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Sugar

SUGAR ANNUAL REPORT FOR POLAND

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Report Highlights:

Despite reduced production of sugar to 1.96 million tons forecast for MY 1999/00, Poland's sugar production will exceed domestic demand by approximately 200,000 tons. Such overproduction together with high stocks will result in over 300,000 tons of sugar exports of which one third will be exported with subsidies.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
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Executive Summary

Despite an expected reduction in sugar beet area and sugar beet crop in 1999, Poland will continue to suffer from an oversupply of refined sugar. Over production will continue to effect both farmers and the industry profits because of low prices. As a result of the reduction in the beet crop, centrifugal sugar production is expected to decrease 13 percent to 1.96 million tons in MY 1999/00, still around 200,000 tons over domestic demand. Several West European companies have purchased Polish refineries and upgraded facilities. It is expected that the majority of Polish sugar refineries owned by the State Treasury will be sold to private investors during this year. Poland's system of production quotas for domestic use, subsidized and unsubsidized exports are used in conjunction with minimum sugar prices and high tariffs in support of Polish farmers. Currently, Poland exports well over 300,000 tons of sugar a year primarily to the former Soviet Union and to the Middle East using WTO-allowed export subsidies which account for one-third of exports.

Production

Poland's 1999 sugar beet crop is expected to decrease to 14.0 million tons; an 8 percent reduction from the 1998 crop reflecting a drop in area. Sugar production in MY 1999/00 is projected to decline 13 percent to 1.96 million tons. Sugar refineries will only sign contracts with farmers for smaller beet deliveries and reduced beet acreage. Lower beet production within quota and less favorable, but close to normal, weather conditions will result in a smaller beet area planted and smaller beet and lower sugar production.

Despite reduced planted area, good growing conditions resulted in a relatively large 1998 beet crop with high sugar content. Sufficient moisture during the beet growing season resulted in very good beet yields while sunny weather and the long fall season increased sugar content in beets to an average of 16.5 percent (15.9 percent for the 1997 crop). As a result, sugar yield reached 14.7 percent versus 14.2 percent in 1997/98 and total sugar production was same as in 1997, only 8 percent lower than the record set in 1996. Sugar yield calculated per hectare of produced beets was 5.15 tons/hectare, a record high.

Improved efficiency in the beet processing industry has shortened the processing period over the past several years. The average processing time for the 1998 crop declined to 68 days versus 73 days for the 1997 crop. However, according to the domestic industry, the optimal processing period should be well over 80 days in order to use plant equipment most effectively. Beets are processed in 76 refineries of which some were recently

modernized. Companies with recent investments such as British Sugar and other foreign capital have modernized facilities. Although 25 percent of beets are processed in the 9 largest refineries (each processes 4,200 - 7,000 tons beets per day), the average Polish sugar refinery processes approximately 2,800 tons a day compared with 12,500 tons in the Netherlands, 10,500 tons in Austria, 9,140 tons in Denmark and 7,685 tons in the rest of the European Union. In refineries average processing capacity with regular shifts has been increased to 167,500 tons processed beets per day from 160,000 tons two years ago. However, refineries must employ extra shifts which results in higher production but also with higher costs. In 1998/99 an average plant's processing was 221,100 tons per day, 6,000 more than 1997. According to some experts, 10 refineries could be closed down and production could still reach 2 million tons annually. Out of 76 sugar plants in Poland only 10 pay premiums for sugar content in beets. Despite the industry's improvements in MY 1998/99, the industry currently faces a rather difficult financial situation because large domestic sugar supplies keep sugar prices low and the industry must sell sugar without any profit.

Poland is Europe's fourth largest sugar producer, after France, Germany and Ukraine. The GOP supports Poland's sugar refining industry through production quotas, minimum domestic sugar prices, high tariffs on imported sugar and export subsidies.

The sugar production quota for domestic sugar use has been reduced slightly to 1.63 million tons (1.77 tons of raw sugar) for MY 1999/00. In addition to this quantity, over 100,000 tons of sugar is produced specifically for subsidized exports. Sugar production quotas for MY 1998/99 and MY 1997/98 for the domestic market has been slightly increased to 1.65 million tons of white sugar (1.8 million tons of raw sugar) from 1.63 million tons in MY 1997/98 and MY 1996/97, while the quotas for subsidized exports have been also raised, 128,592 tons of raw sugar in CY 1997 and 123,592 tons in CY 1998, 118,300 and 113,700 tons of white sugar respectively. The quota for domestic use has been criticized by the Polish industry as being too high and blamed for low sugar prices on the domestic market. The industry suggests that the domestic production quota be only 1.5 million tons of white sugar, which would allow the industry to make a profit from sales on the domestic market. The higher sugar prices on the domestic market, however, would result in high imports regardless of the current high tariffs.

Consumption

As a result of domestic supplies and high sugar stocks, domestic sugar prices declined during 1998 (see price table). Average wholesale sugar prices declined to zlotys 1.67, average for MY 1997/98 from zlotys 1.71, average reported for MY 1996/97. Domestic sugar prices increased at the beginning of the current MY due to the official wholesale price increase to zlotys 1.71 per kilogram. Low sugar prices, however, have not increased consumption. Consumption in household's declined slightly. For industries using sugar, consumption which had increased significantly in previous years will slow due to lower export demand for products containing sugar. The financial crisis in Russia has reduced exports of various processed foods containing sugar significantly. Estimated current total domestic consumption of raw sugar declined to 1,766,000 tons (1.62 million tons of white sugar) from 1,804,000 tons (1.66 million tons of white sugar) in MY 1996/97.

Sugar consumption in Poland was approximately 46 kilograms per capita (raw value) in MY 1997/98. Although sugar consumption has gradually increased over the past few years, consumption is now flat. Total domestic sugar consumption is estimated to be 1.77 million tons of raw sugar in MY 1998/99; slightly less than the previous year. A similar level of consumption is expected in MY 1999/00.

As estimated by the Institute of Agricultural Economy, total direct sugar consumption in households and restaurants/cafeterias is estimated at 920,000 tons of white sugar (1.0 million tons raw value) in CY 1997. Direct sugar consumption has declined in recent years while, at the same time, industrial consumption has increased to around 610,000 tons white sugar (663,000 tons raw value) as production of products containing sugar has expanded. The following preliminary production changes were noted during CY 1998 for major products using sugar: jam (+23 percent), juices (+0.5 percent), wines (+7.9 percent), beer (+9.3 percent), chocolate (- 1.7 percent), chocolate products and confectionary (+9.7 percent), sweet bakery products (+3.3 percent).

Besides beet sugar, Poland produces the following three sweeteners: honey, glucose and starch syrup. So far, there has been a little substitution among these sweeteners for beet sugar on the Polish market.

Production of Non-Sugar Sweeteners, 1996-1998 (1000 metric tons)

	CY 1996	CY 1997	CY 1998
Honey	12.0	9.5	8.5
Starch syrup	8.5	47.5	50.0
Glucose	2.4	1.6	3.0

Until 1996, starch syrup has been produced in Poland from potatoes. This production has been changed to utilize grains (wheat and corn) as raw material input since 1997. As a result of a new Cargill investment in Wroclaw, starch syrup and production increased significantly. Since January 1999, isoglucose production has begun and will reach an estimated 40,000 tons in CY 1999 which will reduce demand for approximately 28,000 tons of white sugar. Total Polish demand for isoglucose is estimated at 80,000 tons annually.

Trade

It is forecast that during MY 1999/00 Poland will again have a large surplus of sugar. Considering high sugar stocks and surplus production, exports will be over 300,000 in MY 1999/00.

For January-November, 1998 sugar exports were 322,000 tons of raw-sugar equivalent (296,700 tons of white sugar) with an average price of USD 302 per metric ton of white sugar. The lower subsidized WTO exports allowance for CY 1998, low sugar prices on the world market and the crisis in Russia were responsible for an almost 40 percent drop in exports. Subsidized exports account for 136,000 tons of white sugar, more than the CY 1998 quota because there was a small unused portion of the quota left from previous years. The allowed quota for 1997 subsidized sugar export was 118,700 tons of white sugar. Actual subsidized exports totaled 176,500 tons in CY 1997 since the quota was increased by unused quota from previous years. In 1997, subsidized exports accounted for 34 percent of total exports and residual sugar exports were sold by the industry on the basis of world prices.

Because costs of domestic sugar production are higher than world market prices, exports are constrained by WTO limits on Poland's subsidized exports of sugar, as follows:

	WHITE SUGAR	RAW SUGAR
CY 1995	127,000	138,049
CY 1996	122,000	132,614
CY 1997	118,300	128,592
CY 1998	113,700	123,592
CY 1999	109,100	118,592
CY 2000	104,400	113,482

In 1997, the largest customers for Polish sugar were the countries of the former Soviet Union, which accounted for 79 percent of total Polish exports. In 1998, because of the financial crisis in Russia and in other FSU countries, exports to these countries dropped. Additionally, Russia increased tariffs up to 45 percent tariffs on sugar since August 1998 and introduced a 3 percent tax on imports. The tariff on sugar has been reduced to 25 percent since 15 February 1999 which may help to increase demand for Polish sugar on the Russian market in 1999. Polish sugar exports to Russia during Jan-Oct.1998 were 20.7 million USD, while for same period in 1997 they were 27.4 million USD. The 24.4 percent decline was related to increased tariffs and as well to the Russian crisis. The Czech Republic was a significant customer for Polish sugar, particularly during the last part of CY 1998. 12,000 tons of sugar has been exported to the Czech Republic during October - December 1998. To protect its market, since second week of February 1999, the Czech Republic has increased tariffs to 61.3 percent on imported sugar. The previous tariff on sugar imported from Poland was 40 percent.

Besides sugar, Poland traditionally exports a significant amount of molasses. The high sugar content of Polish molasses brings a premium on the world market. In CY 1997, 456,600 tons of molasses were exported, 31 percent over CY 1995. Most of it was exported to the EU and some to the United States.

Despite over supplies in Poland, some sugar imports were reported during the last two marketing years because of relatively high sugar prices on the domestic market and due to some tariff privileges for CEFTA countries. 86,000 tons of white sugar (93,482 tons of raw sugar) was imported during two MY 1996/97 and 1997/98. Low sugar prices on domestic market and elimination of tariff privileges for CEFTA countries reduced sugar imports to an estimated 11,000 tons of raw sugar equivalent in CY 1998.

Stocks

Increased sugar production during the last three years along with GOP limits on domestic sugar sales and subsidized exports as well as low prices for non-subsidized exports will result in high sugar stocks by the end of MY 1998/99.

In addition to sugar stocks held by the industry and pipeline stocks, significant sugar stocks are also held by the Agricultural Market Agency (ARR). The ARR is responsible for intervention sales, purchases, and for managing government sugar stocks. ARR stocks have been built significantly in MY 1997/98. During MY 1998/99 intervention activities were rather minimal, due to high sugar production, and over supplies.

The 1996 adjustment in the “1996 Sugar Law” allowed the ARR to reconstruct stocks from sugar produced withing quota C, sugar produced over the basic domestic quota A and quota B, sugar for subsidized export. That adjustment resulted in an increase sugar stocks. These high sugar stocks will lower sugar prices on the domestic market when ARR is forced to reduce its inventory.

Policy

Although there are efforts to modify the current sugar policy, the September 1994 Sugar Industry Act regulates the current sugar industry and its privatization. The Act provides for commercialization/privatization of Treasury-owned companies; administering sugar prices; domestic price stabilization; producer supports and export subsidies.

Out of the 76 sugar plants in Poland 14 sold to private investors. Mainly foreign investment is involved in these sugar refineries. British Sugar Overseas, Germany’s Sidzucker corporation, Britain’s Tate and Lyle, Germany’s Pfeiffer and Langen are the major foreign investors in Polish sugar industry. Only a few sugar refineries have Polish private investors (Rolimpex). The remaining 62 plants were consolidated into 4 holding companies. Technically, these 62 companies are still owned by the state because the Treasury owns the majority, if not all of their shares.

It is hoped that during CY 1999 most of the 62 state owned Polish sugar plants will be sold to private investors. Recently, the GOP decided that the privatization/sale of these sugar plants will be carried in so called “regional manner”, meaning that 4-7 sugar plants within the same region will be sold as a group, contrary to the previous idea of selling each sugar holding individually. The exception will be the Silesia Sugar Holding which facility will be sold in its entirety due to their own request. Nordzucker, the German sugar concern is interested in investing in the entire Poznan and Pomerania sugar holding. The Nordzucker is promising an extra investment of 500 million DM in that holding. However, not all the plants in the region will be profitable and in future some of them may be liquidated. British Sugar which so far has invested USD 40 million in sugar industry in Poland announced that is planning to invest an additional USD 200 million in near future.

Under the Sugar Act, sugar is produced according to quotas set each year by the Council of Ministers. Separate quotas are set for domestic consumption and for export. Quota A is established for domestic sugar sales, Quota B is for subsidy-eligible exports and Quota C, is simply all sugar produced in excess of Quota A and B. For MY 1999/00, the Quota A is 1.63 million tons of white sugar for domestic use or 1.77 million tons on a raw sugar basis. Quota B, calculated for CY 2000 is 104,400 tons of white sugar for export with subsidies or 113,482 tons on a raw sugar basis. Subsidized export quotas are being reduced each year to comply with WTO obligations. November 1996 amendments to the Sugar Act allow the Agricultural Market Agency to procure Quota A and C sugar for price intervention activities and reconstruction government stocks. Quota C can be also used to produce products with sugar content over 20 percent sugar if the products are exported.

The Council of Ministers also sets the minimum wholesale sugar price (FOB sugar refinery warehouse, without VAT). For October 1998/September 1999, the price was set at 1.71 zlotys per kilogram (USD 0.43); up from 1.50 zlotys in 1997/98. According the law, sugar refineries may be obliged to pay up to 7 percent tax on the value of sugar sold on the domestic market. However, the tax was fixed at two percent for sugar processed during the 1998/99 period, same as for previous MY. The revenues from this tax are amassed in a fund which is

used to cover the costs of export subsidies. The quantity of subsidized exports are constrained by WTO limits (see table in trade section).

The Polish Government protects domestic beet and sugar production by applying high tariffs on imported sugar. Many products with high sugar content have an additional tariff assessed, based on the level of sugar contained in the product.

In March 1999 the GOP announced that tariff preferences for imported sugar from CEFTA countries will be eliminated sometime in 1999. No date of this decision have been published yet. So far, the tariffs effective for 1999 are as follows::

Tariff No.	Description	MFN Countries	EU	DEV Count	LDC Count.
1701	Sugar 1/	40 pct, min. 0.17 ECU/kg	40 pct, min. 0.17 ECU/kg	40 pct, min. 0.17 ECU/kg	40 pct, min. 0.17 ECU/kg
1702	Other sugars	40 pct, min. 0.17-0.48 ECU/kg	40 pct, min. 0.17-0.48 ECU/kg 2/	40 pct, min. 0.17-0.48 ECU/kg	40 pct, min. 0.17-0.48 ECU/kg
1703	molasses 3/	40 pct, min. 0.17 ECU/kg	40 pct, min. 0.17 ECU/kg	40 pct, min. 0.17 ECU/kg	40 pct, min. 0.17 ECU/kg
0409	natural honey 4/	42 pct	42 pct	42 pct	42 pct

1/ Under the Central European Free Trade Agreement with the Visegrad countries, sugar imported from Czech and Slovak Republics has no minimum specific tariff; for CY 1999, the preferential quota for Hungary is 10,000 tons of beet sugar at a 35 percent tariff and for Romania 10,000 tons of beet sugar and 5,000 tons of sacchrose both at a 15 percent tariff.

2/ Chemically poor fructose and maltose, with coding CN 1702, have a reduced tariff of 10 percent or minimum 0.04 ECU per kg if imported from EU. Also some tariff advantages apply for fructose imported from CEFTA countries.

3/ In 1999 molasses imported from CEFTA countries have a reduced tariff of 14 percent and from Latvia of 5 percent.

4/ In 1999 there is tariff rate quota of 312.8 tons of honey with reduced tariff of 35 percent. Honey imported from Hungary, Czech and Slovak Republics have reduced tariff of 10 percent in 1999. There is a tariff rate quota for 100 tons honey imported from Romania with 40 percent tariff in CY 1999.

A large number of products containing sugar (tariff headings 0811, 1704, 1806, 1905, 2006, 2007, 2008, 2009 and 2105) have, in addition to the basic tariff, an additional duty for sugar contained in the product (DCC). DCC is calculated according to the following formula: $DCC = 0.0017 \text{ ECU}, 0.0049 \text{ or } 0.00085 \text{ ECU per } 10 \text{ grams}$ or one percent of sugar contained in each kg of product. A number of EU products are exempt from DCC tariffs.

Under the Uruguay Round Agreement which entered into force on July 1, 1995, Poland has an aggregate tariff-rate quota for products under tariff headings 1701, 1702 and 1703. The initial quota was 50,000 tons (processed product equivalent), rising to 84,000 tons over the six-year implementation period. Within-quota rates are 40%, min 0.17 ECU per kg, for 1701, 1702, and 1703. Over-quota tariffs rates are as follows:

Tariff Heading	CY 1999	Final
1701 1/	100%, min 0.45 ECU/kg	96%, min 0.43 ECU/kg
1702 2/	100%, min 0.45 ECU/kg	96%, min 0.43 ECU/kg
1703 3/	84.2%, min 0.36 ECU/kg	77%, min 0.33 ECU/kg

1/ in 1999 for tariff coding 1701 tariff quota of 60,000 tons was established with tariff same as published in basic tariff schedule for WTO countries. The tariff quotas will be used in case additional tariff for sugar will be published.

2/ in 1999 for some products withing coding 1702 30, 40 and 90 total tariff quota of 292 tons was established with preferential tariff 40 percent or minimum 0.17 ECU/kg. The over quota tariffs are lower than WTO limitations, see above table.

3/ no tariff quota was established for tariff coding 1703 thus, these over quota rates will not be in effect; basic tariff is lower than withing quota tariff.

Sugar Beets PS&D Table

PSD Table						
Country	Poland					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	419	419	400	400	0	370
Area Harvested	401	401	400	400	0	370
Production	15800	15800	15200	15200	0	14000
TOTAL SUPPLY	15800	15800	15200	15200	0	14000
Utilization for Sugar	15800	15800	15200	15200	0	14000
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	15800	15800	15200	15200	0	14000

Centrifugal Sugar PS&D Table

PSD Table						
Country	Poland					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Beginning Stocks	278	278	278	303	265	363
Beet Sugar Production	2323	2239	2160	2239	0	1957
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	2323	2239	2160	2239	0	1957
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	7	11	5	5	0	5
TOTAL Imports	7	11	5	5	0	5
TOTAL SUPPLY	2608	2528	2443	2547	265	2325
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	490	442	330	418	0	326
TOTAL EXPORTS	490	442	330	418	0	326
Human Dom. Consumption	1824	1767	1832	1750	0	1750
Feed Dom. Consumption	16	16	16	16	0	16
TOTAL Dom. Consumption	1840	1783	1848	1766	0	1766
Ending Stocks	278	303	265	363	0	233
TOTAL DISTRIBUTION	2608	2528	2443	2547	0	2325

Centrifugal Sugar Price Table

Prices Table			
Country	Poland		
Commodity	Centrifugal Sugar		
Prices in	zlotys	per uom	kilogram
Year	1997	1998	% Change
Jan	1.92	1.64	-14.58%
Feb	1.86	1.67	-10.22%
Mar	1.73	1.68	-2.89%
Apr	1.63	1.72	5.52%
May	1.54	1.73	12.34%
Jun	1.49	1.7	14.09%
Jul	1.5	1.69	12.67%
Aug	1.57	1.68	7.01%
Sep	1.53	1.68	9.80%
Oct	1.63	1.83	12.27%
Nov	1.63	1.84	12.88%
Dec	1.63	1.83	12.27%
Exchange Rate	3.98	Local currency/US \$	
Date of Quote	04/07/99	MM/DD/YY YY	

Note: The above are wholesale prices for white sugar.

Centrifugal Sugar Import Table

Import Trade Matrix			
Country	Poland		
Commodity	Centrifugal Sugar		
Time period	Jan.-Dec.	Units:	metric tons
Imports for:	1997		1998
U.S.	0	U.S.	0
Others		Others	
Czech Republic	37580	Slovak Republic	2760
Germany	9340	Czech Republic	304
Russia	3746	Germany	320
France	2248	Russia	520
Total for Others	52914		3904
Others not Listed	606		100
Grand Total	53520		4004

Note: The import table reflects official (Main Statistical Office) 1997 calendar year trade and estimates for CY 1998 which are based on January - November 1998 preliminary traded data.

Centrifugal Sugar Export Table

Export Trade Matrix			
Country	Poland		
Commodity	Centrifugal Sugar		
Time period	Jan.-Dec.	Units:	metric tons
Exports for:	1997		1998
U.S.	0	U.S.	0
Others		Others	
Uzbekistan	194400	Uzbekistan	80000
Russia	104276	Russia	80000
Belarus	45588	Belarus	75000
Tajikistan	20436	Tajikistan	23000
Kazakhstan	14672	Ukraine	20000
Ukraine	12052	Czech Republic	12000
Egypt	18340	EU	10000
Yemen	14148		
Algeria	12576		
EU	23580		
Total for Others	460068		300000
Others not Listed	64000		
Grand Total	524068		300000

Note: The export table reflects official (Main Statistical Office) 1997 calendar year trade and estimates for CY 1998 which are based on January - November 1998 preliminary traded data.