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Poland

Agricultural Situation

Grain and Meat Intervention's Limited Impact

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Report Highlights:
Newly announced additional Polish government spending on agricultural supports will have negligible impact on grain and meat production and trade. The government is also proposing to withdraw its previously agreed to duty free access for EU grain for the July - September 2002 period; a proposal not welcomed by EU authorities.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
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Executive Summary

Newly announced 370 million zloty ($92 million) in additional Government of Poland (GOP) 2002 spending to support grain and meat producers is expected to have minimal impact on production and trade according to multiple government and industry sources. Consequently, FAS Warsaw does not foresee these policy changes altering our current PS&Ds (PL 2010 - Grain and PL 2012 - Beef). The 25 percent spending increase over what had already been planned for 2002 is not expected to make a significant difference. Regarding grain, the total proposed budget is expected to be sufficient to only cover about four million metric tons (MMT) of Poland's anticipated 26 million tons of grain production. Four MMT is similar to the annual levels of grain covered under government intervention programs the previous two years. Concerning meat, additional pork procurements, new beef procurements, and new pork export subsidies are also expected to only slightly bolster the red meat market.

The new plan seeks elimination of the previously agreed to duty free access for EU grain for a temporary period of July - September 2002. Grain imports were already down due to high domestic supplies in any case although there was still some demand for wheat varieties and qualities not available on the domestic market.

While Poland moves toward final negotiations on the agricultural chapter of EU accession talks this fall in which it seeks higher post-accession production quotas, it is now seeking to temporarily eliminate previously agreed to duty free access for EU grain due to surplus domestic production and stocks. This will weaken Poland's negotiating position as highlighted in the Polish press on June 12 in comments by Gunter Verheugen, EU Enlargement Commissioner.

POLICY DEVELOPMENTS

The Government of Poland announced on June 11 an additional 25 percent or $92 million in spending on agricultural support programs for grain and meat. Such additional spending is in response to depressed local grain and pork prices due to high stocks and anticipated bountiful production this crop year. Nevertheless, prices for wheat and pork are still higher than in some neighboring countries. A major Polish daily inadvertently confused matters by mistakenly describing the grain intervention direct government payments to farmers as grain export subsidies. This was incorrect; there are no grain export subsidies.

Elements of the plan include slightly (6%) reduced intervention prices for wheat compared to 2001, increased incentives for companies to buy grain from farmers under the government intervention program, a commitment for the government to purchase up to 200,000 tons of grain in 2002, export subsidies for pork (26,000 MT) and beef (15,000 MT), and the proposal that Poland eliminate duty free access for EU grain from July through September. The overall objective of the plan, according to official sources, is to stabilize the current market and establish a firm market situation for the upcoming year.

The Government of Poland asserts that the Polish agricultural market is in the worst situation in 12 years. Current on-farm grain prices are more than 18 percent lower than one year ago. Political pressures from farm and protectionist oriented parties and protestors have been mounting as Poland approaches upcoming local elections and the income gap between rural and urban residents increases. Previous high government intervention prices and near record harvests have resulted in surplus production and high government stocks. Meanwhile, Poland's first confirmed case of BSE in early May 2002 combined with rising hog inventories have depressed pork and beef prices. A recent drop in the inflation rate to record lows from three down to two percent was attributed in the press largely to "plummeting food prices." Another factor import opponents blame is a strong local currency which they believe is fostering imports and hampering exports even though the currency rate has been strong since 1999.

- Grain Intervention Program

The following table contains the 2002 revised grain intervention prices which are valid July through October. They are only expected to impact about 4 MMT of Poland's 26 MMT of total grain. The "basic price" listed (eg. 440 for wheat) noted in the table is the price that grain companies participating in the program pay to a farmer while the "subsidy" (direct government payment) to the farmer is the supplemental amount (eg. 110 PLN per ton for wheat in Jul/Aug) which added together equals the total "farmer price" received by the farmer (eg. 550 for Jul/Aug). Assuming current market prices of 480-500 PLN/MT continue into early July a farmer would receive 50-70 PLN ($12.4-$17.4) per ton more than if they sold their grain on the market outside the program while a grain company purchasing from the farmer would gain 50-60 PLN/ton ($12.4-$14.9). Direct government purchases of up to 200,000 tons would not occur until November-December 2002 after the intervention program ends for the 2002 crop. Grain companies are encouraged to participate in the intervention program through subsidized government loans and new guarantees of compensation should their margins be significantly reduced if market prices fall below the basic price.

The 2002 Grain Intervention Prices in PLN per ton:

	food wheat				food rye			
	Former interv. price for 2002		New interv. price for 2002		Former interv. price for 2002		New interv. price for 2002	
	basic price/ subsidy	farmer price	basic price/ subsidy	farmer price	basic price/subsidy	farmer price	basic price/subsidy	farmer price
	480		440		330		325	
Jul/Aug	120	600	110	550	90	420	75	400
Sept.	130	610	120	560	95	425	80	405

Oct.	140	620	130	570	100	430	85	410

New program prices mean lower income for farmers but in view of large stocks and prospects for another good crop, it is intended to protect the market from stagnation and disorder. Meanwhile, although direct payments to Polish farmers are much lower than those received by EU farmers, Polish farmers fear that Poland's higher than EU intervention prices make Polish grain more costly relative to EU grain fostering imports.

- Grain Imports

Despite widespread publicity stimulated by protectionist agricultural elements that imports should be totally cut off because they are depressing domestic grain prices, grain imports had already substantially declined. What grain has entered Poland recently is a result of differing varieties, qualities, and perhaps previously agreed to contracts. Local trade sources indicate that the current average Polish wheat price is 469 PLN (USD 116) per MT. while wheat prices of foreign wheat delivered to the Polish border are USD 119-130. While local prices are still considered relatively high due to the lower average quality of Polish wheat stocks, transportation and other costs still make import costs prohibitive for comparable quality wheat. Ukrainian wheat prices were as low as USD 76-82 per metric in early May but a 25 percent import duty limited imports.

The new, reduced food grain prices will result in reduced prices on the local market for all grains including feed grains which are not part of the GOP intervention program. The lower domestic grain prices should further dampen import prospects, particularly for low quality food grains or feed grains which could be purchased on the local market.

Opposition to grain imports is of limited credibility since grain import figures highlight reduced grain imports. Unofficial information shows 348,000 tons of total grain imports, including milling products for January-May 2002 of which wheat imports accounted for 132,000 tons. Based on the most recent available preliminary official import data, Jan-April 2002 imports were: wheat, 104,200 tons; corn, 70,000; barley, 49,100 and rye, 12,800 tons. Except for wheat, these imports are at roughly half the level of the same period a year ago. Other sources of trade information estimate total MY 2001/02 (July-June) grain imports at 0.55 million tons of which wheat accounts for 240,000 tons. These figures are only approximately one-quarter of the level of grain and wheat imports in MY 2000/01.

- Red Meat Market Interventions

On June 11, 2002, an additional allocation of funds for intervention on the red meat market was announced. The Agricultural Market Agency (AMA) of the Ministry of Agriculture will be eligible to make additional intervention procurements of 55,000 tons of pork halves and a new 15,000 tons of boneless beef. Total pork 2002 procurements would rise to approximately 123,000 MT valued at the equivalent of approximately $100 million. In addition, the AMA will be responsible for allocation of export subsidies worth approximately $40 million for 26,000 tons of pork exports. These are the first such export subsidies since 1999 in the aftermath of the collapse of the Russian market.

The current situation on the pork market is created by several price depressing factors. An increase in pork output in the first half of 2002 coincided with the opening of a duty free import quota for pork imported from the EU. Meanwhile, some consumers began to substitute low cost domestically produced poultry meat for pork. In addition, cheap feed grain stimulated hog production.

From January 1 until May 10, 2002, the AMA procured 68,800 tons of pork halves for stocks and export. Depending on the quality (note: Poland uses the same pork quality standards as the European Union called EUROP), the minimum intervention prices paid by the AMA in the first six months of 2002 amounted to: 6.21 PLN per kilogram for class E, 6.07 PLN per kilogram for class U and 5.92 PLN per kilogram for class R (note: current exchange rate is 4.03 PLN per 1 USD). As a result of high European pork supplies the AMA sold for export in the first four months of 2002 only 4,400 tons of pork at an average price of 4.50 PLN per kilogram.

The beef market situation has been analyzed in voluntary report #PL2012 in the wake of Poland's first confirmed case of BSE in early May 2002. Stocks of beef held by the AMA are expected to reach 65,000 tons by the end of 2002. Additional intervention procurement of boneless beef by the AMA will lead to increasing stocks because during the first four months of 2002 the AMA was able to sell for export only 10,000 tons of beef quarters at an average price of 4.50 PLN per kilogram.

It is uncertain whether or not the pork subsidy tendering system will spur exports. The program of export subsidies for pork is based on a system of tenders where the successful exporting bidder is awarded the subsidy if their bid is the lowest subsidy among all bidders. This system was established in 1999 in the wake of the Russian market crisis, but it was unsuccessful because subsidy levels were too low to make product competitive. Thus far, the only successful export subsidy system operated by the AMA is for non-fat dry milk.

The overall impact of the new intervention program on the red meat market will depend mainly on possibilities of exporting stocks built up as a result of intervention of the AMA. However, prospects for exports are not very optimistic in the near future. Poland is losing its market place in FSU countries and is not able to substantially increase exports of pork to the EU and U.S. markets. In addition, imports of pork from the EU under the zero tariff quota put more pressure on the domestic market. In the first six months of 2002, Poland is expected to import 18,000 tons of pork (product weight basis) which is slightly more than total pork imports in 2001.