, percentage of persons employed in agriculture will start to drop again for the benefit of improved employment in other sectors. Apart from agriculture – mainly due to growing exports – the employment started to rise slowly in enterprises sector. Hence the fears – which were not confirmed by analyses – that after accession to the EU the adjustment processes in enterprises would result in cutting the employment and thus in a radical rise in the number of the unemployed, did not materialize. The opposite happened; earlier restructuring and determination of businesses to maintain cost discipline

(important for competitive advantages in exports) resulted in the beginning of the process of an employment growth. Simultaneously, another socially mythologized (also in the entrepreneurs community) forecast did not materialize – namely the dream that after the accession to the EU the unemployment will start to drop immediately.

The situation on the Polish labor market is deeply diversified regionally. The short period of membership in the European Union has not changed this trend. A slight improvement on the labor market in the period since May 1st 2004 has not been accompanied by the process of regional convergence. In the future one should expect that the unemployment level, as well as the number of available job offers, will continue to be region-dependent. In subsequent years one can expect more than average improvement of the labor market situation in the western regions of Poland, which will take advantage of integration effect to a larger extent than the eastern part of the country. Moreover, situation will improve in big metropolises and in their immediate neighborhood. In the northern and southern regions of Poland it should also gradually improve, but this process will be slower than in the west. The scale of use of membership for improvement in labor market situation will depend on an activity of regional entities (mainly local governments) in the utilization of structural funds and Cohesion Fund as well as in attracting domestic and foreign investments.

An important post-accession phenomenon was a further improvement in flexibility of labor market, forms of employment and work organization as well as growing importance of an active labor market policies – e.g. in the area of subsidizing employment. It benefited from the debate carried out on the forum of Member States about the necessary enhancement of the rules which would make job undertaking more attractive. European Union guidelines in the scope of European Employment Strategy indirectly stimulated undertaking of advantageous measures at national level.

The phenomenon of high growth in the dynamics of changes on the labor market after accession deserves a more detailed analysis. It includes:

- behavior of employers fighting to attain competitive advantage,
- growth in the scale of seasonal rise in the number of working persons, comparable with the periods of the GDP growth high rate in mid 1990s,
- rise in the number of job offers in agriculture,

- lasting growth of employment in enterprises correlated with greater circulation of the employed (growth in the importance of temporary employment, work in shifts),
- prevalence of the productivity growth over salary pressure,
- large scale of subsidies to employment from public funding,
- emergence – due to accession to the EU – of demand for new professions and qualifications, including those in the area of new technologies,
- easy emigration wave, relieving internal tensions on the labor market, of a very slight growing trend compared to previous years.

It needs to be stressed that the expected salary convergence has not taken place since the accession. The high unemployment level continues to efficiently hamper an increase in employees' expectations concerning a rise in salaries. One should expect, however, that as a result of deepening the contacts between Polish business entities and enterprises from other Member States and in connection with the process of economic convergence, this rise will take place but it should not adversely affect competitiveness of Polish enterprises.

A synergy coming from simultaneity of the described phenomena clearly results from the favorable climate for the development of economy, largely related to the accession to the EU. At the same time, it is not a symptom of structural improvement in the situation on Polish labor market, particularly as regards an increase in the role of flexibility, as well as demand for new professions, competences, and diversified (including agricultural sector) seasonal work.

Another positive phenomenon after May 1st proved to be the simplifications introduced in the rules concerning employment of Poles on labor markets of other Member States, including their full opening. On the one hand, the scale of migration to the countries (Great Britain, Ireland, Sweden) that decided to renounce all restrictions did not result in any disturbances on their labor markets and, on the other hand, the fears regarding the so-called brain drainage, i.e. an outflow of highly qualified staff, did not materialize. Examples of emigration of doctors and nurses, which were given much publicity in the first period of membership, did not cause a mass-scale exodus of those professional groups or a danger of shortages of staff in Polish medical care facilities. In general, the migration scale does not adversely

affect the situation on labor markets of the Member States and gives no grounds for concern. In this context, one may assume that prior estimates contained – *inter alia* – in the *Balance...*, envisaging an additional (compared to employment in previous years – approx. 450-500 thousand Polish employees worked lawfully in 2003 in the old Member States /EU-15/) number of approx. 100 thousand Polish employees to undertake jobs in the other Member States in the first two years after Poland's accession (this estimate does not concern persons residing before May 1st 2004 in the Member States and who legalized their employment after Poland's accession to the EU) will prove right. The number of employees permanently residing in Poland who will undertake employment in other EU Member States is unlikely to exceed 600 thousand persons in 2005. Despite the preservation of transitional periods in the access to labor market, Germany will be still the country accepting the largest number of Polish employees.

Union funding supporting various aspects of employment policy and coming to Poland after accession has just started to play a significant role and the first year of membership in the EU was of testing and preparatory character. Therefore it was unable to bring larger-scale, real direct effects. Nevertheless, it is worthwhile to continue efficient elimination of internal barriers and limitations to absorption of Union funds and take proper advantage of the dynamics of entrepreneurs and NGOs in applying for assistance funding.

Agriculture²⁴

The first year of membership brought significant benefits to Polish agriculture. It proved that farmers would be the social group to feel the beneficial effects of membership the fastest and most clearly. The scenario of the *Balance...* started to materialize – the one assuming a decisive change in scale of financial transfers for the benefit of agriculture and rural areas, which happened due to a swift commencement and an efficient course of the process of disbursement of direct payments. The range of agricultural policy instruments available to farmers was expanded. Amongst other things, farmers gained an access to financing for the enhancement of farms (e.g. support to semi-subsistence farms within the framework of the Plan for Development of Rural Areas /PDRA/). Almost 1.4 million of filed applications and problem-free course of disbursements confirmed the success of the first stage of direct payments scheme. Now farmers must use the

²⁴ For more details see: W. Poczta, Ł. Hardt, chapter *Effects of Poland's integration with the EU for agriculture and rural areas – assessment*.

allocated funding effectively. By the end of March 2005 ARiMR (the Agency for Restructuring and Modernization of Agriculture) made disbursements of approx. 6.5 billion zloty to about 1.3 million applicants. Currently, the last transfers are made to approx. 100 thousand farmers whose applications had to be verified or corrected.

Moreover, instruments aimed at guaranteeing fixed sale prices to farmers, thus ensuring the profitability of farming production, were implemented as an intervention on the agricultural market under CAP. In 2004 the ARR (Agricultural Market Agency) implemented intervention mechanisms on the markets of: cereals, meat, milk, potato starch, sugar, dried fodder, tobacco, fruit and vegetables. For the first time in many years, the purchases were made fast and efficiently and farmers did not have to queue for many days. From May 1st 2004 to 25 February 2005 the Agency paid out the total of 290.2 million zloty in virtue of the implemented intervention mechanisms. The largest payment amounts concerned export refunds, particularly the exports of: sugar – 102.1 million zloty, dairy produce – 46.6 million zloty, beef and veal – 18.9 million zloty, potato starch – 2.3 million zloty. From November 2004 on, the intervention on the cereal market has been in place. For the intervention purchase of cereals, the ARR has so far expended over 27 million zloty, and for storage of the cereals the entrepreneurs have received 2.3 million zloty.

Moreover, measures under PDRA and Sectoral Operational Program (SOP) "Restructuring and modernization of the food sector and development of rural areas, 2004-2006" are gradually launched. Their share in financial transfers for the benefit of agriculture and rural areas will gradually grow. By 1 February 2005 9 actions were launched under PDRA, including "The structural rents", "The support to farming activity in areas of disadvantageous farming conditions", "The support to agricultural-environmental undertakings and improvement of animal welfare" and "The supplementation of area payments". Launching of financing for action 10 – Projects under Regulation 1268/1999 is scheduled for the second half of 2005. By 9 March 2005 over 2.1 million applications were filed for financial support under 9 actions and payments under the action "The structural rents" were implemented in the amount of over 0.2 million zloty, "The support to farming activity in areas of disadvantageous farming conditions" in the amount of almost 900 million zloty, "The support to agricultural-environmental undertakings and improvement of animal welfare" in the amount of almost 33 million zloty, "The supplementation of area payments" in the amount of almost 970 million zloty. In many PDRA activities, e.g. "The support to semi-subsistence farms", the number of submitted applications already exhausts virtually a half of the funding allocated to their implementation in the period of 2004–2006.

10 out of 13 actions were launched under SOP. By 9 March 2005 the total of over 29 thousand applications were filed for the co-financing of projects implementation and

over 4.8 thousand contracts were concluded for the amount of over 311 million zloty; out of those 793 projects were already carried into effect and the total of over 31.3 million zloty was disbursed. Particular interest was aroused by support provided to young farmers (approx. 16.7 thousand applications as of 9 March this year) and the action Investments in farmholds (approx. 9.6 thousand applications). Interest in those programs, particularly the program of support to young farmers, may testify to overcoming of pessimistic attitudes within a part of farming community.

In the first year of membership the exceptionally good economic situation in the agriculture and food sectors was augmented by the inflow of EU funding under CAP. The agro-food sector – after lifting of the customs for trade in agricultural goods between Poland and the EU – confirmed its competitiveness on the Internal Market, which translated into an enhancement of the growth dynamics of Polish exports of agro-food products and a positive balance of trade in those goods. In this context, one need to stress that the *Balance...* did not offer an unambiguous forecast concerning dynamics of exports and imports of those goods due to problems in assessment of competitiveness of Polish agro-food sector. It was pointed out that, on the one hand, the removal of custom duties in agricultural products trade between Poland and the EU and candidate countries will ensure the Polish agro-food sector a much easier access to the market of an enlarged Union, but, on the other hand, a stronger competition was expected on the Polish market. Meanwhile, the agro-food production proved to be an export hit. Growth rate of agro-food goods export to EU-24 states was almost twice faster than an import growth rate and in the entire 2004 it amounted to over 40% (value of agro-food exports amounted to approx. 3.7 billion euro in 2004 against 2.6 billion euro in 2003). On the other hand, the imports of agro-food products from EU-24 rose by approx. 25% against previous year (2.7 billion euro in 2004 against 2.2 billion euro in 2003), but it was not a competition for food produced in Poland. A high foreign demand for Polish food resulted in a reduction of its supply on the domestic market and, as a consequence, in price rises. This rise, although it adversely affected consumers' wallets, constitutes another factor contributing to a growth of farmers' incomes. Currently, the price level for many farming products in Poland, e.g. pork, reached the EU average level. This may lower the export dynamics, which has so far resulted from beneficial pricing *terms of trade*.

In the pre-accession period much emotion and controversy was aroused by the expected effects of accession for Polish agricultural sector. The significant expansion of exports and positive and constantly improving balance of the trade in agro-food products with EU Member States is one of significant elements indicating that Polish farmers are guaranteed equal competition conditions on the Internal Market, which was one of Poland's major negotiation priorities. Moreover, the mechanisms were established to guarantee the best possible utilization of the EU funding allocated for the years 2004 – 2006. However, a

full assessment of the impact of transfers from EU budget on the profitability of Polish farmholds and improvement in an efficiency of production will not be possible earlier than in a few years time. It also turned out that for many enterprises in the agro-food sector transitional period for adjustments to EU requirement proved unnecessary since, fearing they would lose benefits resulting from the access to the Internal Market, they carried out the necessary adjustments even before the accession. It is worthwhile adding here that as SAPARD funds did before, direct payments and other instruments presently stimulate modernization of many farmholds – similarly to an improvement in the profitability of farming production. On the other hand, a rise in agricultural land prices results mainly from an enhanced interest in farming activities in the face of the possibility to take advantage of the direct payments and other forms of Union support as well as good economic situation for domestically produced agro-food goods.

The first year of membership also brought the first measurable benefits to fishing sector, which currently goes through a difficult process of restructuring. The fears that fishermen would not become beneficiaries of the process of Poland's integration with the EU did not materialize. In 2004, within the framework of the Sectoral Operational Program (SOP) "Fisheries and fish processing 2004–2006", the process of restructuring of the fishing fleet making catches on the Baltic was started with the fundamental aim of reducing the excessive catching potential by withdrawal of a part of the fleet. The measures being implemented within the framework of the SOP aim at counteracting unemployment among fishermen. They include a provision of financial assistance to the fishermen who lost jobs on withdrawn fishing vessels or intend to re-qualify or start up other fisheries-related activities. The program also provides for a financial assistance to fishermen in pre-retirement age. By 21 March this year fishermen filed 264 applications under the SPO in ARiMR concerning salvage of cutters and boats for over 295 million złoty. The Agency concluded 193 contracts with fishermen who filed the applications. The first payments to 27 fishermen in the amount of over 18 million złoty were disbursed on the turn of March and April this year. Fishermen filed 353 applications for the compensation regarding their jobs lost on fishing vessels.

Environmental protection

Environmental protection is one of the areas where verification of forecasts contained in the *Balance...* is the most difficult one to do after just one year of membership. This stems mainly from the fact that Poland was granted many few-years transitional periods for the adjustments to the Community environmental protection standards. So many changes are still ahead of us, in the area of water and sewage management, waste

management or reduction of pollution emissions into air, which entails long-term investments. Therefore, the benefits relating to an improvement in the quality of the environment and any possible impact of adjustments in this area on competitiveness of Polish economy will only occur in the long run. Still even now one can point to the first examples of the effects concerning the adoption of the Union standards and utilization of financial support in this area. Although the comprehensive statistical data concerning environment in 2004 are still missing, one can state that an improvement against previous years has been visible, which results from the realized investments in adjustment²⁵.

For some enterprises the accession to the European Union can signify the necessity to stop their business activity due to a failure to adjust to the introduced environmental protection standards. Such situation can concern, e.g. the firms that did not obtain the so-called integrated permit before the required deadline. As of 21 March 2005 the proceedings are instigated against 2 plants for manufacturing of cement clinker or calcium, and against 32 plants for pigs breeding, which failed to meet this obligation. Also landfills of waste will be closed if they fail to meet technical and organizational requirements as set forth in Directive 99/31/EC on the landfill of waste. Closure of 230 out of the existing 1367 landfills of waste is planned for the years 2004–2005. At the same time, a construction of 32 landfills of waste meeting proper requirements and modernization of another 559 is planned.

The accession to the European Union created an opportunity to obtain significant funding for environment protection from both the Cohesion Fund and structural funds. In the years 2004 –2006 alone this amount is approx. 2.5 billion euro. The European Commission, as of 6 April 2005, made a decision on co-financing 22 out of 35 projects submitted last year for the total amount of 674.3 million euro, vast majority of which concern water and waste water management. It is estimated that the implementation of all 35 projects would allow for an improvement in quality of water and sewage for 25% RLM²⁶. Projects launched under ISPA fund are continued under Cohesion Fund.

²⁵ This surfacing positive trend is evidenced – *inter alia* – in the results of a listing of discharges of particularly dangerous substances by industrial plants to waters and sewage system that was made before the accession to the European Union. The listing covered 1234 industrial plants, mainly in manufacturing and services sectors, whose waste might include dangerous substances. As a result of the performed analyses, it was discovered that contents of dangerous substances in waste waters from industrial plants are not large. Only in 222 enterprises, i.e. in approx. 18% of the plants covered by the listing, it was discovered that the norms stipulated in Directive 76/464/EEC on pollution caused by certain dangerous substances discharged into the aquatic environment of the Community, were exceeded.

²⁶ RLM – equivalent number of residents, 1 RLM is a load of organic, bio-degradable substances expressed as an indicator of five-day biochemical demand for oxygen of 60 g/day; it is a measure of the impact of projects in the area of water and sewage management.

Financial flows²⁷

The dynamics and a scale of financial flows between Poland and EU budget after May 1st has been so far consistent with the assumptions formulated in a macroeconomic scenario of the *Balance...*. 2004 figures confirm that in the first year of membership Poland attained the position of net beneficiary in flows between Poland and EU budget. In 2004 the balance of the Poland-EU budget settlements amounted to 1554.083 million euro, i.e. 6093.461 million zloty net in favor of Poland. This means that, as expected, one of the key priorities of membership was met – namely Poland has the position of a net beneficiary of the EU budget. According to preliminary estimates, almost twice higher inflow of EU funding in 2005 should result in a significant rise in the positive balance of financial flows between Poland and the EU – it is estimated that net position may reach the level close to 15 billion zloty²⁸.

Table 1. Balance of the financial flows Poland-EU budget in 2004.

Balance of the financial flows Poland-EU budget	Thousand Euro	Thousand zloty
Transfers from the EU January 1 – December 31, 2004	2 793 002	11 918 736
Cumulated contribution in 2004 (as of December 31, 2004)	1 238 919	5 825 275
Poland's net position in 2004 (as of December 31, 2004)	1 554 083	6 093 461

Source: the Ministry of Finance

From May 1st to 31 December 2004 the transfers from the EU budget to Poland increased and changed their character. Apart from transfers within the framework of pre-accession financing, Poland gained an access to other funds transferred under individual EU policies. By 31 December 2004 the total amount of 2793.002 million euro, i.e. 11 918.736 million zloty came to Poland.

Table 2. Transfers to Poland under pre-accession funds (January 1 - December 31, 2004)

Transfers from pre-accession funds	Thousand Euro	Thousand Zloty
Total	1 009 950	4 292 287
PHARE	546 720	2 400 061
SAPARD	171 766	730 007
ISPA (Cohesion Fund)	273 463	1 162 219

Source: the Ministry of Finance

²⁷ Based on the information from the Ministry of Finance. See also the chapter: *Short-term effects of the integration for fiscal policy – balance sheet of the country, state budget and public finance sector (CASE)*.

²⁸ Budget bill for 2005.

Beside the pre-accession funds, after May 1st this year Poland received 840.975 million euro (3574.144 million zloty) as an advance payment for the structural funds, 286.640 million euro (1218.220 million zloty) for the Rural Development Program (RDP) and the amount of 10.786 million euro (45.691 million zloty) for market interventions under CAP. Moreover, in the discussed period Poland received 541.299 million euro (2367.752 million zloty) within the framework of an instrument improving the budget's liquidity and 103.352 million euro (420.642 million zloty) under the Schengen Financial Instrument, constituting a direct income of the state budget. Last year there were no funds coming for direct payments under CAP. The expenditure within the framework of financing this policy were borne by the state budget and they have been reimbursed by the EU since the beginning of 2005. In 2004, a part of the expenditure (41.821 million euro, i.e. 172.886 million zloty) was financed from the advance payment transferred under RDP.

In virtue of the so-called own resources (contribution to the EU budget), Poland paid in 2004 into the EU budget: 853.341 million euro (4 012.322 million zloty) within the framework of the GNI-based resource, 280.495 million euro (1 318.858 million zloty) within the framework of the VAT-based resource and 105.084 million euro (494.095 million zloty) within the framework of the so-called traditional own resources. This yields the total payment into EU budget of 1 238.919 million euro (5 825.275 million zloty). Since among all EU financial transfers only the instrument improving budget's liquidity and the Schengen Financial Instrument constitute the income of the state budget, the balance of its settlements as of the end of 2004 was negative and amounted to -594.268 million euro.

In 2005, a total amount of almost 25 billion zloty should come to Poland from the EU budget. This amount will be composed of the pre-accession funds financing of 6031 million zloty, financing from the structural funds and the Cohesion Fund – 10906 million zloty, the Common Agricultural Policy – 4728 million zloty, the Transition Facility – 98 million zloty, the Schengen Instrument – 459 million zloty and the instrument improving budget's liquidity – 2705 million zloty²⁹. The amount of payment under own resources in 2005 is estimated at 10.2 billion zloty. State budget funds will be the source of financing for the contribution into the EU general budget.

Although the net position as of the end of 2005 should be significantly positive, current settlements with EU budget in initial months of this year can prove negative. This results from uneven spread across time of the annual contribution and the specificity of incoming transfers. In the first two months of 2005 Poland paid more into the EU

²⁹ Budget bill for 2005.

budget than received from it. The negative settlement balance as of the end of February this year amounted to -564.2 million zloty, whereas during February it was positive and amounted to 576.2 million zloty. Apart from the pre-accession funds, in January and February 2005, Poland received significant funding under CAP (total of approx. 0.8 billion zloty), mostly a refunding of direct payment costs (0.7 billion zloty). Every month Poland receives also subsequent installments of the instrument improving its budget's liquidity (in the first two months – 0.6 billion zloty). In the subsequent months the balance of settlements with the EU budget should significantly improve. In March an important impact will come from the accumulation of refunds under a direct payments scheme.

Although at the present stage a complete and reliable assessment of the level of absorption of the EU funds is impossible – it will not be possible before completion of all projects, i.e. after a submission and an approval of the so-called final reports, which results from the specificity of procedures that determine ways of utilizing EU funds – but one need to take note of the big (and constantly growing) interest among potential beneficiaries in the use of structural funds of the European Union. This is evidenced, first of all, by the large number of filed applications for the co-financing of projects in relation to the level of commitments for the years 2004–2006 (ceiling of assistance financing that Poland may apply for in that period)³⁰. By the end of February 2005 within the framework of the individual sectoral operational programs and the Community Initiative EQUAL applications were submitted for co-financing of total value of requested support from the Community funding exceeding 34.5 billion zloty, which constitutes 429.4% of the allocations of the Community funds for 2004 and 100.3% of the allocations for the years 2004–2006. Within the framework of the support from the structural funds the first payments have been made since January 2005 (total of 47.4 million euro)³¹.

Moreover, in 2005 Poland will start using two additional assistance instruments: the Financing Mechanism of EEA and the Norwegian Financing Mechanism. When acceding to the EU, Poland simultaneously acceded to the Agreement on enlargement of the European Economic Area. Within the framework of the EEA Agreement Norway, Island and Liechtenstein, in exchange for a free access to the Internal Market and the right to take advantage of four fundamental areas of freedom (movement of goods, services, persons and capital), provide financial aid to less developed Member States of the Union. Agreements concerning the implementation of projects under both

³⁰ At the same time, one should clearly distinguish between the levels of commitments and payments (actual transfers) for the years 2004–2006, which may take place also in subsequent years.

³¹ The information on the allocation of other funds, the interest among applicants and the state of the implementation of the structural funds is also included in other chapters of this publication.

mechanisms (*Memorandum of Understanding*) were signed in the second half of October 2004. The process of project acquisition by intermediary institutions and an implementation of the first projects will most probably start in April 2005. In the upcoming 5 years, by receiving 48% of the total amount of funding, Poland will be the largest beneficiary of both instruments, having at its disposal the amount of almost 560 million euro (approx. 112 million euro annually), including 280.8 million euro (approx. 56 million euro annually) under the EEA Financing Mechanism and 277.83 million euro (approx. 55 million euro annually) under the Norwegian Financing Mechanism³². Those funds will be allocated to co-financing of projects in such areas as: environment protection, sustainable development, protection of the European cultural heritage, development of human resources, health care and children care, scientific research, implementation of Schengen provisions, regional policy and crossborder measures. The co-financed projects should be complementary to the projects implemented with the participation of EU funds and consistent with the assumptions of Community policies. The level of the co-financing amounts to 85% in case of projects implemented by public sector and 60% in other cases.

³² After a deduction of the administration costs, the total amount of available funding will respectively amount to: 533.51 million euro (106 million euro annually), including 269.57 million euro (53.91 million euro) under the EEA Financing Mechanism and 263.94 million euro (52.79 million euro) under the Norwegian Financing Mechanism.

Chapter II

MEMBERSHIP IN THE EU AND SELECTED SOCIAL ASPECTS

The first year of membership is too short a period to yield any clear and lasting accession-related changes in citizens' lives. Hence, at this stage no holistic analysis of social consequences of membership is possible. Some elements thereof were discussed in more detail in *Part II*, in the chapters devoted to agriculture and labor market. This chapter pointed to the selected aspects and fields of lives of citizens, where effects of accession to the Union have been discovered.

Beyond any doubt, the accession to the European Union clearly affected the situation of citizens as consumers. This is potentially the most numerous group, whose situation changed upon Poland's accession to the European Union. Those changes are twofold. On the one hand, the scope of protection of consumer's rights was expanded and reinforced and there were visible changes in consumers' access to specific goods and services, but, on the other hand, the accession resulted in a rise of prices on some goods. Also worthwhile stressing are new chances and opportunities in education and research sector, which as a result of the accession opened up before specified social groups – mainly students and researchers. Interesting conclusions concerning perceptions of the effects of membership by Poles also come from social studies which open this chapter.

Membership from the perspective of social studies

The analyses preceding the accession to the European Union frequently raised the issues relating to social balance of costs and benefits of Poland's membership in the European Union. Assessments in this regard were shaped by hopes, fears and doubts pertaining to membership. A source of fears and doubts in the recent period were – *inter alia* – events accompanying our road to membership – including mainly accession negotiations and consultations concerning the constitutional treaty – and the issue raised on this occasion of losing sovereignty pertaining – *inter alia* – to the problem of real estate acquisition by foreigners and some treaty provisions. In the months immediately preceding the accession, despite the persistent majority of

membership supporters prevailing over opponents thereof, fears and feeling of uncertainty prevailed over the unambiguously positive expectations in forecasts of the accession outcome. Fears of deterioration of living conditions were particularly stressed. As expected, a decline in the support for the accession in the first weeks of membership was largely related to the rises of prices of some food products. Eventually, a lower than expected increase in subsistence costs and costs of a basket of basic products contributed to a mitigation of prior fears and an eradication of the “union effect” outcome. Experiences of the subsequent months of functioning in the Union showed that the spring pre-accession price rise was rather of speculative character and was not a symptom of a rise of a lasting upwards trend for living costs.

As early as in the end of 2004 Poland’s accession to the European Union was deemed by Poles – after freedom of speech and freedom to travel abroad and before Poland’s accession to NATO – as the greatest success of the third Republic of Poland. This high support for the accession has several sources. It results – *inter alia* – from the fact that the aforementioned so-called “union effect” revealing itself as a feeling of confusion, resulting – *inter alia* – from the confrontation of excessive expectations of benefits or fears connected with the accession – was virtually absent in Poland. The time of uncertainty, immediately following the accession, was much shorter than in such countries like Austria or Sweden and shorter than in other countries acceding to the EU at the same time as Poland. An explanation of this phenomenon needs to be sought – *inter alia* – in the fact that many fears relating to membership did not materialize and some social groups relatively swiftly felt benefits resulting from membership. At the same time, the accession itself and its effects became a reality in social perception within a few months. When in January 2002 Poles were asked whether they understood the meaning of acceding to the EU, the majority (76%) agreed with a statement that “... people actually do not know why Poland should accede to the European Union”. After first few months of membership only one third of the respondents expressed similar opinion, while a majority (53%) stated that they knew the reasons why Poland had become a member of the European Union.

Since September 2004 a high level of support for membership has been stabilizing and based on the increasingly more rational premises. The acquired results of social studies confirm how much conviction of the rightness of the decision made in the accession referendum in 2003 becomes fixed in social awareness. In response to the question “... do you personally support Poland’s membership in the EU” in February 2005, the “yes” answer was provided by 77% of the studied sample, hence by a larger percentage of a social representation of Poles than on the eve of the accession referendum in May 2003. Social researchers assess that the lasting upward trend of social optimism expressed by a decline in inflationary expectations, predictions of

improvement in living conditions and economic situation of the country or a growth of consumer behaviors, is largely related to the feeling of greater safety offered by membership in the Union.

After less than one year of membership Poles find it hard to imagine that we might not have been an EU member. Most researchers assess that renouncement of accession efforts would be most disadvantageous for both economy and agriculture. Regarding those two areas of economic life, both farmers and entrepreneurs – i.e. representatives of the groups that in relatively shortest time were able to feel membership's beneficial outcome, which not always resulted from the accession but is usually associated therewith – are the most numerous in pointing to adverse effects of the renouncement of membership. A good example of the verification of pre-accession fears is the attitude of the researched persons to fears – stressed in programs of accession opponents – concerning threats to the national identity and culture, the country's security and sovereignty. After experiencing almost one year of membership, a decisive majority of the public think that those areas of life are unaffected by our presence in the Union.

Those approving of accession are presently dominated by the representatives of social and professional groups declaring support for the integration also in prior periods: young persons, entrepreneurs, persons with tertiary education, senior management. Particular attention should be put to a change of attitudes among farmers and female homemakers. Those social groups, both at the time of the referendum and at the remaining stages of the path to membership, were very skeptical about Poland's presence within the Union structures. In case of female homemakers the change in attitudes results mainly from the failure of their fears concerning an increase in subsistence costs to materialize, while in the case of farmers an analysis of attitude towards membership is more complex. In February this year the level of the support for membership among farmers was the highest (72%) since the start of measuring of social assessments of European integration (i.e., since 1992) while in January last year this support fluctuated around mere 20%. Beyond any doubt, such change was significantly affected by launching of the new co-financing instruments for Polish agriculture, mainly direct payments, whose implementation aroused a lot of skepticism in rural areas not a long time ago. Also other accession-related fears formulated before May 1st 2004 did not materialize: a demand for Polish food did not collapse, the prices of production factors rose, but this was more than compensated for by a rise in prices of products sold by farmers; Polish processing plants did not go bankrupt; on the contrary – they develop dynamically and make huge investments. Farmers can also see the adverse phenomena apart from beneficial ones and they indirectly blame on the membership in the Union for their occurrence, including e.g. signs of deepening splits within rural communities.

Social studies indicate that the process of Poland's integration with the European Union – particularly the emergence of the possibility to take advantage of CAP instruments – has become a catalyst for social transformations in Polish rural areas³³. Currently, it seems that the main dividing line differentiating farmers runs between the "active" and "passive" ones; between who applied for direct payments and those who decided to remain outside CAP. The changes taking place in rural areas make farmers look for their new identity. Simultaneously, young people from the countryside increasingly undertake tertiary studies and a large part of polled farmers claim that they would more inclined to use funding received under CAP to finance education of their children than to modernize their farms.

Based on the available data one can assume that changes in attitudes towards the Union were least conspicuous among entrepreneurs and youth. Both those groups, monitored throughout the entire pre-accession process, were among those more strongly approving of the efforts to integrate Poland with the Union. Membership has been positively assessed by the entrepreneurs, including the representatives of SME sector. The fears did not materialize that Polish enterprises would start to wind up on a mass scale, ousted from the market by the competition from the old Member States. What is more, it turned out that enterprises not only managed to get prepared for the accession but also coped well with the operating conditions on the Internal Market. Certainly good economic situation and growth in demand for Polish goods contributed to those positive assessments.

As regards youth, they generally approve of membership but, at the same time, they do not treat the date of May 1st 2004 as a great turning point. Moreover, young people still do not seem to perceive advantages offered by equalizing their educational opportunities with those of youth from other EU Member States. Research results do show that students now perceive more often than in the past positive changes in country's economic situation and labor market situation and are more optimistic in planning their future.

In the first months of membership, adverse assessments of the outcomes of membership intensified among residents of small towns. In communities particularly affected by the unemployment there was the largest decline in positive attitudes towards Poland's membership in the EU. This disappointment concerned first of all the persons who were ready to look for an employment aboard, so more frequently young persons, particularly youth from small towns, where employment opportunities –

³³ See also: W. Poczta, Ł. Hardt, chapter *Effects of Poland's integration with the EU for agriculture and rural areas – assessment attempt*.

including jobs outside one's qualifications – are most limited. For a part of them a decision on employment migration ended in a failure. Realities of labor markets in the countries that decided to open up their labor markets to migrants for employment in many cases proved far-fetched from the expectations and qualifications of job-seekers.

Comments concerning the general public, including in particular groups of higher social status, communities of entrepreneurs and farmers, indicate that the deepening approval of the accession to the EU is accompanied by the rationalization of membership assessments resulting from pragmatism of functioning in new conditions of a Member State. This gives basis for forecasting a sustaining relative permanence of positive attitudes towards accession, particularly in the communities that most swiftly adapted to new conditions and derive benefits of membership already now.

Protection of consumer rights³⁴

A description and an assessment of the consequences of the Poland's accession to the Union for protection of consumers' rights require some reservations. Firstly, they go beyond the first year of membership and encompass systemic changes of Polish regulations concerning the protection of consumer rights carried into effect since mid 1990s in connection with a harmonization of Polish legislation with the *acquis*. As a result, legal foundations were established for the system of consumers' rights protection, as well as institutional and financial framework, which translated into a significant improvement in consumers' situation even before May 1st 2004. Secondly, an assessment of accession effects in this area depends – *inter alia* – on the degree of enforcement of regulations aimed at consumers' protection as well as making the Poland's market participants aware of their existence. Therefore, an impact of the accession on the situation of consumers will be felt in a longer time perspective than just in the first year after the accession to the EU.

The accession to the EU created for Polish consumers additional opportunities of enhancing the level of protection of their rights thanks to a possibility to use instruments available at the Community level, particularly the Community consumer institutions. As of May 2004, Poland started works aimed at the establishment of proper Community structures targeted at ensuring the broadest possible assistance in making claims on the European common market, to consumers. Such institutions include the

³⁴ Materials of the Office for Competition and Consumer Protection and own materials of the Department of Analyses and Strategies in UKIE were used in this sub-chapter.

ECIK (European Center of Consumer Information), in operation at the UOKiK (Office for Competition and Consumers Protection) since January 2005 within the framework of the so-called EEJ-net (*European Extra-Judicial Network*) system. The Center, apart from pursuing information policy in the scope of consumer rights, provides also the legal and organizational assistance in case of crossborder disputes, including an extra-judicial settlement of consumer disputes. Its establishment and operations are financed in 70% from the UE funds.

Moreover, as of May 1st 2004 Poland has had the opportunity to participate in specified institutional forms of cooperation that guarantee greater product safety. In particular, we became a member of the system of rapid notification on dangerous products for the Member States of the European Union – RAPEX. It was established with a view to ensuring high level of protection of health and safety of consumers in the area of the Internal Market of the European Union. The main and direct purpose of the system is to ensure a rapid exchange of information between Member States and the European Commission on products posing risk and of measures undertaken in a given country to prevent or restrict their marketing or possibly their use³⁵. Gradually, information is introduced into the system on products considered to be dangerous and on remedies undertaken in this respect by entrepreneurs. Within the framework of the system, the European Commission informs Poland and other EU states on products posing risk identified in other EU Member States. It is the task of Polish authorities to check the market to determine whether the specified product is marketed in Poland and, if yes, to withdraw it and provide relevant information to the European Commission.

Functioning of the system has just started to bring its first effects in Poland. As a consequence of new regulations being in force and joining the RAPEX system, since May 1st 2004 UOKiK made public information about approx. 20 products whose use may be dangerous to life and health of consumers. Most of them were withdrawn from sales (for example: a hammer drill, computer screens, children clothing, toothbrushes, toys containing dangerous chemical substances) or remedied by manufacturers (e.g. specified components in selected brands, models and annual sets of cars).

Of key importance for consumer's situation is, first of all, the extent to which regulations serving her/his protection are observed and enforced. Hitherto experiences indicate that legal and institutional changes in the scope of consumer policy have not yet been fully reflected in the awareness of market participants in Poland – both consumer and entrepreneurs. Studies carried out by UOKiK, results of the checks made by Commerce Inspection, and claims made by consumers indicate inadequate

³⁵ Polish contact point for the system is located in the Department of Market Monitoring of UOKiK.

knowledge of legal provisions and sometimes disregard for interests of buyers and lack of dissemination of good market practices. Bodies of jurisdiction frequently are not adequately sensitive to cases of breaches of consumer's interests by unreliable businesses. In this context, a complete balance of the consequences of membership for protection of consumers' rights will depend on the implementation of relevant regulations, which in turn will determine creation of "consumer identity", i.e. universal awareness among consumers of the rights and protection they are eligible for.

Availability of goods and services

An important consequence of the Poland's accession to the European Union are significant changes in availability of specific goods and services to Polish consumers. One of the assumed beneficial effects of membership in the EU was liberalization of individual markets and the resulting benefits for consumers: better quality and wider choice of goods and a broader range of services. Since May 1st 2004 certain phenomena have surfaced that indicate expansion of the range of services available to customers, but a distinct and fundamental improvement in the situation will rather take place in the longer run and will depend on further progress in the area of liberalization process (particularly as regards the market of electric energy and telecommunication services). Available data show that there are two sectors within the services market, where consequences of the accession, unambiguously positive in this case, are most visible: financial and air travel services.

Poland's accession to the EU resulted in appearance on the Polish market of foreign financial institutions, which according to regulations in force since May 1st 2004, are allowed to sell their services directly in Poland on the basis of the so called uniform European license. On the other hand, the features of Polish market – its size, swift development, constitute for those firms an important argument in favor of launching activities in our country. Emergence of competition resulted, particularly in insurance sector, in enlivening of Polish financial market and forced Polish insurance companies to expand their offer, first of all for corporate entities (particularly enterprises), but also for natural persons. Polish consumers were given the possibility to conclude more beneficial agreements, both as regards the range of offered services (offer of specialist insurance, wider risk range), as well as their costs. Readiness to enter Polish market after May 1st 2004 is announced by insurance companies, banks and managing firms as well as broker offices, investment funds and businesses managing assets. Given the interest among financial institutions in pursuing activity in Poland one should expect further gradual changes in this sector (greater diversity and innovativeness of offers,

lower prices of financial services, improved availability of policies to individual customers, development of financial brokerage firms), which will contribute to improvement in the consumer's situation.

In 2004 particularly visible were also effects of the accession related to an adoption of relevant regulations in the scope of liberalization of air transport sector. As Poland acceded to the EU, the market of cheap air carriers started to develop. Benefits for consumers included mainly significant drops in prices of tickets, which enhanced traveling opportunities. Cheaper tickets were offered not only by small carriers, special offers were also introduced by PLL LOT, which launched its own cheap line of air transport. After May 1st 2004 the numbers of passengers checked-in at airports have been constantly growing. According to Airbus forecasts³⁶, central Europe, whose growth rate in passenger traffic amounts to 6.4% annually, will be the fastest developing air travel market worldwide in the forthcoming years. In the entire 2004 the airports in Poland recorded a 37% growth in the number of checked-in citizens, with the greatest rise in the IV quarter – over 60%. This means that in 2004 the air transport was used by 0.5 million more Poles than in 2003.

Prices

In line with the widespread expectations, expressed – *inter alia* – in social studies, the accession was to cause a dramatic rise in prices of virtually all the groups of products. Particularly painful rises were expected in relation to basic food commodities. Economic experts assessed the situation a little bit differently, pointing to unavoidable rise in prices on some products, at the same time they anticipated a drop in prices for others. However, rather a gradual adjustment of prices to EU average was expected, which would limit adverse consequences of this phenomenon for an average consumer, since wages were anticipated to rise at the same time.

An analysis of statistical data shows that forecasts of both the general public and experts materialized only in some part. In the entire 2004 inflation measured by indicator of prices of consumer goods and services amounted to 3.5%, despite the fact that in the months immediately following the accession a temporary acceleration in the dynamics of prices was recorded – inflation rate³⁷ clearly went up, significantly exceeding the level of 4%. The most important – from consumers'

³⁷ Airbus (2004), *Global Market Forecast 2004–2023*.

³⁷ In December 2004 year-on-year inflation amounted to 4.4%.

point of view – changes in prices took place – as expected – mainly in agro-food product group. Although they did not attain the level forecast by accession opponents, but it must be stressed that after May 1st 2004 prices went up faster than it had been expected by experts. Significance of price changes in this product group is hard to overestimate, given the fact that an average Polish household allocates to food and non-alcoholic beverages almost 30% of all expenditure³⁸. Consumers treated the last year's rise in those prices as an indicator of general rise of prices in the economy and responded with increased purchases of other goods, which resulted in further rise in inflation level and enhanced inflationary expectations.

It needs to be stressed that inflationary effect of the accession had two faces last year: price rises in January-April period resulted mainly from enhanced purchases made in the fear of their dramatic leap after May 1st, and after the accession, as inflationary expectations were gradually extinguished, decisive impact on inflation level was exerted by natural economic processes, frequently being effects of adoption of EU regulations, including those under CAP. Below is a simplified presentation of changes in prices of selected consumer goods and services, comparing prices of December 2004 and 2003³⁹, according to general trends observed in the first months after the accession.

In total, prices of food and non-alcoholic beverages rose by 7.8%, but dynamics of changes differed depending on specific products included in this product group. The most spectacular was an increase in sugar prices, which went up by 67.1% across the year. This increase resulted mainly from the consumer fears stimulating inflationary expectations and enhanced purchases, which may be evidenced by systematic drops in prices in recent months, and only in the second place by effects of CAP mechanisms. Meat prices also went up significantly, which mainly results from an increased demand for slaughter animals after May 1st in the part of foreign recipients and a drop in domestic supply. Beef prices went up last year by 39.7%, pork prices by 20.2%, poultry by 13.2%, cured and other meat produce by 12.6%. A huge interest in domestic agro-food products also resulted in increases of milk prices, although it was only to a small extend carried from producers onto consumers (retail prices went up by 4.2%). Prices of dairy products went a little more, including: yogurts by 4.3%, cheeses by 6.3% and butter by 13.6%.

³⁸ In 2003 this percentage amounted to 28.3% and was over twofold higher than in West European Countries. For more details see: the Central Statistical Office, *Situation of households in 2003*.

³⁹ In the description of rise in prices of individual product groups in the further part of this sub-chapter, the comparison was made between prices of December 2004 in relation to prices of December 2003.

Prices of remaining food products went up last year much slower, and some even went down. A particular position in this group is occupied by bakery products – their prices went up by 4.8%, i.e. less than expected. Moreover, before the accession an increase was expected for prices of fish and fruit, but also here reality proved different with prices going up respectively by 2.8% and 0.2%, i.e. below average inflation level. Among positive outcomes for consumers, vegetable prices dropped by 3.3%. A negative surprise was a 1.5% rise in wine prices, which were forecast by economist to go down. Also tobacco products' prices went up by 7.5% last year, tea – by 3.2% and coffee – by 2.2%, while prices of spirits dropped (by 2.5%).

In case of industrial goods and services, changes were small in most cases. Exceptions include increase in prices of materials for maintenance of flats (by 14.7%), resulting from the coverage of this product group by basic VAT rate (which went up from 7% to 22%)⁴⁰ and in transport sector. However, in the latter case there was a clear impact of high oil prices on global markets, which resulted in rises of prices of fuel for private means of transport by 17%, while transport services prices went up by 4.6%. Among other products and services there were rises – *inter alia* – in prices of energy media (by 2.4%), charges for renting flats (by 3.5%), furniture (by 2.5%), household appliances (by 2.6%) and cars (by 3%). At the same time, some product groups became much cheaper, which to some extent can be interpreted as a positive accession effect, resulting, on the one hand, from enhanced competition, and on the other from unification of customs tariff. Prices went down – *inter alia* – on telecommunication equipment (7.7%), audio and video equipment (4.3%), footwear (5.3%) and clothing (2.7%).

Looking at the accession effects from the perspective of its impact on general economic situation of households last year, it is difficult to formulate a conclusion that it unambiguously deteriorated. According to GUS data average monthly salary in the economy in 2004 was nominally 4.9% higher than in the preceding year so the rise in salaries was higher than the rise in prices. It definitely did not fully compensate for rises in prices of food or products and services in transport sector. At the same time, we did not have the situation where price rises would turn exorbitant for an average consumer, even more so because prices on some product groups went down as an effect of the accession to the Union. One needs to remember, however, that inflation growth resulted not only from the accession-related factors, but also from ones totally unrelated to it, like rises in oil prices.

Faster than it was forecast by experts, a price convergence, which took place in 2004, means that according to NBP forecasts this year's inflation can drop even below 2%.

⁴⁰ This is the only product group, where taxation basis changed after May 1st 2004.

Thus, this year one should not expect deterioration of consumers' economic situation, rather its improvement, which will also partly result from the expected gradual drop in unemployment.

Education and science

The *Balance...* put forward a thesis that Poland's accession to the EU should significantly contribute to improvement of the functioning conditions of the sectors of education and science. In particular the benefits were expected to result from a broader participation and access to Community initiatives and programs supporting development of education and science. At the same time, it needs to be mentioned that Poland was a participant and beneficiary of many of those programs even before the accession to the EU. This concerns, e.g. programs: Sokrates, Leonardo da Vinci or EU Fifth and Sixth Framework Program for Research, Technical Development and Demonstration.

Upon accession to the Union Poland also gained influence on educational and research policy of the EU. As a Member State we participate together with other states in creation and adoption of *acquis* regulations and other documents in those areas. We also participate in the implementation of work program in the scope of attaining common goals of educational systems across EU countries, which is to contribute to attainment of the major objective of the Lisbon strategy – creation by 2010 of European knowledge-based economy. As a Member State Poland can also to a greater extent join in the implementation of the so-called Copenhagen process, which aims at intensification of European cooperation in the area of occupational education and training, and the Bologna process targeted at creation of the European Higher Education Areas by 2010. Poland has also become an active participant in the design of the European Research Area.

Benefits in the area of education related to Poland's membership in the EU are particularly evident in an enhanced participation of Polish schools, universities, educational and training facilities for adults and youth organizations in such Community programs as: Sokrates, Leonardo da Vinci and Youth. This results mostly from a significant increase in allocations for Poland on implementation of those programs, which took place in connection with our accession to the EU. As a result in 2004 – *inter alia* – participation of Polish schools in Comenius program went up by approx. 65% against previous year, in the academic year 2004/2005 the number of students taking advantage of Sokrates-Erasmus program went up to approx. 9000 (6278

in the academic year 2003/2004) and an average scholarship amount went up by approx. 90%. Also a greater number of trips under Leonardo da Vinci program was recorded – from planned 1915 in 2003 up to over 4 600 persons in 2004. There was also an increase in the number of projects implemented under Youth program. In subsequent years there should be further increase of participation in those programs.

In the case of Polish research sector, of significance is Poland's participation – initiated even before the accession to the EU – in the EU Framework Programs for Research, Technical Development and Demonstration. In 1999 we acceded to the Fifth Framework Program and then from 2002 we continued participation in the Sixth Framework Program. Beyond any doubt Poland's participation in Framework Programs allowed to Polish R&D units financing of many research projects and enabled – on a greater scale than before – exchange of experiences with research facilities in Member States. It is estimated that general benefits from Framework Programs for Polish R&D facilities were satisfactory, although introduction of new instruments in the current, Sixth Framework Program proved very challenging to Polish science, and also entailing significant costs due to a significant number of projects well assessed but not covered by financing. Earlier successes indicate clearly that Poland has a research potential capable of implementing a significantly larger number of projects and thus of absorbing larger EU funds than it is now under the Sixth Framework Program. It needs to be stressed that full wrap up of our participation in the Sixth Framework Program – due to the specificity of R&D projects – will not be possible until its completion in 2006. Recent figures from the National Contact Point for EU Research Programs show that Polish R&D centers acquired almost 100 million euro in 2003 under the Framework Program, while such financing amounted to mere 150 million euro in the years 1999–2002⁴¹.

Poland's accession to the EU also created new opportunities of benefiting from structural programs supporting development of education and science. Measures have been initiated within the framework of the Sectoral Operational Program *Human Resources Development* (SOP) and priorities of the Integrated Regional Development Operational Program (IRDOP), aimed at support to development of education and science. Presently applications for granting of EU support for 2004 are accepted or verified. According to assumptions of the Sectoral Operational Program *Human Resources Development* funding for the European Social Fund supplemented with

⁴¹ Within the framework of the participation in the Fifth Framework Program Poland's contribution to EU budget amounted to 172 million euro. The contribution was paid by combination of state budget funds (95 million euro) and PHARE (77 million euro), funds, which signifies that contribution return rate amounted to almost 90% in relation to the entire contribution and almost 160% in relation do finds allocated to the contribution from the state budget.

national budget funding can be used – *inter alia* – for promotion of lifelong learning through enhanced access to education at all levels, improvement of education quality with a view to improving chances for employment. The Integrated Regional Development Operational Program envisages that funding from the European Social Fund or European Regional Development Fund supplemented with state budget funding are to finance – *inter alia*: on-the-job training for pupils of over junior high school level in domestic enterprises and internships for tertiary education students in lines of studies where they are not obligatory, scholarships for rural youth (which for financial reasons encounter barriers hampering education at over junior high school level ending in maturity exams) and students coming from areas at risk of exclusion, internships for graduates of universities and employees of R&D sector, serving the purpose of transferring know-how and innovativeness between R&D sector and enterprises, grants for best graduates of universities continuing their education at post-graduate studies, construction of new or refurbishing of existing educational facilities, investments in sport, including construction and modernization of sport and recreational facilities.

Apart from benefits resulting from Poland's participation in various Community initiatives and programs supporting development of education, one should also point to the fact of coverage of Polish citizens with the Community regulations that significantly facilitated their access to educational systems in Member States. Since May 1st 2004 Polish citizens have had access to education in other EU states on equal footing with citizens of those countries. Under mutuality rule citizens of EU Member States have access to education in Poland at all levels under the same rules as Polish citizens. This concerns rules of recruitment as well as rights and obligations of pupils and students, including: right for scholarships, medical care, concessions for public transport, charges for studies. Even if some Member States already earlier had granted to Poles the right to study in line with rules in place in their tertiary education systems, that had not been a common practice. Benefits resulting from gaining by Poland of a Member State status can be felt both by Poles undertaking studies in the countries where education is free and those who choose to study in the states where studies are provided against a schooling charge⁴² (e.g. charges paid at the Oxford University by EU citizens are much lower than tuition fees collected from citizens of other countries). On the day when Poland acceded to the EU, regulations entered into force that implement the *acquis* stipulating that children of migrant workers (moving within the EU territory, undertaking employment) have the right to free teaching of the official language of the country where the worker undertakes employment. Children of Polish citizens staying abroad enjoy parallel privileges.

⁴² Data on intra-mural studies at public universities was taken into account.

Chapter III

MEMBERSHIP IN THE EU – PARTICIPATION IN DECISION-MAKING PROCESS, PRIORITIES OF EUROPEAN POLICIES AND PERCEPTIONS OF POLAND AFTER ACCESSION⁴³

Participation in decision-making process

During the first year of membership Poland participated in shaping of the development lines for the European Union and EU legal acts, issues we had no influence upon not a long time ago. Participation in the Union decision-making process is for Poland – just like for other new EU Member States – a big challenge, both from political and administrative side. Given the difficulties in making a precise assessment of accession effects, in this case one should rather talk about experiences of the first year of membership than about comparing costs and benefits. Beyond any doubt, however, we completed the stage of adjustments to requirements set forth by so far „external“ EU institutions. We started co-creating and shaping policy and law of the European Union and implement them at the same time⁴⁴. This is an important qualitative change in comparison with pre-accession period.

Even before the accession an internal system of co-ordination of Polish position was established, one ensuring timely development of a coherent position towards issues agreed upon and decided on the forum of EU institutions. All ministries and central offices as well as social partners participate in this process. Individual institutions on specific issues consult draft positions towards individual issues with social partners on ongoing basis. This concerns – *inter alia* – white and green papers, communications from the European Commission and drafts of legal acts. Additionally, relevant

⁴³ Information from the Ministry of Foreign Affairs and own information of UKIE was used in this chapter.

⁴⁴ The results of the last *Internal Market Scoreboard* published by the European Commission on 27 January 2005 indicate that Poland with the result of 2,9% of missing directives against 3.7% in EU on average is in the leading group of the member states as regards the level of acquis implementation.

framework was created for the cooperation with both Houses of Polish Parliament enabling to MPs and Senators participation in the coordination process.

In connection with the accession, there was a great increase in the involvement of the parliament in shaping of Poland's European policy. Pursuant to relevant regulations⁴⁵ since May 1st 2004 the Sejm and the Senate of the Republic of Poland have been incorporated in the process of EU law-making. In this connection, the government of the Republic of Poland provided to the Sejm and the Senate over 20 thousand documents sent by the General Secretariat of the EU Council. About 250 among them were draft EU legal acts for which the government prepared and presented draft positions, which after approval of the parliament became official Poland's positions. In most cases, they supported adoption of the legal acts and were consistent with positions proposed by the Council of Ministers. In parallel the government worked together with Poland's representatives to the European Parliament. The topics of informal consultations, discussions and information exchange were the issue of utmost importance from the point of view of Polish interests, including the shape of the new financial perspective, reform of cohesion policy and of the Common Agricultural Policy. This cooperation also covered more detailed issues, including: draft directive on services in the internal market, REACH package, financing of NATURA 2000 network, patenting of CAD inventions, research policy and culture.

In the first months of membership the developed internal solutions worked in practice and yielded good quality of our participation in EU decision-making process. Polish representatives participated in works of the European Council, EU Council and its auxiliary bodies (Coreper I, Coreper II, and other committees and working groups). The adopted solutions express our opinions efficiently and timely refer to issues of major importance for us and consequently allowed us for active participation in the decision-making process on the forum of EU institutions.

Priorities of European policy

Last year Poland consistently reinforced its position of an active member of the European Union, which enhanced our efficiency in attaining the set goals. They focused in the first months of membership mainly on co-shaping EU actions in international dimension and influencing the shape of internal EU policies and

⁴⁵ Act of 11 March 2004 on cooperation of the Council of Ministers with the Sejm and the Senate in issues pertaining to membership of the Republic of Poland in the European Union, O.J. No. 52, item. 515.

instruments thereof, while ensuring that chances and opportunities resulting from membership are taken best advantage of. Such example of Poland's influence over EU foreign policies were efforts aimed at enhancing EU's commitment to develop its relations with Ukraine, undertaken both within the framework of shaping the European Neighborhood Policy (ENP) and in particular in the context of political changes that took place in Ukraine in the end of 2004. Poland made successful efforts for greater involvement of the Union in the process of peaceful transformations, involvement of the EU in mediation efforts and adoption by the Union of an unambiguous, affirmative position supporting reforms and fair elections in Ukraine. This was due – *inter alia* – to our efforts that the European Council during the December 2004 meeting issues a special declaration on Ukraine, stressing strategic significance of this country as a key neighbor and partner of the Union. This declaration pointed out that it is Union's goal to establish enhanced and privileged relations with Ukraine by taking full advantage of the facilities offered by the European Neighborhood Policy.

When participating in works on establishment of ENP, we postulated its differentiation for various regions. Poland supported with its own initiatives preparation and negotiation of action plans EU–Ukraine and EU–Moldova, which were finally agreed upon in December 2004. In line with our postulates, the December European Council decided to develop in 2005 action plans for south Caucasian countries, applying an individual approach to each of them.

Poland carried out intense measures aimed at convincing other Member States of the necessity to start dialogue with Belarus and to open the option to include this country into ENP. Poland displayed a lot of active approach in creation of new policy towards Belarus by providing specific proposals and convincing Member States and EU institutions to undertake more active measures. This was reflected in conclusions of the Council for General Affairs and External Relations of 22 November 2004. It was included in the conclusions that – due to Poland's effective lobbying, amongst other things – the option of incorporating Belarus into the European Neighborhood Policy will remain open, provided that positive political changes start in this country.

As an EU member we consistently promoted its further enlargement, participating as a Member State in the final phase of the accession negotiations with Bulgaria and Romania and supporting integration-related aspirations of Turkey and Croatia. The finally adopted decision by the European Council in December 2004 on commencement of the accession negotiations with Croatia in March 2005 and with Turkey in October 2005, accompanied by a recommendation from the European Commission that negotiations are to be suspended if Turkey fails to comply with fundamental rules of EU operations, is consistent with Poland's expectations. In March

2005 Poland shared the position of most states on withholding the date for commencement of the accession negotiations with Croatia and conditioning setting out a new date upon cooperation of this country with the International Criminal Tribunal for the Former Yugoslavia.

In conviction that it is necessary to enhance European stabilization capacities, Poland actively participated in the first EU military operation in Bosnia and Herzegovina (ALTHEA), taken over from NATO (SFOR), where Polish units have been present since December 2004. Upon the accession to the EU, Poland also obtained the opportunity to carry out intense cooperation to fight terrorism and efficiently ensure security in the internal and international dimension. Poland joined the actions for the benefit of developing European civil society capacities for crisis response. Moreover, as an EU Member State, Poland delivered on commitments assumed in the European Security Strategy and participates fully in actions deployed by the Union to fight terrorism. In the area of the European Security and Defense Policy our opinion was heard during works on the guidelines for the European Defense Agency (EDA), which was launched into operation in the beginning of this year. Poland was named an esteemed partner in the development of the concept of battle groups constituting the foundations for reinforcement of the European Security and Defense Policy. In November 2004 we declared readiness to establish by 2009 a common battle group jointly with Germany, Slovakia and Latvia.

Membership in the Union and participation in works of its institutions created a new, additional platform for cooperation and development of bilateral and regional contacts. Poland has become their active participant, confirming its role of an important partner for other EU members. As a result our relations improved with major partners in the Union, particularly with Germany and France. The Visegrad Group also remained an active forum for contacts after May 1st. Jointly with the Czech Republic, Slovenia and Hungary we undertook common efforts, amongst other things for support from the Union for lifting of American visa regime for all EU-25 citizens. Within the framework of the Regional Partnership we developed the facility to reinforce consular cooperation between EU states and proposals for improvement in the efficiency of the mechanism for providing rapid assistance in cases of natural disasters, such as tsunami in South-East Asia. Poland played a key role in the creation of a forum of EU states constituting an informal “group of friends of cohesion policy”, which held many meetings in connection with negotiations concerning the New Financial Perspective.

Poland’s membership in the EU also constituted an important element in shaping of relations with third countries, international organizations and institutions. As a consequence of the accession to the European Union Poland entered a new system

of international connections, where the Union is a collective entity. Through membership we gained the possibility to co-shape the dialogue of the EU with the United States. Fears, formulated in some states, that Poland would be a “Trojan horse” of the United States, threatening political cohesion of the EU, did not materialize. On the contrary, in the second half of 2004 there was a clear warming up in EU-US relations, which was evidenced by a visit of G. Bush in Europe and the EU-US summit in February 2005. Taking advantage of this meeting Poland made efforts to carry into effect postulates concerning Polish interests within the framework of the cooperation between the EU and the US, particularly as regards introduction into the EU-US agenda of issues concerning eastern neighbors of an enlarged EU.

At the same time, in the first year of membership, Poland actively participated in shaping of internal EU policies, expressing its opinions on issues of major importance for our interests. Since May 1st 2004 one of those issues was the mid-term review of the Lisbon Strategy, being of central importance for EU’s economic development, which ended with adoption of European Council Conclusions on 22–23 March 2005. They included recommendations for actions to be implement in the forthcoming years, aimed at enlivening and enhancing competitiveness of the economies of Member States. A decisive majority of provisions postulated by Poland were implemented. In particular Member States recognized the role of cohesion policy as one of major instruments contributing to attainment of the Strategy’s goals. It was decided that actions in the forthcoming will be focused on economic growth and employment and it was agreed that expenditure for development of EU research sector cannot contribute to widening of gaps between Member States. Regarding liberalization of services market within the EU the negotiation bottom line was achieved consisting in recognition of the necessity to continue works on draft directive on services in the Internal Market. In line with the decision of the European Council Poland will start works on the National Action Plan, which will specify actions aimed at attainment of Strategy’s goals at national level. Provisions obtained during negotiations on conclusions from the European Council meeting guarantee that actions undertaken both at the Community and national level will be consistent with priorities of Polish socio-economic policy.

Poland actively participates in negotiations on the EU New Financial Perspective for the years 2007–2013, which commenced in the first half of 2004. So far the technical stage of clarifying the Commission proposal was completed, works commenced on the so-called legislative proposal package and “rules and guidelines”, indicating main lines in looking for a compromise, were developed. It is a task of the present Luxembourg Presidency to find a political compromise regarding financial aspects, which is a pre-condition for completion of works on a new set of legal instruments for EU policies during British Presidency in the second half of 2005. Poland’s major

negotiation priority is the maintenance of high profile of cohesion policy and securing adequate support for the least developed regions and Member States. In order to carry this priority into effect, Poland took active part in creation of a coalition of interests (cooperation within Vysegrad Group) and participated actively in the works of the group of states, “friends of cohesion policy” (10 new states + 3 existing cohesion countries + Belgium, Finland, Ireland and Italy). During the debate on “rules and guidelines” Poland succeeded in placing in the European Council Conclusions of December 2004 a provision indicating that in the financial perspective for the years 2007–2013 the European Union should secure funds according to challenges, which result – *inter alia* – from differences in development levels in an enlarged Union. Thus the European Council recognized already at the present stage of negotiations the priority character of funding for cohesion policy in the poorest regions and Member States also in the years 2007–2013. As a result of Poland’s efforts – amongst other things – during the current Luxembourg Presidency an attempt will be made at reaching a compromise on the financial perspective. The draft European Council conclusions of June 2005 (so-called *negotiating box*) also indicates that in the case of cohesion policy, being top priority for Poland, the European Commission’s proposal will be the basis for final decisions.

Since May 1st 2004, representatives of Poland participated in the discussion on the reform of Stability and Growth Pact, presenting a position that excessive relaxation of its rules must not discourage EU states from implementation of structural reforms targeted at enhancing long-term stability. Therefore Poland postulated that assessments of the state of public finances of each country – as stipulated by the Pact – should take into account structural reforms and their consequences for public finances as well as investment expenditure. The reform eventually agreed upon at the forum of the Economic and Financial Affairs Council on 20 March 2005 and approved by the European Council on 22–23 March 2005 largely reflected the Polish point of view. The Member States agreed that – with a view to enhancing Pact’s pro-growth orientation – costs of structural reforms introduced by individual member will be taken into account in determination of mid-term budgetary goal. Hence costs of reforms of pension system can be recognized as derogation in the procedure of adjusting to mid-term budgetary goal. This means that one of the key barriers to Poland’s accession to euro zone by the end of this decade has been removed.

As an example of efficient realization of Poland’s interests on the EU forum in the scope of sectoral policies one can point, *inter alia*, to beneficial changes in EU regulations concerning imports of steel products. Given the needs of the domestic steel sector, Poland aimed at introduction of assortment changes in the EU quota structure for imports of steel products and at negotiating beneficial bilateral agreements between the European Union and Russia, Ukraine and Kazakhstan

concerning the volume of quotas for imports of steel products for the years 2005–2006. The postulates were carried into effect. Moreover, Poland takes active part in the discussion on the so-called chemical package REACH concerning registration, evaluation and authorization of chemical substances. Polish representatives in particular stress that no system should worsen competitive conditions of the European chemical industry and that each new EU regulations, including drafted legal acts introducing REACH, should meet assumptions relating to quality improvement, including in particular simplification of Community legislation. Within the framework of works on the package, Poland prepared assessment of the impact of its implementation for chemical industry.

Participating in the EU decision-making process during the recent few months, Poland regularly came forward with own initiatives, as exemplified by active participation, even at the pre-accession stage, in the works on the Treaty Establishing a Constitution for Europe, which were concluded in the first weeks of membership. As opposed to the pre-accession period, whose specificity consisted in implementation and adjustments to documents adopted by the EU, for the first time we had an opportunity to co-create an EU document of highest importance jointly with other Member States. After completion of works on the Treaty, Poland joined in works concerning implementation of its provisions by – *inter alia* – presenting own proposals concerning appointment of the European External Action Service.

Recently many months of Poland's efforts to have the European Agency for the Management of Operational Cooperation at the External Borders of EU Member States (so-called Border Management Agency) located in Poland ended in success. This decision was made by the Internal Affairs and Justice Council on 14 April 2005. The Agency, which is eventually to employ approx. 55 persons, will be set into operation on May 1st 2005 and will be the first of probably at least a dozen EU agencies seated in new Member States.

In summary, one can state that fears – expressed in capitals of certain Member States – that Poland would block EU decision-making process, failed to materialize. Nevertheless, there is still a necessity to develop and improve efficiency of many instruments enhancing efficiency of our say on the forum of EU institutions, particularly in the context of further expansion of EU membership base and changes in the EU institutional and procedural environment pertaining to entry into force of the constitutional treaty, if its ratification succeeds.

Perceptions of Poland after the accession

After the first year of membership, Poland is perceived by EU partners as a constructive and desired partner, capable of articulating its own interests, but at the same time one aiming at a compromise and taking into account in its action the interest of the entire EU. The accession to the European Union also brought changes in the way Poland is perceived by societies of Member States. After the accession we have become an attractive and even more interesting travel destination, which is evidenced by the growth trends in the number of foreigners visiting Poland after May 1st 2004. Compared to the analogous period of last year in the period May–December 2004 the number of foreigners visiting Poland increased by over 17%. The largest growth in the number of persons coming to Poland was recorded on border with Germany (by approx. 35%). Moreover, according to current forecasts, the number of tourists arriving in Poland in the years 2004–2007 should grow at the rate of approx. 5% annually. A significant factor in this regard will be an increase in the number of visitors from Germany (by 5% annually on average) and other countries of former EU-15 (by 8.4% annually on average). In total it is estimated that the number of tourist visits in the forthcoming years will go up from the level of 14.3 million persons in 2004 up to 16.4 million in 2007⁴⁶.

Enhanced interest in Poland is not only an effect – to a certain degree also a psychological one – of changes in perceptions of Poland an European Union member, but also of many facilitations, which took place in free movement of persons after the accession, including in particular the lifting of passport checks. Intensification of traffic of persons between Poland and other EU Member States has been also affected by entry into market of cheap air carriers and growing standard of services in tourism sector and still competitive price level for West-European customers. The number of foreigners passing through Polish airports increased in 2004 by over 30% against last year's level. Reasons for enhanced interest in Poland, apart from tourism, can be found in willingness to purchase goods and services in Poland. The largest group of foreigners taking advantage of services during their stay in Poland are Germans, who constitute over a half of all foreigners coming to Poland. Huge interest among German tourists is aroused by possibilities of health tourism – including stays in sanatoriums, which have relatively attractive pricing. Dentistry, ophthalmologic or hair-dressing services also enjoy enormous interest.

As a member of the European Union Poland is also positively assessed by its eastern neighbors. Despite prior fears, introduction of visa regime did not adversely affect mutual relations. A direct effect of the introduction of visas was an one-off decline in

⁴⁶ Studies and forecasts of the Tourism Institute (XII 2004), <http://www.intur.com.pl/prognozy.htm>.

individual border traffic in the first weeks of the operation of new rules for movement of persons. An upward trend appeared as early as in November 2003 – border traffic on Poland's eastern border clearly approach the levels in place before introduction of visas (arrivals to Poland in the entire 2004 constituted 94% of arrivals in 2003 and 96% of arrivals in 2002). In September 2004 border crossings into Polish territory by citizens of Russia, Belarus and Ukraine (total of approx. 712 thousand) constituted 74.3% of all border crossings recorded in September 2003, i.e. in the last month before introduction of the visa regime⁴⁷. Fears were also expressed before the accession that after May 1st 2004 there will be deterioration in socio-economic relations, including trade terms with East European countries. Meanwhile, the perspective of the accession and approximation with the accession of EU borders to states of former USSR brought about an increase of interest among Polish enterprises in investing in Russia and Ukraine (the issue of economic cooperation after the accession was described in more detail in *Part I*, in the discussion concerning trade exchange).

Summary

The first months of Poland's membership in the European Union proved that Poland acceded to the EU well prepared. The period after May 1st 2004 confirmed that fears of governments of certain states of EU-15 regarding meeting by Poland of membership conditions did not materialize. Provisions of the Accession Treaty of the Republic of Poland to the European Union concerning safeguard clauses proved unnecessary – as anticipated in the *Balance...* On the other hand, a significant majority of the pre-accession socio-economic forecasts proved right – but with the reservation made in the *Introduction* that their full verification will be possible only in medium term. Although in case of many phenomena the accession effect is difficult to identify, the accession to the Union undoubtedly contributed to reinforcement of beneficial macroeconomic and structural trends in trade exchange, on labor market and particularly in agriculture.

Analyses of changes in perceptions by Poles of costs and benefits of the accession almost one year afterwards indicate that, although there has been a significant correction of diversified expectations towards membership, the fears of adverse outcomes of the accession, expressed by many Poles, did not materialize. The accession to the European Union was assessed in the end of last year by a majority of

⁴⁷ On the period from October 2003 to September 2004 Polish consular offices on the territories of Russia, Belarus and Ukraine issued the total of approx. 1138 thousand visas for approx. 622 thousand Ukrainians, 300 thousand for citizens of Belarus and 216 thousand for Russians.

Polish society as the greatest success of the Third Republic of Poland. In short-term perspective, social opinions on membership were influenced by current domestic political events, including the referendum on the adoption of the constitutional treaty. In mid-term perspective, in conditions of sustained economic growth, one can expect that there will be growth trend in social optimism. It will be reflected in expectations of improvement in living conditions and economic situation of the country (including first of all a drop in unemployment level) or a rise in consumer behaviors largely pertaining to the feeling of enhanced security offered by membership in the EU.

An analysis of phenomena and trends that surfaced after May 1st 2004 does not allow for unambiguous statement that Poland's membership in the European Union will prove a success and Poland will swiftly catch up with more developed Member States in terms of socio-economic development. That will depend on many factors, including administrative capacity to meet challenges pertaining to management and implementation of structural funds. The test faced by administration in this respect cannot be verified at this stage. Another important factor determining the pace and socio-economic transformations in Poland resulting from membership will also be results and final shape of the New Financial Perspective for the years 2007–2013. Regardless of the shape of final detailed solutions, it is known already today that EU financing allocated to Poland in this period will be incomparably greater than those used before the accession and in the first three years of membership. Those funds, if used wisely, can constitute a significant pro-growth impulse for the entire country. Much will also depend on our active participation in the creation of priorities of the next, Seventh, Framework Program which should enable to Polish research centers a greater than before participation in the designing of the European Research Area.

According to forecasts of the European Commission, in 2005 Poland, along the Baltic states, Slovakia and Ireland, will be in the group of the most dynamically developing EU Member States. The high rate of economic growth will be favorable for the reinforcement of beneficial effects of Poland's accession to the European Union, and those will be one of key factors in shaping and maintaining high economic growth rate this year and in the forthcoming years. An important role in this respect will be played by – much larger than this year's – financial transfers from the EU, including those from the non-EU Member States of EEA, which shall bring – *inter alia* – further improvement of Poland's position vis-à-vis EU budget.

Enhanced investors' confidence in Polish economy should soon result in a growth in FDIs. Moreover, domestic SMEs, which will enjoy greater opportunities to take advantage of EU funds and expand into markets of other Member States, should be more inclined to increase investment expenditures. This is indicated by the NBP

opinion polls, which confirm enterprises' optimism regarding investment plans for this year. Percentage of businesses declaring undertaking of investments in 2005 is the highest since 1998. Those measures will result in further growth in competitiveness and enhancement of Polish economy. Taking advantage of opportunities resulting from the economic growth accompanied by a further growth of dynamics on the labor market and use of structural funds should lead to further improvement in the situation on labor market. Relatively low and non-problematic in its consequences level of employment migration from Poland to the EU Member States that opened their labor markets or facilitated access thereto, will be favorable for an acceleration of liberalization of employment rules in those Member States that so far have taken advantage of transitional periods.

From last year's perspective one should assess positively the impact of the accession on the situation of a decisive majority of economy sectors and branches. Poland's accession to the EU brought about beneficial effects for Polish agriculture and income situation of farmers. Prices of farming products went up, the process of disbursement of direct payments commenced, programs are being launched in the area of rural development, export of agricultural products remains at high level, contrariwise to prior opinions that Polish products will be ousted from the market by foreign ones. CAP instruments, however, will be unable to eradicate the effects of small scale production and low productivity of production factors, labor in particular. In those cases it is necessary both to improve the scale and effectiveness of production, as to look for incomes from other sources. CAP measures, as well as instruments within the framework of the individual structural programs give hope for gradual eradication of development gaps between rural areas and urban ones. In the nearest future one can expect maintenance of good economic situation for the agro-food industry, despite the fact the price reserves for export growth have been principally exhausted.

Experiences of 2004 showed that fears were ungrounded concerning significant worsening of the conditions in the trade exchange between Poland and EU countries pertaining to an inadequate degree of preparation of Polish enterprises, the high costs of adjustments to the operations on the EU Internal Market or aggressive competition from foreign entities. Moreover, so far the fears of weakening of Polish exports, as a result of significant zloty appreciation last year, have not materialized. In January 2005, the exports continued to show clear dynamics leading to an improvement of trade balance. According to IKCHZ forecasts, the growth rate of exports to the EU should be at the level of 13.1% in 2005 and 12.1% in 2006. One should point out here that at the same time in the forthcoming years one predicts growth in imports from the EU by approx. 14% in 2005 and 15.8% in 2006. Those imports, however, should be largely of investment character.

In the forthcoming years, one should expect further reinforcement of the consumer rights' protection and a continuation of the improvement in availability of goods and services. An important factor to this effect will be the further liberalization of the economy and the resulting competition growth, which should also translate into lowering of prices and improvement in services' quality. In connection with the forecast drop in inflation level one should not fear worsening of the economic situation of customers; on the contrary one should rather expect this situation to improve, even more so in the perspective of the anticipated systematic drop in unemployment. As a consequence one should also not expect a significant rise in prices stemming from Poland's membership in the EU.

The perspective of the forthcoming year of membership in the EU signifies further challenges faced by Poland pertaining to its participation in the decision-making process. It seems particularly necessary to enhance lobbying activities, e.g. for the benefit of ensuring proper representation of Polish citizens in the EU institutions. The current pace of their employment (according to UKIE figures: approx. 750 persons by the end of March 2005) must be assessed as insufficient, particularly as regards the number of Poles employed on substantive posts, particularly the managerial ones. Poland's position in the European Union in the forthcoming year will be marked by the finalization of negotiations on the new financial perspective, works on the services directive and the commencing the accession negotiations with Croatia and Turkey as well as other key issues of the work agenda of EU institutions for the years 2005 and 2006. An important factor shaping the situation in the EU will be the result of the referendums on the Treaty Establishing a Constitution for Europe in the individual Member States, and the referendum result in our country on that issue will be an indicator of our position within the Union. One cannot rule out a serious crisis if the Treaty is rejected in a referendum in any of the Member States. An affirmative result of the ratification and the accession of Bulgaria and Romania to the EU will signify important changes in the Union's institutional and procedural environment, which points to further necessity to develop and improve many instruments enhancing effectiveness of Poland's opinion on the forum of EU institutions.