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Poland

Dairy and Products

Impact of EU Accession on Poland's Dairy Production

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Report Highlights:
Polish commercial dairy sector production is expected to increase through 2006 after which it's expansion could begin to decelerate as it reaches Poland's EU dairy production quota limits. Major transformation elements are changes in quality standards, introduction of additional CAP system payments for commercial dairy farms, and production quotas.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
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Table of Contents:

Summary

Poland's dairy sector is entering a major transition period as it prepares for likely EU membership by May 2004. Total dairy production and exports are expected to increase through 2006 with commercial dairy production projected to rise by 6 percent between 2002 and 2006. Beyond 2006, its dairy sector may reach the EU agreed Polish production quota ceiling which if unchanged, could ultimately limit Poland's ability to meet domestic demand and reduce its NFDM, WDM and cheese export expansion capabilities within 5 to 10 years.

Milk Production

Poland's current raw milk production is sufficient to cover demand of the domestic market and maintain strong exports of dairy products (mainly Non-Fat Dry Milk (NFDM) and cheese). It is estimated that in 2003 total milk production will amount to 12.3 million tons. In 2002, 60 percent of raw milk was procured from dairy farmers by dairy plants. Dairy plants processed raw milk into dairy products for the domestic market or export. In 2002, an estimated 1.5 million tons of raw milk was sold by farmers directly to consumers. Raw milk was sold by farmers directly to consumers at outdoor markets or on-farms. Raw milk procured by dairy plants and sold directly by farmers is considered commercial milk and will be subject to dairy quota. There are no quality and quantity restrictions on raw milk used as feed or consumed on-farm.

It is expected that total output of milk will be growing until 2006. An increase of milk output will stem mostly from higher production of extra quality milk procured by dairy plants within the dairy quota, while feed and on-farm use of milk is expected to remain stable. Expected higher prices for raw milk after EU accession will motivate farmers to increase production and fulfill the dairy quota as quickly as possible.

However, just after finishing negotiations with the EU, the Polish Minister of Agriculture stated that it may take up to eight years before Poland will be able to fulfill the entire dairy quota. On the other hand, fast development of dairy production in Poland within the last couple of years and industry sources indicate that this process may be much shorter.

Direct sales of milk to consumers carried out by farmers are expected to gradually decline as dairy farms will specialize and expand, so farmers will have no time to continue this highly labor-consuming practice. (See table).

Quality of Raw Milk

As of January 1, 2003, raw milk procured by dairy plants must be of extra or first quality class. Milk of extra quality class must contain less than 100,000 bacteria and less than 400,000 somatic cells in one milliliter. In 2002, 70 percent of milk procured by dairy plants was extra class, 10 percent first class and 20 percent second class. The second quality class was eliminated on January 1, 2003. First quality class milk will be procured by dairy plants until December 31, 2006. After this date, there will be only extra quality class raw milk on the market. When Poland joins the European Union (EU) milk sold by farmers directly to consumers will have to meet the same quality standards as milk procured by dairy plants.

Production and Distribution of Raw Milk (million tons)

	2002	**2003**	**2004***	**2005**	**2006**
Procured by dairy plants	7.2	7.4	7.6	8.0	8.4
Direct sales to consumers	1.5	1.6	1.4	1.1	0.8
Feed use	0.6	0.8	0.8	0.8	0.8
On-farm consumption	2.5	2.5	2.7	2.7	2.7
Total	11.8	12.3	12.5	12.6	12.7

* Upon EU accession "procured by dairy plants" plus "direct sales to consumers" are subject to quota limits.

Source: Institute of Rural Economics - 2002 data; FASWarsaw - 2003-2006 projections.

Dairy Cow Inventories

Current inventories of dairy cows amount to 3.1 million head. It is forecast that dairy cow inventories will decrease after Poland's EU accession as a result of an increase of milk yield per cow. Since the milk quota will remain constant, milk yield of cows are expected to grow within the next couple of years. In 2001, the average milk yield of dairy cows in Poland was 3,828 kilograms per year while in the EU it was 5,400 kilograms (variation from 3,700 kilograms in Greece to 6,680 kilograms per cow in Denmark, Sweden and the Netherlands). Poland's average yield in 1995 was only 3,136 kilograms. As the average milk yield of cows in Poland continues to increase closer to that of the rest of the EU, it may lead to a reduction of Polish dairy cow inventories to the level of 2.5 million head within a next few years.

Raw Milk Prices

Current prices for raw milk in Poland are below 0.25 Euro per liter. They are lower than in the EU where an average milk price is around 0.32 Euro. Polish farmers can expect an increase of milk prices after EU accession. In addition, according to EU Directive 1255/1999, all dairy farmers in the EU are eligible for dairy premiums allocated per ton of milk produced within the milk quota in the calendar year. In 2005, the premium will amount to 5.75 Euro per ton of milk, in 2006 it will be 11.49 Euro and in 2007 the premium will be 17.24 Euro.

Dairy Processing Industry

In Poland there were 414 dairy plants in 2002 according to the Polish Veterinary Service of the Ministry of Agriculture. Out of this number 40 plants fully meet EU quality and sanitary standards and another 182 plants will meet these standards on May 1, 2004, when Poland joins the EU. In addition, another 113 plants will have to meet EU quality standards by December 31, 2006, and until that time will be eligible to produce only on the domestic market or for export to non-EU countries. The remaining 78 plants will have to close when Poland joins the EU. According to the National Association of Dairy Processors, in May 2004, the 222 approved dairy plants will be processing 70 percent of the total raw milk procured in Poland.

Milk Quota System

Within the EU quota agreed to on December 13, 2002 at the EU summit in Copenhagen, Poland will be eligible to produce 8.964 million tons of commercial milk. The dairy quota for commercial milk includes milk of extra quality class procured by dairy plants and direct sales to consumers carried out by farmers. The EU also allocated to Poland a "milk quota reserve" amounting to 0.416 million tons which may be added to the currently agreed quota in 2006 increasing the total milk quota to the level of 9.380 million tons.

On September 6, 2001, Poland's parliament passed a law specifying rules of milk quota administration in Poland. According to the law, only commercial milk will be administered through the milk quota system. Milk producers will receive an allocation of milk quota from the Agricultural Market Agency (AMA). This allocation will be individual for each farmer and will be expressed in liters of milk containing referential amounts of fat which can be introduced on the market within the "quota period", lasting from April 1 to March 31 of the following year. The first "quota period" will start on April 2004 and will end on March 31, 2005.

It is estimated that currently in Poland there are 500,000 farms delivering milk to dairy plants. In addition, many farms sell milk or dairy products directly to consumers. Farmers from both groups of producers may apply for milk quotas. A milk quota does not cover milk used by farmers for on-farm consumption or feeding purposes. Milk producers who deliver milk to dairy plants may apply for an Individual Milk Quota for the Wholesale Supplier (IMQWS). Milk producers who deliver milk products directly on the market (not through a dairy plant) may apply for an Individual Milk Quota for the Direct Supplier (IMQDS). The individual milk quota is allocated by the Director of the Regional Office of the AMA on the basis of milk delivered to the market in the reference year which lasts from April 1, 2002 to March 31, 2003. As of April 1, 2004, milk producers who have no individual milk quota allocation will not be allowed to deliver milk or milk products on the market (sell it to the dairy plant, processing plant, middlemen or directly to the consumers). Farmers who received allocation of the individual quota and would like to increase their milk production may receive an additional allocation from the National Reserve of Milk Quota administered by directors of seven regional AMA offices. Producers may buy or lease allocated milk quotas but only within the same region of the AMA administration. Milk producers will have to pay a fine for each liter of milk delivered to the market over their quota allocation.

Trade

Poland is a net exporter of dairy products. It is estimated that in 2002, a positive trade balance of dairy products amounted to $235 million. Major exported dairy products are non-fat dry milk, whole dry milk, cheese and casein. Poland competes for developing country NFDM markets with the United States. Part of Polish exports of NFDM and casein are based on products imported from FSU countries and then re-exported. Re-export of these products will discontinue when Poland joins the EU due to EU import quality requirements.

In a longer time frame of 5 to 10 years, the milk quota at the level agreed to with the EU may not be sufficient to cover growing domestic demand for milk and dairy products, so Poland may be forced to import certain dairy products as well as reduce exports of Non-Fat Dry Milk, Whole Dry Milk and cheese.

This report is based on information from multiple government, press, academic, and dairy industry sources.

Reference**:**

1. Gain Report #PL2038 "Polish Agriculture Agreement with EU".
2. Gain Report #PL2022 "2002 Livestock and Products Annual"
3. Gain Report #PL2030 "2002 Dairy Annual"