COOPERATION OF AGRICULTURAL PRODUCERS IN POLAND

Sylwia Guzdek, Agnieszka Petryk

Summary

Agrarian fragmentation remains a key problem of Polish agriculture. An individual farm, regardless of its size, has no market power. Its market position among other producers and its bargaining power among consumers of agricultural products is negligible. One way to improve this situation is to support the formation of groups of agricultural producers. Horizontal integration of farmers leads to strengthening their bargaining power and thus to increasing their income. The article is descriptive and based on an analysis derived from scientific literature devoted to the topic. It presents the essential idea of cooperation between farmers in the form of producers’ groups and attempts to characterise activity of these groups in Poland in years 2001–2015. GAPs (groups of agricultural producers) undoubtedly have their advantages and disadvantages, but large number of small producers, increasing demands of the market, strong European competition and financial aid will undoubtedly stimulate further the process of forming producers’ groups in Poland.

Keywords

producer groups in Poland • horizontal integration • the effects of economies of scale

1. Introduction

The European agriculture farms are in various stages of development. The more they are related with the market and the higher the competition is, the more they should cooperate with each other in various areas of activity, both in terms of selling their produce and the supply of productive factors [Boguta and Martynowski 2010]. An individual small farm, regardless of its size, does not have market power. Its market position among other manufacturers and its bargaining power among recipients of produce is negligible. The recipients of the produce are mainly large processing plants, trading companies, supermarkets dictating the terms of the transaction. Farmers’ cooperation in terms of joint sale of their produce increases significantly their market power. The article is descriptive, while using a method of analysis derived from scientific literature devoted to the studied topic. It presents the essential idea of cooperation between farmers that consists in creating
producers’ groups and it attempts to characterise activity of these groups in Poland in years 2001–2015.

2. Justification of integration of farms in theoretical interpretation

In neoclassical economics the absolute prerequisite for integration activities of enterprises is imperfect market structure characterized by a high degree of market power of entities. There are numerous companies on the agricultural market which produce homogeneous products and there are no barriers to enter the market and consequently its structure is similar to a perfect competition model in which individual producers have no market power. The structure of the market of means of production used in the agricultural product market is mainly oligopoly where, due to high barriers to entry and exit the market, a small number of companies provide varied products and consequently business entities are able to influence their sales price [Chlebicka et al. 2008].

According to the neoclassical economics the way to reduce imbalances in the system of market forces between the agricultural producer and other actors in the distribution chain is to increase the economic strength of farms through horizontal integration, which allows them to benefit from economies of scale by, for example, enlarging the surface area of farms or by specialization of production or by the concentration of supply and its adaptation to the market demand by the joint inventory management. Horizontal integration is a tool used to optimize the costs of production, management and marketing [Chlebicka et al. 2008].

The aforementioned considerations base the evaluation of the effectiveness of economic entities on the costs of production and productivity of production factors, without taking note of how the transaction (coordination mechanism) is carried out. According to this approach, regardless of the organizational form, the entities have the same opportunities to achieve economies of scale and the same unlimited access to information [Chlebicka et al. 2008]. From this point of view, new institutional economics seems to be worthwhile and, in particular, transaction cost theory which distinguishes four types of costs dependent on the phase of the transaction, namely: preparation costs, arrangements costs, the costs of control and the costs of adaptation (adjustment), in which the costs of the search for information, negotiation with buyers or sellers, preparation of contracts, monitoring the other party of the contract, contract enforcement and compensations, protection of property rights are included. Bearing in mind the appropriate assessment of the economic effectiveness of business entities which should, apart from their capability of reducing production costs, also consider their ability to reduce transaction costs, new institutional economics consents to consider that the formation of producers’ groups can be seen as an expression of aspiration to optimize transaction costs [Chlebicka et al. 2008].

E. Grochle [Miedziński 1987], a German scientist, divided mergers of enterprises into the ones which deprive entities of their legal personality and the ones which allow for its preservation. Among the latter ones a capital group (holding) can be distinguished. As Bogusławski and Wiankowski [1996] noted, the classification was currently
not fully valid and, in the part of the union, supplemented it with cartels, pools as well as rings and, in the part concerning groupings, with conglomerates. Taking social, sociological, legal and economic aspects into consideration Grudzewski and Hejduk [2001] identified three levels of economic potential concentration being in the hands of a single entity. On the first level, entities form fairly loose legal and economic associations, consolidations and alliances of enterprises, banks, companies, cooperatives and foundations. On the second level, holding structures are formed, which perceive the concentration of economic potentials as a key factor. On the third level, there are the entities with the highest degree of concentration, for example, consortia.

Two main forms of enterprise integration can be distinguished, namely cooperative and concentration forms [Kortan 1986]. A concentration which merges manufacturing plants into one multi-plant company is a concentration called in the broad sense as an external concentration or as proposed by Haus [1983] an organizational concentration. This particular type of entities integration and their cooperation is based on the external integration of the existing business entity with another, dependent entity (entities) leading to the formation of a multi-stakeholder partnership [Kreft 1999]. As part of the cooperative integration, only fragmentary segments of the economic process of enterprises, or some one-time tasks are the subject of merger. This association is based on voluntary cooperation and sustainable partnership without a loss of legal personality of entities. However, concentrative integration is subordinated to the single management which leads to the loss of some or all of the existing autonomy of the entities involved [Kreft 1999].

The cohesiveness of the organization is defined as a degree of uniformity of action of entities selected in the integration process which grows as far as the freedom of action of entities participating in integration decreases and the scope and power of influence on the participants of integration of a medium having management powers over them increases [Koziński 1996].

Both forms of integration are linked with divisionalisation which involves the creation of integrated multi-stakeholder groupings, also called sectoral or alliance groupings. The type of cooperation with other companies depends on the intended purpose; however, the following rule can be observed: the more interference into the structure of the plant and the higher the expected intensity of the objective realisation, the stronger and closer the cooperative relationship must be. The intensity of cooperation is higher in concentrative relationships than in cooperative ones [Guzdek 2010].

In the modern economics the growing popularity of alliances enhancing a chance of increasing the development possibilities of enterprises is observed, because greater benefits are achieved through an alliance than as a result of individual actions, mergers and acquisitions [Guzdek 2011, Grabiec 2009]. This is primarily due to the objectives pursued: collaborative acquisition of the increased market share, economization of activities resulting from achieving the desired effect of scale, the effect of horizontal or vertical integration, elimination of unnecessary functions, sharing the risks and costs of undertaken projects [Nogalski and Ronkowski 2000].
3. Farmer producers’ group as a form of integration in agriculture

Horizontal integration of agricultural producers takes the form of capital or functional integration. Capital integration involves the increase of the size of the agricultural area as well as production specialization which leads to the strengthening of the economic power of an individual farmer due to economies of scale. Functional integration occurs when agricultural entities form a group in order to realise common policy of supply, production and product sale [Małysz 1996]. In agriculture, a group of producers is an example of horizontal integration [Małysz 1996]. The unfavourable income situation of many Polish farms makes the process of capital integration limited, therefore, the improvement of the market position of farmers can be accomplished primarily through the functional integration [Bulas 2010].

With time, horizontal integration can initiate vertical integration [Hasiński 2009], which links the successive phases of production and distribution of food and which may arise through the conclusion of contract (integration contract), the acquisition of the ownership entity being in another phase of food production (integration of capital), establishing strategic partnerships (strategic network) and the drafting of appropriate legal standards by the State (institutional integration) [Bulas 2010]. Depending on who initiates vertical integration it can be distinguished as facing forward (bottom-up) and backwards (top-down). A common feature of both of the above mentioned forms of integration is the fact that economic decisions are taken by a partner whose knowledge of the market is broader [Bulas 2010].

Ample opportunities of integration occur in agribusiness [Kujaczyński 2006] due to the multiplicity of the stages of production and distribution between producing raw food and delivering food to a consumer [Kujaczyński 2006].

A joint activity of farmers allows for many benefits enabling them to build competitive advantage by:

- strengthening competitiveness,
- improving the efficiency of management,
- obtaining higher prices for products,
- paying lower prices for purchased inputs,
- greater opportunity to invest,
- easier access to sources of finance¹, market and scientific information [Hasiński 2009].

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¹ Rural Development Programme (RDP) 2014–2020 introduces a number of changes to the conditions for granting aid to the groups of agricultural producers (GAPs). The most favourable one concerns the amount of funding under the measure ‘Forming groups and producer organizations in agriculture and forestry’. Identically, in measure ‘Groups of Agricultural producers covered by the RDP 2007–2013’, support can be obtained for the maximum period of 5 years since the date of registration of the group and the amount of the lump sum is the percentage of the net value of sales of products or groups of products produced on farms of members and sold to customers who are not members of GAPs [Zydek and Otrębowska 2016].
4. The essence of producers’ groups

In the scientific literature there are various proposals for a definition of producers’ groups. Most often they are recognized as a group of agricultural producers, created from the bottom up, willingly and spontaneously, in order to sell the production and to obtain higher prices [Kutkowska and Antosz-Kołacz 2005]. According to E. Pudełkiewicz, a producers’ group is a voluntary union of people, organized in a formal way in order to conduct joint production, preparation and standardization of batches and selling them at competitive prices. Cooperation within the group includes four areas of agricultural business: supply of means of production, production, joint use of machinery as well as marketing [Pudełkiewicz 1999]. According to Vorley [2001] a producers’ group is a form of organization of farmers giving them an opportunity to defend themselves against being marginalized in the economic and social life resulting from liberalization and globalization.

Considering the concept of producers’ groups, attention should be paid to two, often misused, terms of collaborative activities of farmers: ‘producers’ group’, which is essentially a cooperation of farmers at the level of production and which sales to a food-processing company, and ‘marketing group’, in which the cooperation of farmers involves the distribution and marketing [Bulas 2010]. Penrose-Buckley [2007] believes, however, that a group of agricultural producers owned and controlled by the producers conducts joint marketing operations.

For the purposes of this study a legal definition of a group has been adopted, which is regulated by the Act of 15 September 2000 on agricultural producers’ groups and their relationships and about the amendment to other acts (Dz. U. [Journal of Laws] 2000, no 88, item 983, as amended). The legislator perceives a producers’ group as any legal entity established on the initiative of farmers, with the primary aim of improving the economic viability of farms, mainly by adjusting production and sales to market requirements. As indicated by M. Bułas [2010], the definition included in the Act shall be construed as the functional name denoting a joint organized activity of farmers, and not a specific legal form.

The purposes for which farmers organize themselves and cooperate with each other are as follows:

- economic: that is the joint buying, sale of agricultural products and the provision of means of production, as well as providing various types of services, which in turn are also an incentive for non-affiliated farmers to join; economic goals are focused on profits and benefits of the group member, not of the organization, for example: strengthening the bargaining power, increasing the competitiveness of products,
access to new markets, increasing revenues, reducing the manufacturing costs of products and transaction costs, minimizing business risk,

- social: representing the interests (lobbying purposes); conducting and organizing support activities, e.g. organization of trainings, social activities for the local community [Chlebicka et al. 2008].

Support provided to members of groups of agricultural producers relates to:

- defence of the interests of farmers (e.g. representative or lobbying functions),
- services of technical and economic value (e.g. production planning, the purchase of the means of production, joint sale),
- local development (e.g. trainings) [Chlebicka et al. 2008].

The basic elements of producers’ groups refer to:

- selection of members of producers’ group,
- definition of objectives and tasks of the group and forms of their implementation,
- definition of the principles of cooperation,
- choice of legal form.

5. Development of groups of agricultural producers in Poland

According to the current List of groups of agricultural producers in Poland, drawn up by the Ministry of Agriculture and Rural Development and indicating the state

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3 “This has been the harshest penalty imposed on Poland so far and the implications for the state budget are huge” said Jacek Bogucki, the Deputy Minister of Agriculture in the Parliamentary Committee of Agriculture and Rural Development while reporting the situation with the producers’ groups. In 2013 as a result of inspections of the European Court of Auditors in the years 2010 to 2013 in the field of support to preliminarily recognized producers’ groups of fruits and vegetables and detected irregularities, the European Commission urged Poland to implement corrective actions within the operating mechanism of financial support to initially recognized groups of manufacturers – informed the Deputy Minister. (...) Let us recall that currently the supervision over the foundation and functioning of these groups is held by Agricultural Market Agency (...). The control outcomes reveal that not all groups initially approved by the marshals should have such a status (...), that one in four, after analysis of the documents and evidence collected from the marshals, there was no validation observed in awarding these entities the status of preliminary recognition, said the Deputy Minister (...). For the 43 remaining applications which were negatively verified, Agricultural Market Agency, which took over the task of marshals, initiated administrative proceedings leading to annulling the decision on extraordinary rendition. It was found in four cases that the decisions of the Marshals of Voivodeships were issued in violation of the law (...). This situation is financially disastrous for Poland (...). As the deputy minister said, among them [meaning ‘the cause’] is the unpreparedness of marshal offices as well as the ambiguity and lack of precision in the Polish and the EU regulations – especially the latter ones (...). Witold Boguta, the President of the National Association of Manufacturers’ group of Fruit and Vegetables assessed, in this regard, the situation of groups as less unstable”, more at http://www.farmer.pl/finanse/grupy-producenckie-to-byl-niewypal,64057.html (accessed: 17.05.2016).


5 With effect of 18 December 2015 granting the status of competence of GAPs based on the submitted business plan (all the requirements are regulated by the Regulation of MARD of 25 February 2016 (Dz. U. 2016, item 237) [Żydek and Otrębowska 2016]) and their supervision have been taken over
of groups of agricultural producers (GAPs) as of 1 March 2016, 1308 of such entities operate currently in Poland.

The first groups of agricultural producers were established in Poland in 2001.6 These were ‘AGRO-Zagrodnio’ – a group of Grain Producers’ – Association of Agricultural Producers in the Dolnośląskie voivodeship and ‘AGRO-PRO’ – the Association of Swine Producers in the Wielkopolskie voivodeship. In the period of 2001–2015 the greatest number of GAPs were established in 2013.7 The number of newly founded groups amounted then to 462 subjects (Table 1).

Table 1. The number of GAPs established in individual years by voivodeship in the years 2001–2015

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by Local Branches of the Agricultural Market Agency (in accordance with the Act of 11 September 2015 amending the Law on groups of agricultural producers and their relationships – Dz. U. 2015, item. 1888) [Zydek and Otrębowska 2016].

6 According to the RDP 2014–2020 support aims at groups of a minimum of 5 producers being private individuals, which means that legal persons and partnerships will be excluded. Members of the newly established groups cannot have historical value, but must prove a minimum annual agricultural activity before founding a group of agricultural producers [Zydek and Otrębowska 2016], except for the farmers who took over the whole farm in the year preceding the creation of GAP and beneficiaries, also these potential ones (ie. those who have applied for aid), of the measure ‘Young farmers start-up fund’. The aforementioned criteria lead to the lack of financing when a farming producer used to be a member of GAP organized around ‘cereal grain or oilseeds” category and within the new group would deal with production and sales of grains and oilseeds [Otrębowska, 2016].

7 GAPs established after 1 January 2014 can apply for funding under the RDP 2014–2020, if they are a micro, small or medium-sized enterprise (according to Annex I to Commission Regulation (EU) No 651/2014 [Otrębowska 2016].
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Source: authors’ study based on Wykaz grup… [2016]

According to the data presented in Table 1 showing the number of GAPs established in individual years by voivodeship, attention should be paid to the period of 2008–2013. During this period, a systematic increase in the number of entities in almost all voivodeships can be observed. Unquestionably, this is associated with the EU funding of GAPs activities in the period of 2007–2013. The largest number of GAPs can be seen in the Wielkopolskie voivodeship (402 entities), and the fewest – in the Świętokrzyskie voivodeship (15).

Table 2. Number of GAPs according to legal form in individual voivodeships (as of 1 March 2016)

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<td>81</td>
<td>13</td>
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<td>70</td>
<td>13</td>
<td>37</td>
<td>51</td>
<td>21</td>
<td>11</td>
<td>53</td>
<td>177</td>
</tr>
</tbody>
</table>

Source: authors’ study based on Wykaz grup… [2016]

Analyzing the legal form of the GAP it can clearly be stated that the most often chosen one is a limited liability company (836), and the cooperative in a further
order (420). In the analysed period diversion from legal forms such as a society or an association focusing rather on typically social tasks can be observed. At the moment there are only 7 associations and 45 unions of GAPs in Poland. In the considered period the largest number of GAPs in the form of a cooperative were established in the Wielkopolskie voivodeship – 209 entities (Table 2), the fewest in the Świętokrzyskie voivodeship – only one. The largest number of Ltd companies were established in the Wielkopolskie voivodeship (177) and in the Dolnośląskie voivodeship (118). GAPs in the form of associations were founded in the Kujawsko-Pomorskie, Świętokrzyskie, Wielkopolskie and Małopolskie voivodeships, in turn, in the form of union none GAP was established in the Kujawsko-Pomorskie, Łódzkie, Śląskie, Warmińsko-Mazurskie and Zachodniopomorskie voivodeships. All of these legal forms are the subject of legal and organizational solutions of GAPs solely in the Małopolskie and Świętokrzyskie voivodeships.

In view of the criterion of the product or group of products, the largest percentage of entities uniting producers in the whole country applies to the following categories:

- Cereal grain 24.46%
- Live swine 22.02%
- Chickens 11.93%
- Turkey 4.20%
- Live cattle 4.05%
- Cow milk 7.34%
- Others 15.45%

\[ \text{Source: authors' study based on Wykaz grup... [2016]} \]

\[ \text{Fig. 1. Structure of GAPs in Poland by products (as of 1 March 2016)} \]

8 In the RDP 2014–2020 cooperative GAPs as well as associations of producers assuring the production with voluntary insurance coverage while qualifying for aid are preferred [Żydek and Otrębowska 2016]. The procedure for granting aid has changed. Recruitment to the measure ‘Founding groups and producers’ organizations’ RDP 2014–2020 at a given time as well as measure ‘Modernisation of farms or Support in starting a business by young farmers’ [Otrębowska 2016]. The order of the processing of applications by the ARMA is important here [Żydek and Otrębowska 2016].
'Cereal grains or oilseeds' – 24.46% (320 GAPs) and 'Live swine: piglets, weaners, fresh, chilled, frozen pork' – 22.02% (288 GAPs). The other product groups with significant share include the following categories: 'Poultry (regardless of age), meat and edible offal of poultry: fresh, chilled, frozen chickens' – 11.93% (156 GAPs), 'Cow milk' – 7.34% (96 GAPs), 'Grains' – 6.35% (83 GAPs), 'Poultry (regardless of age), meat and edible offal of poultry: fresh, chilled, frozen turkeys' – 4.20% (55 GAPs), 'Live cattle: slaughter or farm animals, fresh, chilled, frozen beef' – 4.05% (53 GAPs).

Clarification: for example, to simplify the ‘Live swine: piglets, weaners, fresh, chilled, frozen pork’ category has been marked as ‘Live swine’. Clarification: for example, to simplify the ‘Live swine: piglets, weaners, fresh, chilled, frozen pork’ category has been marked as ‘Live swine’

Currently in Poland, GAPs are organized around 43 categories of products or groups of products9, 7 of which aforementioned amounts to 84.55%, and the others, less frequent, but extremely varied represent 15.45%. Unique GAPs in the country are, for example, ‘Fur’ Cooperative Producers of Fur Animals organized around the category of ‘Common and polar foxes, minks, polecats, raccoon dogs, dry hides (raw)’ as well as ‘MIŚ’ Ltd Apiary in Przemyśl (category of ‘Natural honey and other bee products’) in the Podkarpackie voivodeship along with a Producers’ Group called ‘Ziolofarm’ Dobrzyca Ltd. (category of ‘Plants for herbal or pharmaceutical production’) in the Wielkopolskie voivodeship and ‘Vitroflora Horti’ Agricultural Producers’ Group Ltd. organized around the ‘Fresh cut flowers and plants’ category in the Kujawsko-Pomorskie voivodeship.

Analysing the current ‘List of groups of agricultural producers in Poland’ [Wykaz grup… 2016] from the point of view of a product or a group of products it can be concluded that each voivodeship has its own specialization which fits into the categories listed in Figure 1.

6. Conclusions

Specialist literature and the experience of many countries show that the competitive advantage of a farm can be achieved through producers’ groups where the dynamic development in Poland falls into the period after the integration with the European Union mainly thanks to financial aid under the Rural Development Plan 2004–2006, the Rural Development Programme 2007–2013 and Rural Development Programme 2014–2020. It is worth noting that the tightened conditions for the establishment and operation of GAPs in the current Rural Development Programme (RDP) are compensated by much higher financial support. GAPs undoubtedly have their advantages and

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9 GAPs producing high quality products covered by Article 16 of the EAFRD Regulation in particular the products of organic farming, as well as uniting producers of pigs, cattle, sheep, goats, honey, hops and plants in the main crop grown to be used for energy purposes or for technical use are preferred. The RDP 2014–2020 does not provide support for groups organized around categories of live poultry (regardless of age), meat and edible offal of poultry: fresh, chilled, frozen [Żydek and Otrębowska 2016].
disadvantages, but the fragmentation of producers, increasing demands on the market, a strong European competition and financial aid will unquestionably stimulate further the process of creation of producers' groups in Poland.

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