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Poland

Agricultural Situation

Structural Changes of Polish Agriculture After EU Accession

2007

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Report Highlights:

EU accession has had a modest impact on rural society but has boosted agricultural exports, primarily to other EU countries. Increased demand for agricultural products along with EU direct payments has improved farm incomes. In 2005, almost half of farm income originated from direct payments. Farm structure still remains inefficient due to a large number of small, inefficient farms that cannot compete in a market economy, but receive government support because they play a social role for unemployed people in rural areas.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Warsaw [PL1]
[PL]

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General

Poland's accession to the EU in May 2004 had a significant and immediate impact on farm income and food and agricultural product exports. The impact on rural social structure, land utilization and farm size has been less evident to date. With accession, Polish farmers got access to EU direct payments and rural development funds, which they have used to modernize farms and increase their incomes. In 2005, 44 percent of total farm income originated from direct payments. This was partly due to delayed subsidy payments from the previous year. Under the accession agreement, direct payments are scheduled to increase until 2013, when they will reach par with those provided to farmers in the original EU-15 countries. The infusion of EU subsidies significantly increased the agriculture and forestry sector's contribution to Poland's Gross Domestic Product (GDP).

Major Economic Indicators

	2000	2003	2005
Share of Agriculture and Forestry in GDP (%)	2.9	2.6	4.2
Total Agricultural Imports (US\$ million)*	3,175	4,034	6,846
Agricultural Imports from the EU 25 (%)	59	61	77
Total Agricultural Exports (US\$ million)*	2,643	4,541	8,920
Agricultural Exports to the EU 25 (%)	64	66	74
Share of Direct Payments in Total Farm Income (%)	n/a	23**	44
Agricultural Employment (%)	27.0	16.5***	16.3
Rural Population (%)	38.4	38.2	38.6
Average Farm Size (hectares/acres)	8/20	8/20	9/22

* Source: *World Trade Atlas (exclude transshipments)*

** Data for 2004; Source: *Institute of Rural Economics*

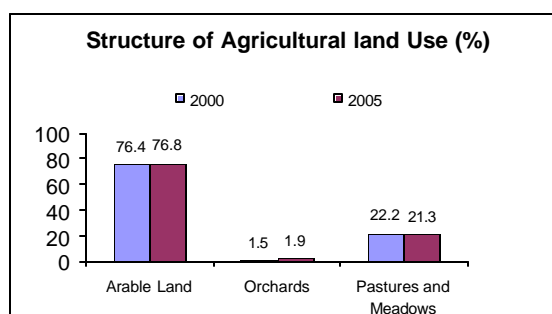
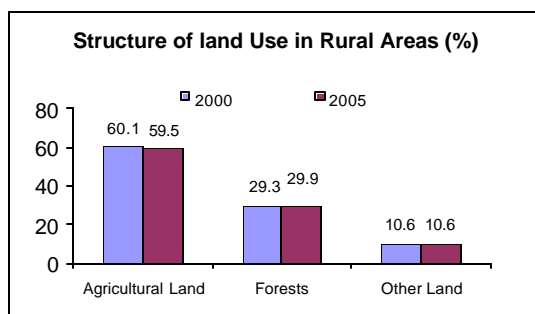
*** Since 2002 agricultural census people working in subsistence farms are not included

Rural Society

Accession had little impact on the overall structure of rural society through 2005. Rural unemployment remained high at 1.2 million, with many of the unemployed carving out a subsistence living, raising a few animals for food and working part-time. In 2005, about 39 percent of Polish society-almost 15 million people-lived in rural areas. This was a slight increase from 2000 and was due to migration of people from urban to rural areas and a higher birth rate in rural areas. Rural population is expected to decline as farms modernize and more work opportunities become available in urban areas and other EU member states.

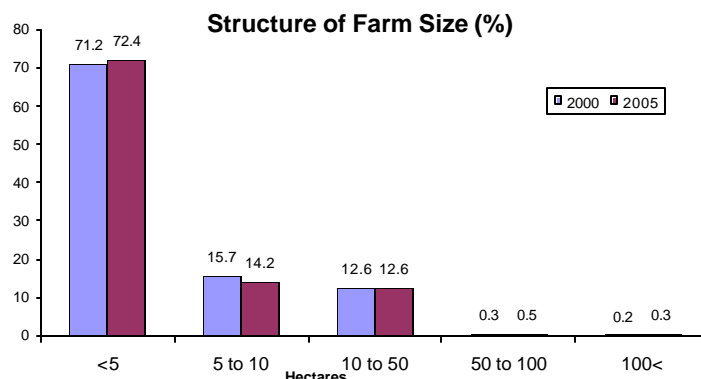
Use of Land

Accession had little impact on land use in Poland through 2005. In 2005, total land in rural areas amounted to 29 million hectares, 60 percent of which was characterized as agricultural land. The acreage of agricultural land remained virtually unchanged between 2000 and 2005. Arable land still accounted for 77 percent of total agricultural land, followed by pastures and meadows, and orchards. Forest area increased slightly. The amount of agricultural land is expected to decline in the long term as increasing urban demands pull land out of agriculture.



Farm Size

Accession had a minimal, but interesting, impact on Polish farm structure. Between 2000 and 2005 the number of large farms rose, driven by economies of scale in a market-driven economy. But, the number of small farms (less than 5 hectares) also increased, as farmers divided their holdings among siblings or sold off parts to developers. Also, small farmers who otherwise might have left farming were able to hold on, due to EU subsidies that allowed new equipment purchases and other upgrades. Meanwhile, the number of mid-sized farms (5 to 50 hectares) declined as their owners cashed out to larger operations, compelled to do so in part by higher land values.



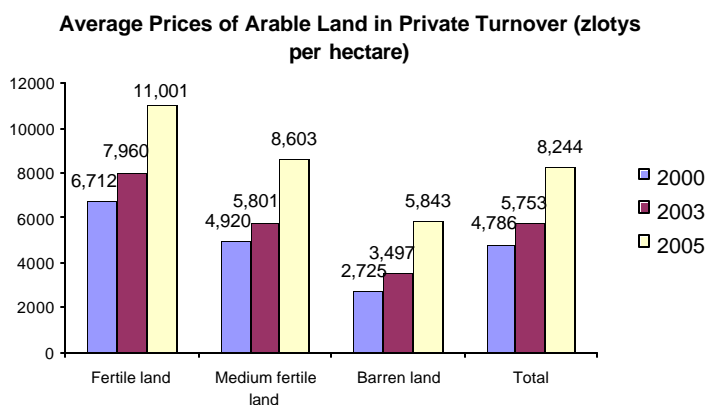
Overall, the average size of Polish farms increased slightly between 2000 and 2005, but still remains significantly smaller than the EU average. Unlike other former Soviet block countries, land collectivization under communist rule was minimal in Poland for various reasons, including church influence and a long history of private land ownership. Consequently, Poland entered the EU with a significant number of small, privately owned farms that had a very low economic viability. In 2005, almost 70 percent of Polish farms fell into the category with economic viability between 0 to 2 European Size Units (total standard farm gross margin below 2,400 Euro (US\$ 3,000) per year). These farms do not produce for

the market, but exist to provide their owners with a subsistence living. Location also is partly responsible for the low economic viability of Polish farms. In 2005, just over 40 percent of Poland's farms were located in areas classified as "unfavorable". Three percent of these were in mountainous areas.

Current government policy is to support farms smaller than 300 hectares (750 acres). There has even been discussion of limiting the number of farms over 300 hectares in size. It is not clear if size restrictions would work or are desirable to Poland's long-term agricultural economy. Average farm size is expected to continue to increase as the number of farmers declines and those remaining strive to improve their competitiveness via economies of scale. The number of small farms could continue to increase as well, but more of these will be farms in name only. The majority will be operated by "urban farmers" for whom farming is a hobby.

Land Values

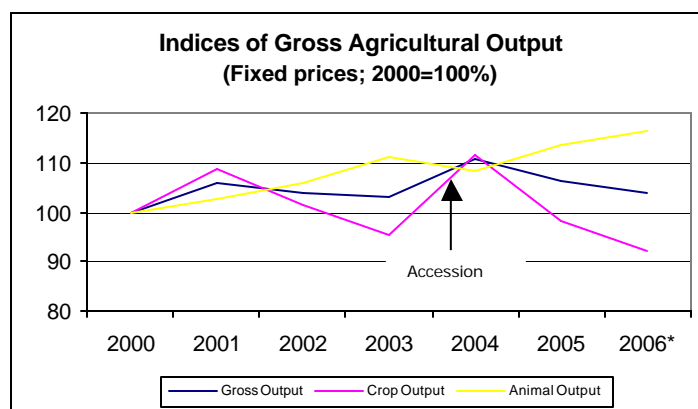
Accession had a significant impact on land values in Poland. Between 2000 and 2005, arable land values rose over 70 percent to 8,244 zlotys (US\$ 2,550) per hectare. Acreage-based EU payments, real estate investors (many from other EU countries) and rising national incomes drove up land values. Also, many small business owners from urban areas purchased small farms in order to qualify for the lower social insurance payments that farmers pay. Non-farm business owners pay significantly higher insurance premiums. Under tax and insurance regulations, a farm is any agricultural unit that exceeds one hectare (2.5 acres) in size. Prices for all land-use categories rose, in part because EU direct payments are acreage- not production-based.



*Exchange rate: 1 US\$ = 4.34 zlotys (2000); 3.89 zlotys (2003); 3.23 zlotys (2005)

Structure of Agricultural Production

Accession has had a modest impact on the structure of Polish agricultural production. Between 2003 and 2006, total Gross Agricultural Output (GAO), expressed in fixed prices, increased only one percent, as consecutive droughts after accession pulled down the value of crop production. The most visible impact was on the value of animal production, which rose 5.4% between 2003 and 2006.



Competitive Polish prices, increased production efficiencies due investments from pre-accession funds, and access to other EU markets after accession greatly benefited livestock producers. Poland's swine, dairy and poultry industries were exceptionally efficient at using pre-accession EU funds to raise food safety and product standards which permitted them access to other EU countries immediately after accession.

Structure of Gross Agricultural Output (%)
(Annual Prices)

	2000	2003	2004	2005
Crop Production	53.2	52.8	53.5	48.6
Major Crops:				
Cereals	18.0	18.4	19.7	15.6
Potatoes	10.8	7.0	6.0	5.0
Industrial (oilseeds and sugar beets)	4.2	4.5	6.2	6.1
Vegetables	6.2	6.7	6.6	6.0
Fruits	4.4	7.4	4.8	5.0
Hay	2.3	2.1	2.4	2.4
Animal Production	46.8	47.2	46.5	51.4
Major Animals for Slaughter	25.8	26.4	26.3	27.5
Cattle	4.1	3.3	3.7	4.5
Pigs	16.3	16.0	15.7	15.3
Poultry	4.9	6.6	6.5	7.4
Dairy	16.6	15.4	15.2	17.1

Crop losses due to droughts in 2004 and 2005 and increased production and exports of livestock and animal products in the first few years after accession raised the importance of animal production to Polish agricultural output. The share of animal production as a percent of GAO rose by over four percent between 2003 and 2005 and grain production lost its dominant position to dairy production. Animal production is expected to maintain its leading position in Polish agriculture.

Between 2000 and 2005, the areas planted to grains, potatoes and sugar beets decreased by 5 percent, 53 percent and 14 percent, respectively. Potato production fell as more efficient animal feeds became available. During the same period, there was a significant increase (26 percent) of area planted to rapeseed, due increasing interest in biodiesel production.

Farm Income

Between 2000 and 2005, EU accession had a positive impact on farm income and a stabilizing effect on farm-gate prices for most agricultural products. The most visible price effect was observed in the case of calves, fattening cattle and milk. Import demand from other EU member states quickly pulled up prices for these products from their low domestic levels. At the same time, access to EU intervention helped stabilize grain prices, especially during 2004 when Polish grain production reached a record level.

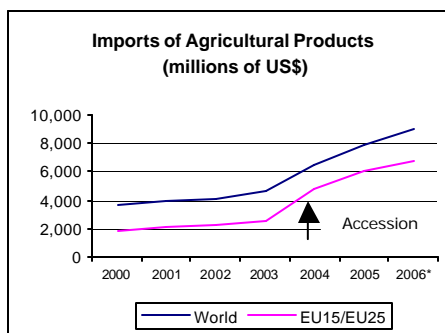
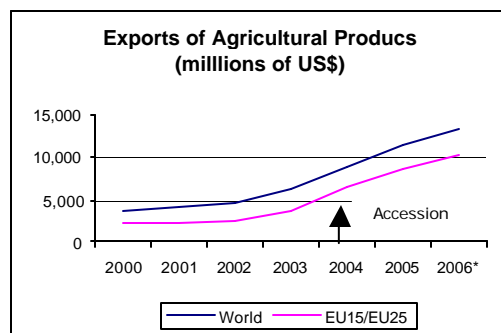
Average Farm-Gate Prices of Major Agricultural Products (in zlotys)

	2000	2003	2005
Cereal grain consumer and for feeds (per MT)			
- Wheat	508	455	367
- Rye	361	353	276
Potatoes (per MT)	232	246	255
Sugar beets (per MT)	102	124	175
Rapeseed (per MT)	806	1,017	773
Fattening cattle (per 1 kilogram of live weight)	2.9	2.5	4.1
Calves (per 1 kilogram of live weight)	6.0	5.4	9.8
Hogs (per 1 kilogram of live weight)	3.7	3.2	3.8
Milk (per 100 liters of raw milk)	78	72	93
Table eggs (per 100 pieces)	21	19	18

According to Eurostat data, accession had a dramatic impact on farm income, especially immediately before and after accession. Agricultural income in Poland rose 70 percent between 2000 and 2006, compared to a 4.5 percent increase for the entire EU. Income gains leveled off in recent years. Real agricultural income per farmer rose 4 percent in Poland between 2005 and 2006, or slightly more than the 3.6 percent increase for all new member states. For the entire EU, the average rose 2.6 percent. Average farm income in the new member states now stands around 58 percent above its pre-accession level. The main factors stimulating income growth were EU direct payments, high product prices and increased production of cattle and pigs.

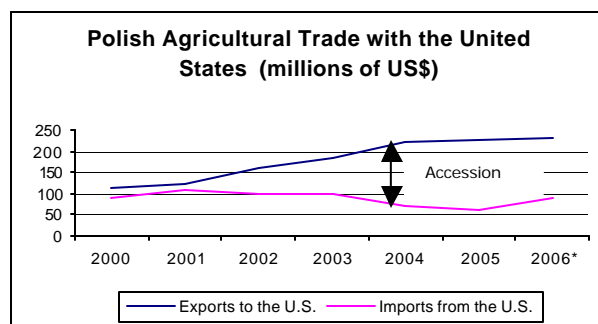
Trade

Accession has had a significant impact on Polish agricultural trade. Since accession, increased exports, mostly to other EU countries, have been a major force driving development of Polish agriculture. Exports of agricultural products have almost doubled between 2003 and 2005. Efficient use of pre-accession funds, followed by strong exports of pork, beef, poultry, dairy products, and live cattle after accession, led to the development and modernization of farms and the food processing industry. As of January 1, 2007, the so-called EU "adjustment period" ended and farms and food processing plants exporting to the EU must fully comply with all EU sanitary and veterinary standards.



*Estimate

In 2006, Polish exports of agricultural products were up an estimated 17 percent from the previous year. The EU became Poland's major agricultural trading partner, partly at the expense of U.S. exporters. In 2006, the EU accounted for an estimated 80 percent of total Polish agricultural exports and 76 percent of imports. In contrast, between 2000 and 2006, U.S. exports to Poland declined, falling 34 percent in 2005 to US\$ 59 million before recovering to an estimated US\$ 89 million in 2006. (Trade data are based on World Trade Atlas for HS codes 00-24, 44 and 5201.)



*Estimate

The growth in agricultural exports to the EU stemmed from the elimination of trade barriers and very competitive Polish prices. The modernization of certain agricultural sectors permitted an increase of exports to new markets, such as South Korea, Japan and China. Polish exports to these markets, especially meat and plant products, may compete directly with U.S. agricultural exports. High EU tariffs and SPS trade barriers, especially for beef, pork and poultry products, caused a decline in U.S. exports to Poland after accession. Poland does remain an important transshipment point for U.S. beef and poultry products to other destinations, especially to the east.

Future

It is expected that Polish agriculture and rural areas will face significant structural changes as Poland implements the 2007-2013 EU Rural Development Program. The EU has allocated over 13.2 billion Euro (US\$ 17.1 billion) for this program to Poland. Poland will add funds to bring the total program amount to 17.2 billion Euro (US\$ 22.3 billion). The program contains several activities such as structural pensions for older people who give up farming (2.2 billion Euro/US\$ 2.8 billion). This program will improve transfer of agricultural land from old-fashioned, small, inefficient farms to economically viable entities. A program supporting young farmers (440,000 million Euro/US\$ 570 million) will be based on subsidized credits and grants. Programs aimed at modernization of farms (1.6 billion Euro/US\$ 2.1 billion), increasing added value in basic agricultural production and forestry (1.1 billion Euro/US\$ 1.4 billion), as well as training of people employed in agriculture and forestry (50 million

Euro/US\$ 65 million) will help to continue to modernize Polish agricultural production and processing.