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Poland

Sugar

New Sugar Law Supports Domestic Producers

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Report Highlights:
Poland developed a new Sugar Market Regulation Law which will regulate sugar production starting in MY 2002/03. It is intended to support domestic beet farmers and the sugar processing sector. It contains provisions to create a large national sugar holding company, institute a sugar intervention and "basic" beet price system, and limit processing to domestic raw materials.

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

In 2001, Poland developed a new Sugar Market Regulation Law which will regulate sugar production starting in MY 2002/03. It contains provisions to create a new national sugar holding company, institute intervention rather than minimum prices for sugar, create contract and "basic" price guarantees for beet producers, limit sugar and iso-glucose inputs to domestically produced raw materials, and sets sugar production quotas for MY 2002/03, including first ever iso-glucose quotas. The new national sugar producing company, owned primarily by beet producers and sugar refinery employees, could control more than 50 percent of local sugar production. The new law is designed to assure beet farmers that the majority of domestic sugar demand will be met by domestically produced beet sugar. Polish government authorities state that the new law is compatible with EU sugar market regulations as Poland's government works toward its hoped for January 2004 EU accession date.

As reported in PL 1013 (4/19/2001) and PL1021 (7/24/01) the Polish parliament approved a Sugar Market Regulation Law on June 21, 2001. That law was significantly modified thereafter because the original verison contained sections which would be difficult for carry out. Due to these changes and the fact that when our previous reports were written the entire law text was not yet available, following is an update outlining certain provisions of the law and it's possible effect on sugar production in Poland. The new law is intended to assure local farmers that the majority of domestically marketed sugar will be produced using domestically produced beets.

Sugar Market Regulation Law Intends to Create Stable Production Conditions:

Levels of sugar, iso-glucose and inulin production will be subject to annually set government quota amounts. Prior to the new law, iso-glucose and inulin production were not subject to quota limitations. Provisions for such quotas were included into the new law as production of iso-glucose increased in recent years. Sugar interests, domestic and some foreign invested refineries, view rising iso-glucose production as a competitor for the sweetener market.

The new law also authorized the following national advisory and control bodies: the Commission for Sugar Affairs (Komisja Porozmiewawcza d/s Cukru) and Mixed Commissions (Komisja Mieszana). Mixed Commissions will exist at each sugar mill. They will consist of 50 percent refinery representatives and 50 farmers. They are expected to have a strong influence on beet production and beet processing policies. They are also intended to smooth relations and enhance coordination between beet farmers and refiners.

ABCs of the Production Quota System

The new law requires the Government of Poland to annually set beet sugar, iso-glucose and inulin syrup A and B production quotas. Quota A product is produced for domestic use. Quota B product can be exported using subsidies. The former law did not include iso-glucose and inulin syrup quotas.

The quotas are allocated to refineries/producers. All product which is produced outside of A and B quotas is called product C. Product C has to be exported before the end of the CY of the last part of the MY. Production C must be exported in form of the C product or as an ingredient in items containing a minimum 20 percent refined sugar equivalent.

Quota Category Table

quota A	quota B	product C
- domestic consumption; - allocated fort MY (Jul-June*)	- domestic consumption or - export with subsidy; - allocated for CY	- production over the quotas; - exported before end of CY - exported in high sugar content product before end of the CY

* MY was Oct-Sept based on the old law.

MY 2002/03 Quota Amounts

At the end of November 2001 sugar and iso-glucose production quotas were published for MY 2002/03. MY 2002/03 will be the first production year subject to the new law. Following is a table outling quota levels.

Sugar Quotas (metric tons of refined sugar; raw sugar equivalent in parenthesis)

quota A	quota B	product C output
MY2002/03: 1,540,000 (1,673,900)	part of CY 2003 (till June) 50,000 (54,350)	
MY2001/02: 1,540,000 (1,673,900)	CY 2002 104,400 (113,482)	MY2001/02: 0
MY2000/01: 1,520,000 (1,652,240)	CY 2001 104,400 (113,482)	MY2000/01: 388,600 (422,408)

Iso-glucose Quotas
(metric tons of dry iso-glucose of 42% fructose concentrate, wet glucose of 42% fructose in parenthesis)

quota A	quota B	product C output
MY2002/03 40,000 (52,000)	part of CY 2003 (till June) 2,200 (2,860)	N/A
MY2001/02 no quota	CY 2002 no quota	N/A
MY2000/01 no quota	CY 2001 no quota	N/A

Inulin Quotas

quota A	quota B	product C output
MY2002/03 not announced	part of CY 2003 (till June) not announced	N/A
MY2001/02 no quota	CY 2002 no quota	N/A
MY2000/01 no quota	CY 2001 no quota	N/A

The MY 2002/03 sugar A production quota for domestic use is set at the same level as for the current MY 2001/02 and is similar to the levels set in recent years. By contrast, the sugar production level for quota B for subsidized sugar exports has been reduced from104,400 tons which was the level set in recent years.

MY 2002/2003 subsidized B export sugar and iso-glucose B will effectively be for only half of the MY. Levels set appear to be intended to meet the difference between the amount set for MY 2001/02 quota B sugar and the104,400 tons per CY allowed under Poland's WTO accession agreement. The iso-glucose production quotas are much smaller than the Cargill producing plant had anticipated given its expanding production capacity which would ultimately be 120,000 tons. It is the only iso-glucose producer in Poland. However, iso-glucose production quotas are specified as dry product so the actual commercially marketable amount under the quota is 30 percent more for a total of around 54,860 tons.

Quota B sugar exports can be subsidized at levels agreed to within Poland's WTO accession agreement. Since CY 2000, this remains at 104,400 tons of white sugar (113,482 tons of raw equivalent). The B quota iso-glucose should reduce respectively sugar B quota at a one to one ration The maximum subsidy for Polish sugar exports set within the WTO is 32.0 million dollars per CY. Funds to cover subsidies were accumulated from domestically produced and marketed sugar. These fees were equal to three percent of the value of local sugar in MY 1999/00 and one and one-half percent in MY 2000/01. Actual export subsidies thus far are lower than the permitted level, e.g. in CY 2000 they equaled 89.9 million zlotys, equivalent to around USD 22.5 million.

New Pricing System

No more minimum sugar price:

Starting in MY 2002/03, the first MY the new law will be in effect, the former minimum sugar producer prices will be eliminated. The minimum price system was criticized as reportedly often resulting in sugar refineries selling sugar much below the minimum price without being subject to penalties. Under the new law refineries can sell sugar at market prices.

New sugar intervention price used only for intervention purposes:

Instead of a minimum sugar price, there will be a sugar intervention price which will be used only when the Agricultural Market Agency (ARR) buys sugar for intervention purposes. Also, if the ARR sells sugar on the market from it's intervention stocks, it will not be permitted to sell it cheaper than the intervention price. The new intervention price will be set for each MY by the government's Council of Ministers based on Commission for Sugar Affairs recommendations.

For MY (2002/03) the intervention price was set at zlotys 1.80 (US$ 0.45) plus VAT per kilo. Sugar processors contend that the price is too low and would not cover current production costs. Also, based on the old law, the current minimum sugar price (refinery/storage location, VAT not included) for MY 2001/02 is zlotys 2.00 (US$ 0.50) per kg; it was zlotys 1.71 (US$ 0.43) in MY 2000/01.

The new law also requires refineries and iso-glucose and inulin producers to pay a "sugar fee". The fee is equal to two percent of the sugar intervention price in case of product produced within quota A and up to 32 percent for product produced within quota B. Proceeds of the fee will be used to subsidize sugar exports or subsidize sugar use in non-edible products.

More guarantees and beet farmer contracts:

Beside giving farmers the right to have representatives on policy making commissions, the new law also allocates to beet farmers sugar production quotas in the form of sugar beet contracts. Farmers will have the right to supply a certain amount of sugar beets to designated refineries. Such contract amounts will be allocated to farmers based on sugar production allocations of individual refineries. Farmers may sell their contract rights among themselves but must notify the refinery. Refinery representatives are afraid that such rights may destabilize refineries' sugar beet supplies.

New "Basic" Beet Price Guarantees:

Under the new law the Council of Ministers will set each year's basic sugar beet price. Based on the basic sugar beet price there will be a minimum sugar beet price equalivant to 98% of the basic price for beets purchased for A quota production and 68% for beets for B quota production. Refineries will be required to pay farmers at least the minimum price within each category. The basic sugar beet price for MY 2002/03 has been set at zlotys 115 per ton (VAT not included), current equivalent of 29 USD. Beet prices were not regulated under the previous law. The government believes farmer beet contract allocations and basic beet prices will provide farmers with a stable income from beet production.

Sugar Market Regulation Law Limits Production to Domestic Raw Materials

The new law limits raw materials used for iso-glucose and inulin production to domestically produced raw materials (article 11 of the law). It also defines sugar beets for processing as only those contracted and allocated to beet producers who own land on Polish territory and produce beets for processing from that land. These two regulations eliminate possibilities for processing using imported raw materials; eg, imported grain for iso-glucose or foreign origin sugar beets for processing.

Strictly Polish, Large Sugar Company to be Formed

As reported in PL 1021 (7/24/2001), the new Sugar Market Regulation Law requires the Government of Poland to create a National Sugar Holding Company (KSC) from all companies which were owned by the state Treasury and were "Sugar Holding" entities at the time the new sugar law goes into effective. Sugar beet producers and sugar refinery workers are expected to control the majority of shares in the KSC.

During development of the law, there were serious disagreements concerning the number of refineries which would be incorporated into KSC. In late July 2001 the now previous Treasury Minister announced that the KSC will consist of 44 refineries and would control almost 60 percent of sugar produced and supplied in Poland. Since that time, however, the KSC was not officially formed because of legal issues and disputes between the state Treasury and the Polish parliament's Agriculture Committee. These disputes continue.

The primary issue is the status of the 44 sugar refineries previously projected to make up KSC. A court of justice blocked the provisional sales of shares of 16 refineries, formerly Silesia Sugar holding, to Saint Louis Sucre, a French company, as well as shares of another 5 refineries to be sold to Nordzuecker, a German company. Also, some parliament members question the final sale of another 5 refineries to the Pfeifer and Langen company. Since debate over these transactions with foreign entities continues, the amount of refineries ultimately under KSC is uncertain. KSC, when formed, could consist of anywhere from 24 to 44 companies.

Impact on Future Sugar Production

Sugar sector sources (industry, government, and farmers) believe that the new legislation will not result in increased production. Rather, they expect that the new policies will help stabilize sugar and beet production and reduce annual production fluctuations.

Meanwhile, annual government and industry debate about the amounts of sugar and iso-glucose production quota levels will continue. Also, whatever levels of production quota ceilings Poland advocates as part of its EU accession negotiations will impact future production, particularly of iso-glucose, once Poland joins the EU. Poland's government hopes to achieve EU accession by January 2004. Key EU-Poland negotiations about the agricultural portion of Poland's accession are scheduled to begin summer 2002.