

CHARACTERISTICS OF THE MULTIANNUAL FINANCIAL FRAMEWORK WITHIN THE CONTEXT OF THE COMMON AGRICULTURAL POLICY

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Abstract: The aim of the paper was to determine the spending limits for each category of activities that would allow carrying out the tasks in an orderly manner. The multiannual financial framework has been worked out for the years 1988-2020. The first prospect covered five years, four consecutive frames covered seven years. The EU budget changes occurred in proportion as the member states were coming and changed the priorities set for the Community. The EU budget was formed on the basis of 1% of gross national income for all member states. The budget for the years 1988-1992 amounted for 243.8 billion euro taking commitment appropriations into account. However, the present financial prospect (2014-2020) increased commitment appropriations to 1025, 0 billion euro. As for the share of the Common Agricultural Policy in the EU budget it has dropped from 60, 5% in 1988 – 1992 to 45.7% in 2000-2006 and up to 37.4% in the recent financial framework (2014-2020).

Key words: multi-annual financial framework, the Common Agricultural Policy, budget, financial instruments.

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Introduction

From the historical point of view the Common Agricultural Policy (CAP) is one of the oldest policies within the European Community (1958). Over the years, this policy has undergone a significant evolution, changing objectives and instruments of action and at the same time making a significant contribution to the development of agriculture and rural areas (Gorton, M., Davidova, S., 2004). This agricultural policy was aimed to the dominant areas of the Member States and it has become a contributing factor of the deepening of the European integration (Oskam, Meester G., Silvis H., 2010). It is also an extremely costly policy, first being a significant part of the EEC budget and then of the EU budget (Latruffe L., Davidova S., Balcombe K., 2008). The most important assumption was recognition of the idea that

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agriculture is a special sphere, both economically and socially, primarily because of the diverse natural conditions and different production structures (Sarris A.H., Doucha T., Mathijs E., 1999). The CAP objectives formulated from the beginning assumed increasing of the agricultural productivity, while ensuring the safety of the food supply (Swinnen J.F.M., 2001). Secondly, it was expected that the food will be delivered to consumers at affordable prices, which will stabilize the market, and on the other hand, will provide an appropriate standard of living for the rural population. The implementation of these objectives was based on the three guiding principles, namely: 1. market uniformity, 2. Community preferences 3. financial solidarity (Roljčić S., Gruić B., Saric R. 2012). After the initial period of support of the agricultural productivity growth, there appeared surpluses, which had to be removed from the market and used. Through successive reforms a European model of agriculture was developed, the essence of which was to reconcile the multifunctionality of agriculture with the process of reinforcement its competitiveness (The Single Payment, 2010).

The material, purpose and scope of the research

The Multiannual Financial Framework (MFF) was introduced first on the basis of the Treaty establishing the EEC (1958), then on the Treaty on functioning of the European Union (1993), and now on the Treaty of Lisbon (2007). Under the Treaty of Lisbon, the multiannual financial framework changed from the inter-institutional agreement to the binding legal instrument. According to the decisions taken on the MFF, the Community funding was firstly fixed for a period of at least five years, after that for a period of 7 years. The Multiannual Financial Framework was defined in the regulations adopted by the Council and the Commission, which were later authorized by the European Parliament. For financial prospects the long-term and annual amounts (ceilings) on EU expenditures on the whole and for the main categories of expenses (headings) were fixed (Mickiewicz B, Prus P., 2014).

The aim of the paper was to determine the spending limits for each category of activities that would allow carrying out the tasks in an orderly manner and present five financial frameworks of the European Union CAP from historical and future points of view. In addition, the MFF had to provide a predictable flow of funds for the implementation of long-term priorities set by the Community as well as the liquidity of the annual budgetary procedure. Appropriations for payment were determined by the amount of spending in a particular financial year, incurred to meet the budgetary commitments. The difference between commitment and payment appropriations arose from the fact that the commitments to long-term programmes and projects were generally recorded in the year in which it was decided to grant them but they were later paid as a programme or project had been implemented. The aim of the study was to present the evolution in the creation of the European Union's financial framework, with particular emphasis on spending for activities related to the Common Agricultural Policy. When analyzing the framework it should be noted that in every period a different term was used to specify the Common Agricultural Policy, as, for example, the

agricultural guidance, the natural resource management and conservation, and recently the sustained growth, or natural resources. These changes resulted from approaches to programming concepts developed in the Community and putting other accents on a given activity.

The main research method was analyses of financial and statistical materials from the European Union (EU general budget internal materials and presentation for selected years). The study covers a period of 1988-2020, which contains a single 5-year outlook and four 7-year outlooks. The study is based mainly on the European legislation, which presents the accurate data on the category of activities, the amount of the annual ceilings for commitment and payment appropriations for each financial outlook.

The first EU financial prospect for 1988-1992

The first financial prospect covered the five-year programming period, from 1988 to 1992. The first long-term financial framework including regulations on cooperation and budgetary discipline was adopted in 1988. The primary objective of the framework was to increase expenses, which were linked to the projected growth of income within the EC financial system reform as well as to changes in their structures. A further aim was to increase the social and economic cohesion of the EC. In the context of the given prospect it was also assumed to increase the budgetary discipline, to maintain control over expenditure growth, in particular over the Common Agricultural Policy (CAP) as well as linking the amount of the Member States' contributions to the budget of the EC with the level of their wealth. In the analyzed period of 1988-1992 12 countries belonged to the Community. The below mentioned countries joined the six founding members of the Community, accordingly: three countries (Denmark, Ireland and Great Britain) in 1973, one country (Greece) in 1981 and two countries (Spain and Portugal) in 1986. It is considered that during this period the EEC budget ranged annually from 43.8 billion to 50.1 billion euro. According to the Delors package I with the necessary changes in the own resources ceiling were also adopted. In the period of the first financial prospect it was assumed that in order to achieve the objectives the Community would require a gradual increase in the EU budget from 1.15% of GDP in 1988 to 1.20% of GDP in 1992. In this budget a particular role in formation of the CAP was played by the then active European Agriculture Guidance and Guarantee Fund, to which 142.2 billion euro or 60.5% of the total expenditure was allocated.

Table 1.

The multiannual financial framework for 1988-1992 (in millions of euro)

| Specification | 1988 | 1989 | 1990 | 1991 | 1992 | Total | Per cent |
|--|-------------|-------------|-------------|-------------|-------------|--------------|-----------------|
| European Agriculture Guidance and Guarantee Fund | 27500 | 27700 | 28400 | 29000 | 29600 | 142200 | 60.5 |
| Structural operations | 7790 | 9200 | 10600 | 12100 | 13450 | 53140 | 22.6 |
| Actions with the multi-annual allocations | 1210 | 1650 | 1900 | 2150 | 2400 | 9310 | 3.9 |
| Other actions | 2103 | 2385 | 2500 | 2700 | 2800 | 12488 | 5.3 |
| Repayments and administration | 5700 | 4950 | 4500 | 4000 | 3550 | 22700 | 9.5 |
| Monetary reserve | 1000 | 1000 | 1000 | 1000 | 1000 | 5000 | 0.1 |
| Commitment appropriations | 45303 | 45885 | 48900 | 50950 | 52800 | 243838 | 101.9 |
| Total payments | 43779 | 45300 | 46900 | 48900 | 50100 | 234979 | 100.0 |

Source: General budget of the EEC for 1988-1992

Prior to the adoption of the multiannual financial framework, there appeared adverse phenomena which impeded the continuation of the existing rules of the Common Agricultural Policy. In the 1970s and 1980s countries of the Community became self-sufficient in terms of food supply and the agrarian structure and farmers' incomes improved significantly. However, the cost of this increase was serious, because it generated an excessive increase of expenses for the CAP. There was a surplus of food, a substantial increase in prices of agricultural products for consumers as well as environmental degradation linked with the intensification of agricultural production.

Therefore, it was necessary to reform the CAP by partially limiting the intensity of agricultural production. The regulations for the CAP set the upper limit of expenditure on the organization of agricultural markets, introduced the principle of automatic price reduction after exceeding the ceiling as well as the programme for elimination of agricultural land from production. These targeted changes in the CAP led also to a reduction of the budget costs of the CAP and to its acceptance on the international scene in the context of the agricultural negotiations in the Uruguay Round of GATT in 1986. However, these difficulties caused persistent disparities in farmers' incomes that in the 1980s were already half lower than the incomes received in non-agricultural sectors of the economy.

The second EU financial framework for 1993-1999

The framework for 1993-1999 launched 7-year programming periods in the European Community, which are up to date. In considering this prospect it should be taken into account that in 1992 the Maastricht Treaty establishing the European Union was signed. The so-called fourth EU enlargement took place in 1995 when Austria, Finland and Sweden joined the Community. By this the number of the new EU Member Countries increased from 12 to 15 in 1995. The concepts, on which the new financial frameworks were based, were set out in the next reform package, referred to as the Delors's II package. As in the case of the first financial prospect, also in this case it was considered necessary to further increase spending on economic and social cohesion of the Community (Russell, 2012). Within this package, the

Commission presented proposals including the need for further changes in the EU budget. Among the new trends the inter-institutional agreement should be mentioned, which included a new procedure for cooperation between the Commission, the Council and the European Parliament in the budgetary process. The so-called 'trialogue' should be included to the important measures. It meant that before making a decision regarding the general budget priorities as well before the presentation of the budget by the Commission, the common position should be worked out. It was assumed that the EU budget cannot exceed 1.24% of the Gross National Income (GNI) of the Member States, which in fact fluctuated around 1%. Such a percentage each Member State paid to the general budget of the EU.

Table 2.

Multiannual Financial Framework for 1993-1999 (in millions of euro)

| Specification | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Total | Per cent |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-----------------|
| Agricultural guidance | 35230 | 35095 | 35722 | 36364 | 37023 | 37697 | 38389 | 255520 | 50.5 |
| Structural measures | 21277 | 21885 | 23480 | 24990 | 26526 | 28240 | 30000 | 176398 | 34.8 |
| Internal policy | 3940 | 4084 | 4323 | 4520 | 4710 | 4910 | 5100 | 31587 | 6.2 |
| External policy | 3950 | 4000 | 4280 | 4560 | 4830 | 5180 | 5600 | 32400 | 6.4 |
| Administrative expenses | 3280 | 3380 | 3580 | 3690 | 3800 | 3850 | 3900 | 25480 | 5.0 |
| Reserves | 1500 | 1500 | 1100 | 1100 | 1100 | 1100 | 1100 | 8500 | 1.7 |
| Commitment appropriations | 69177 | 69944 | 72485 | 75224 | 77989 | 80977 | 84089 | 529885 | 104.6 |
| Required payment appropriations | 65908 | 67944 | 69150 | 71290 | 74491 | 77249 | 80114 | 506146 | 100.0 |

Source: EU general budget for 1993-1999

From this prospect the budget for the Common Agricultural Policy was still high and amounted to 255.5 billion euro (50.5%), so corrective measures defined as the MacSharry reform of the CAP were introduced. The MacSharry reform was to change the guidance of the agricultural policy, which resulted in increase of surplus production, stagnation of incomes of agricultural holdings despite increasing expenditures and reducing the number of people employed in agriculture as well as an increase in the cost of the budget allocated to agriculture. Another aspect of the reform was the shift from market price support to direct income support. In this way, since 1993, the process of introducing the principles of direct payments started. Among the basic actions of the reform cuts in price subsidies, we may mention about the introduction of area payments linked with the setting aside and the level of production in the past. Therefore, the proposed reorienting of the Common Agricultural Policy, also sought to take into account the social and environmental aspects, so as to enable sustainable development of rural areas and preserve the environment. In addition, the Community support was directed to the development of agro-tourism and creating new jobs in rural areas. Thanks to these reforms, the market balance improved and the state inventories decreased. Moreover, the level of employment in agriculture also decreased. The CAP reform

contributed to the increase in transparency of the aid to farmers, and thus to better control of the expenditure for this purpose.

The third EU financial framework for 2000-2006

The size and structure of financial expenditure for 2000-2006 was formed with a view to the adoption of the new Member States and the need for changes in the functioning of the CAP resulted from the negotiations under the WTO (Agreement, 1999). Initially it was planned that the six new Member States would join the EU as early as 2002. However, after long negotiations the accession covered 10 countries, and the Accession Treaty was signed in Athens in 2003 but the actual membership took place on 1 May 2004. The enlargement process since May and not from the beginning of the year was dictated by the EU budget shortages, as the full financial year began in 2005. The basis for the adoption of the next financial prospect was a document called "Agenda 2000". The proposals included in it concerned the reform of the Common Agricultural Policy, the changes in financing the regional development as well as the principles of financing the enlargement process of the new Member States. The separation of pre-accession aid expenditures and reserving expenses for the new Member States were new elements in the prospect. Expenditures on pre-accession assistance were set at 23, 6 billion euro while for the extension of the Common Agricultural Policy (agriculture) it was provided 29, 6 billion euro (EP and the Council Decision, 2003).

Table 3.

Multiannual Financial Framework for 2000-2006 (in millions of euro)

| Specification | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Total | Percent |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|----------------|
| Agriculture | 41738 | 44530 | 46587 | 47378 | 49305 | 51439 | 52618 | 333595 | 45.7 |
| Including: direct payments | 37352 | 40035 | 41992 | 42680 | 42769 | 44598 | 45502 | 294928 | 40.4 |
| Accompanying measures | 4385 | 4495 | 4595 | 4698 | 6536 | 6841 | 7116 | 38666 | 5.3 |
| Structural measures | 32678 | 32720 | 33638 | 33968 | 41035 | 42441 | 44617 | 261097 | 34.7 |
| Internal policy | 6031 | 6272 | 6558 | 6796 | 8722 | 9012 | 9385 | 52776 | 7.3 |
| External policy | 4627 | 4735 | 4873 | 4972 | 5082 | 5119 | 5269 | 34677 | 4.9 |
| Pre-accession aid | 3174 | 3240 | 3328 | 3386 | 3455 | 3472 | 3566 | 23621 | 3.3 |
| Administration | 4638 | 4776 | 5012 | 5211 | 5983 | 6185 | 6528 | 38333 | 5.1 |
| Reserves | 906 | 916 | 676 | 434 | 442 | 446 | 458 | 4278 | 0.7 |
| Compensation | 0 | 0 | 0 | 0 | 1410 | 1305 | 1074 | 3789 | 0.6 |
| Commitment appropriations | 93792 | 97189 | 100672 | 102145 | 115434 | 119419 | 123515 | 752166 | 100.0 |
| Payment appropriations | 91322 | 94730 | 100078 | 102767 | 111380 | 114060 | 119112 | 733449 | 102.3 |

Source: EU general budget for 2000-2006

From the point of view of the Common Agricultural Policy "Agenda 2000" contained some important findings. For the Common Agricultural Policy listed in the framework as "agriculture" it was provided a total of 333, 6 billion euro or 45.7% of the general commitments, including 40.4% on direct payments. The reform programme called "Agenda 2000" foresaw the

introduction of quite significant changes to the Common Agricultural Policy, namely enhancing the competitiveness of agriculture, including the transformation of the organization of agricultural markets; determination of the ceilings' size for direct payments, ensuring the multifunctional nature of agriculture, accelerating the development of rural areas, increasing the safety and quality of food. The Commission concluded that agriculture affected by multiple crises (BSE) had to be thoroughly reformed in order to prepare for the following enlargement of the Union. During the period of the prospect a very important EU Regulation of 2003 was worked out. Within this reform a new system of direct support for farmers called also the single payment scheme was introduced. The single payment scheme replaced the already existing agricultural systems related to specific sectors. The main objective was to provide a basic income support to farmers at an appropriately high level. It gave farmers the freedom of production corresponding to the market demand, while respecting the principles of food safety. The new single payment scheme came into force in 2005.

Fourth financial prospect for 2007-2013

The financial prospect for 2007-2013 compared with the previous one had another system of the major expenditures, and it was not a technical difference but the difference of a fundamental nature, marking a change of priorities in the financing of the Union. The changes sought to ensure the sustainable economic growth by increasing the competitiveness of the economy, ensuring the internal consistency, proper management and protection of natural resources. A fundamental change in comparison with all the previous financial prospects involved placing first expenses related to the financing of actions aimed at increasing the international competitiveness of the EU economy and its regional cohesion, that is, the reduction of differences in the level of economic development, both among the Member States and among regions in these countries. At the same time the agriculture related expenses, which were dominant in the previous prospects, were included in the group expenditure under the heading "Management of Natural Resources and Their Protection", which meant a new look at agriculture and the problem of its funding from the Community.

Table 4.

The multiannual financial framework for 2007-2013 (in millions of euro)

| Specification | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total | Per cent |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-----------------|
| Sustainable growth | 53979 | 57653 | 61696 | 63555 | 63638 | 66628 | 69621 | 436770 | 47.2 |
| Management of natural resources and their protection | 55143 | 59193 | 56333 | 59955 | 60338 | 60810 | 61289 | 413061 | 44.6 |
| including: market related expenditure and direct payments | 45759 | 46217 | 46679 | 47146 | 47617 | 48093 | 48574 | 330085 | 35.6 |
| Citizenship, freedom, security and justice | 1273 | 1362 | 1518 | 1693 | 1889 | 2105 | 2376 | 12216 | 1.3 |
| The EU as a global partner | 6578 | 7002 | 7440 | 7893 | 8430 | 8997 | 9595 | 55935 | 6.0 |
| Administration | 7039 | 7380 | 7525 | 7882 | 8334 | 8670 | 9095 | 55925 | 6.0 |
| Compensations | 445 | 207 | 210 | 0 | 0 | 0 | 0 | 862 | 0.1 |
| Commitment appropriations | 124457 | 132797 | 134722 | 140978 | 142629 | 147210 | 151976 | 974769 | 105.2 |
| Appropriations for payments | 122190 | 129681 | 120445 | 134289 | 134263 | 141273 | 143153 | 925294 | 100.0 |

Source: EU general budget for 2007-2013

From the point of view of the Common Agricultural Policy and access to financial instruments it should be noted that two more states (Bulgaria and Romania), which were the countries with highly fragmented agricultural and structural problems, joined the EU in 2007. In support of the CAP it was provided 413, 1 billion euro or 44, 6% of the total expenditure budget, including 35.6% on expenses related to the market and area payments. In 2007 functioning of the Common Agricultural Policy (Health Check), was also reviewed, which resulted from the provisions made in the reform of the Common Agricultural Policy of 2003. As part of this package, the European Commission was required to assess the functioning of the reformed agricultural policy of the EU as well as its simplification. As part of these commitments, in 2007 the Commission prepared a report on the cross-compliance. As a result, the separation of payments from production (decoupling) and a new model for the implementation of the direct payment system came into use. As for the functioning of the financial instruments of the CAP, there was a change in the agricultural funds. Until 2006 the CAP was supported by the European Agricultural Guidance and Guarantee Fund, and since 2007 the Common Agricultural Policy has been financed from the two funds: the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development.

Fifth financial prospect for 2014-2020

The multiannual financial framework for 2014-2020 includes a range of new programmes, which contain the European policy priorities for the next seven years, such as research and innovation (Horizon 2020), joint transport links, energy and IT infrastructure in all Member States (CEF), education (Erasmus +), possibility of getting jobs for young people (youth employment initiative), the competitiveness of European enterprises (COSME) and a renewed

Common Agricultural Policy. The new financial framework was developed by the Council Regulation of 2011 defining the framework for the discussed years. In these guidelines some principles, including the principle of flexibility, unity and accuracy, the principle of universality, balance and other were introduced (Ordinance, 2011). The new MFF was divided into five categories of expenditure ("headings") for the different spheres of the EU activities, namely: 1. Smart and inclusive growth, 2. Sustainable growth and natural resources, 3. Security and citizenship, 4. Global Europe, 5. Administration. A new prospect involves already 28 Member States, through the adoption of a new country-Croatia. In 2014-2020 the ceiling for commitment appropriations amounts to 1,025 billion euro and the ceiling for payment appropriations amounts to 972 billion euro. In terms of the Common Agricultural Policy it is envisaged to spend 382.8 billion euro (37.4%) by the EU budget, including direct payments of 281.8 billion euro (27.5%).

Table 5.

The multiannual financial framework for 2014-2020 (in millions of euro)

| Specification | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total | Per cent |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-----------------|
| Smart and Inclusive Growth | 64696 | 66580 | 68133 | 69956 | 71596 | 73768 | 76179 | 490908 | 47.9 |
| Sustainable growth including: natural resources and direct payments | 57386 | 56527 | 55702 | 54861 | 53837 | 52829 | 51784 | 382926 | 37.4 |
| Safety and citizens | 2532 | 2571 | 2609 | 2648 | 2687 | 2726 | 2763 | 18536 | 1.8 |
| Global Europe | 9400 | 9645 | 9845 | 9960 | 10150 | 10380 | 10620 | 70000 | 6.8 |
| Administration | 8542 | 8679 | 8796 | 8943 | 9073 | 9225 | 9371 | 62629 | 6.1 |
| Commitment appropriations | 142556 | 144002 | 145085 | 146368 | 147344 | 148928 | 150718 | 1025001 | 100.0 |
| Appropriations for payments | 133851 | 141278 | 135516 | 138396 | 142247 | 142916 | 137994 | 972198 | 98.7 |

Source: EU general budget for 2014-2020

Adoption of guidelines relating to the Common Agricultural Policy was preceded by multilateral, multi-year and multi-national discussions (panels), which had a consensus associated with this field of agriculture and rural areas. Adopted positions are stored in the EP and Council regulations of 2013, which aim to improve the competitiveness of European agriculture and food security, together with the simultaneous promotion of high quality products, protection of the environment and rural development (Ordinance, 2013). According to this proposal the basis of the CAP are to remain direct payments per hectare but the Commission proposes a number of changes in the system of granting them as well as gradually aligning their level in all countries of the European Union. Farmers who will meet the so-called three "green" environmental conditions will be specially rewarded. It goes about diversity of cultures, securing land for grazing and providing 7% of the crop on the ecological infrastructure. Then farmers can receive payments due in full. Farmers who fail to meet these terms and conditions will only receive 70% of the payments due to them. The Commission announced equating payments throughout the Union but despite the efforts of the new EU

countries, it did not propose the same basic rate of subsidies in all countries. Reducing the gap is to be gradually implemented until 2018 but even then the subsidies in the EU will not be yet equal. The EC document casually assumes that equal payments should be a political objective in the next budget after 2020. (Ordinance, 2013).

Concluding remarks

The research results demonstrate the multiannual financial framework from the historical point of view what was the main purpose of the authors. It must be underlined the multiannual financial framework represents a new approach to the budgetary planning prospect. The general budget expenditures are normally 1% of gross national income of all the EU member states. But in each framework there occur certain differences between commitment and payment appropriations. Appropriations for commitments determine the overall cost of undertaken commitments for releasing funds from the EU budget during a financial year but in a period longer than one year. The payment appropriations in their turn determine the amount of expenditures in a particular financial year to cover the liabilities incurred from the current and previous financial years. The difference between commitment and payment appropriations is due to the fact that the commitments to long-term programme and projects are usually recorded in the year in which it was decided to grant them but they are paid later, as the programme or the project is being implemented. In the analyzed period the number of member states changed from 12 to 28 Member States at the moment. Simultaneously with this process the level of support generated from the EU budget changed. The heading commitment appropriations accounted to 243.8 billion euro in the years 1988-1992. In the current financial framework (2014-2020) commitment appropriations will be increased to 1025, 0 billion euro. Research of multiannual financial framework in relation to the Common Agricultural Policy indicates the occurrence of permanent and systematic decline in the share of the CAP in the EU budget with 60, 5% for the years 1988 - 1992, 45.7% in 2000-2006 and a drop to 37, 4% in the recent financial prospect (2014-2020).

In authors' opinion in nearest future among the multilateral factors causing this decline it may be mentioned the fact that agriculture does not need apply intensive production methods any longer. The nutritional needs of the Community have been satisfied, there are surpluses which can be directed outward, there was observe increase of the farmers' income and improvement of the general situation in the rural areas. Currently, the focus is on improving the environment, there is a need for structural changes in agriculture, support for multifunctional rural development and taking care of the climate and agricultural landscape.

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