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Food and Agricultural Industry in Poland after European Union Accession

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■ 5.1 DESCRIPTION OF THE POLISH FOOD AND AGRICULTURAL INDUSTRY

Before Poland joined the European Union, a common fear prevailed that the Polish agriculture and food processing industries were not able to withstand competition with the respective branches in other countries – members of the European Union. Nevertheless, upon Poland's EU accession, two important facts were discovered and documented: the Polish agricultural and food products appeared very attractive for the European market, and the true real state of the majority of food industry branches in Poland was much better than expected with possible risks lower than anticipated.

Among all countries within the European Union now, the Polish food industry is in the 6th position (behind France, Germany, Italy, Great Britain, and Spain). The value of Polish global agricultural production exceeds 55 billion euro, and it represents 8% of the total food processing production value in the European Union [2].

The admission of Poland to the EU highly stimulated all the production activities within the Polish food industry; this stimulation was higher if compared

with other sectors of the Polish industry. Interestingly, this phenomenon, although to a lesser extent, had been already noted for several years preceding the accession.

Just before the accession, the increase in the production value, expressed in fixed prices, was approximately 10% compared with the previous year. This increase was mainly generated by a rapid growth of agricultural and food export exceeding 4 billion euros and being more than 40% higher than in 2003. The turnover credit balance of about 0.5 billion was doubled, and the food industry percentage share in the global Polish export volume increased from 13.1 % in 2003 to ca. 15.5% in 2004 [2].

However, since May 2004, the rate of increase in the agricultural and food industry sector has significantly dropped. In the large- and medium-sized food companies, the sales rate of agricultural products has risen only about 1.8%. This reduction in the dynamics of the entire sector development was a result of the gradual decrease in the population's income, which contributed to a lower absorptive capacity of the entire inland market. The process of weakening the growth rate of this sector has been diversified depending on individual food products; the diversification in question is shown in Table 5.1 [5].

Table 5.1 Production dynamics of key food products in 2004
(expressed in per cent [%] and compared with the same period in 2003)

Products	January-April 2004	May-October 2004	January-October 2004
Pig and Cattle Products	126.5	104.2	113.2
Poultry Meat Products (Fowls)	108.0	115.5	112.6
Melted Fats	111.6	95.2	101.6
Cold Cooked Meat Products (Charcuterie)	109.0	102.5	104.9
Tinned Hams and Shoulders	105.2	98.2	100.8
Fish and Frozen Fillets	98.9	107.5	103.1
Pickled Vegetables	109.7	110.8	110.4
Frozen Fruits	101.1	142.7	135.4
Margarines	97.7	104.2	101.6
Liquid Milk	108.4	110.9	109.9
Standardized Cream	105.2	107.5	106.7
Powdered Milk	97.5	107.9	104.8
Butter	111.5	106.7	108.4
Ripening Cheeses	117.7	110.6	113.1
Non-ripening Soft Cheeses and Cottage Cheese	103.6	98.9	100.8
Yoghurt	108.1	102.9	105.0
Wheat and Rye Flours and Meals	92.2	94.8	93.7
Groats/Grits	98.4	119.3	110.3
Chocolate and Chocolate Products	130.1	122.3	125.3
Noodles	100.3	102.7	101.7
Pure Vodka	108.8	107.8	108.2
Rectified Spirit	105.4	126.6	116.7
Fruit Wines	107.7	84.9	92.8
Beer	104.1	101.5	102.3
Cigarettes	99.1	103.0	101.7

Source: [5]

Upon the accession to the EU, trends in the development of production sectors under discussion also varied depending on the individual agricultural and food production branches [2]:

- in the following branches of this sector, the production dynamic was higher if compared with the first months in 2004: poultry slaughtering, production of frozen fish, frozen fruits and vegetables, pickled vegetables, margarines, cream, liquid milk, flours and meals, groats & grits, noodles, and cigarettes;
- the growth rate remained at a constant and high level in the sector of manufacturing: chocolate & chocolate products, vodkas, non-alcoholic beverages, fruit preserves, tinned vegetables, milk drinks, and industrial fodders;
- the level of production dynamics remained relatively stable in the production sector of: fresh bread, cakes/pastries, and coffee & tea processing;
- the growth rate significantly slowed down in the milk and meat industry; in the case of the latter, the reason was a cyclic drop in the supply of pigs;
- the production dynamics fell in the production of fish products, animal fats, beer, wine and wine drinks, juices and fruit-vegetable drinks.

When evaluating all the changes in the production after Poland's accession to the EU, it was found that the majority of sectors experiencing a real revival of export, first of all to other EU countries, were able to maintain a high development rate. At present, the industrialization processes have been speeded up in the following industries: fruit and vegetable processing, milk production, fodder manufacturing, red meat slaughtering and processing. The phenomena as indicated, as well as a lower beer production rate occurred owing to the Polish food sector integrating into the European Union. The changes in other sectors were mainly influenced by a quite even domestic demand, as well as by varying price relations, e.g. prices of animal fats rose, and prices of plant fats did not. However, it should be highlighted that the anticipated risk of food products, manufactured in other EU countries and imported to Poland, negligibly impacted the domestic food production level, except for the beer sector, and, to a lower degree, production of groats, starch, and noodles [2, 5].

Obviously, barriers and difficulties in trade with Russia added somewhat to the development dynamics of the food sector [2].

During a period of Poland's integration into the European Union, no noteworthy changes occurred in the structure of the food industry. The number of industrial companies did not essentially fall, nor did the employment rate. Only a few companies had to wind up since they were not able to comply with the required veterinary, hygienic, sanitary or ecological standards. Besides, in those sectors, in particular in the meat production branch, the proportion rate between large- and medium-sized companies with an industrial scale of their production, and small-sized companies has been slowly changing; now, there are more small-sized companies and entrepreneurs following the direct trade scheme. During the entire year 2004, the industrialization processes in the food processing branch were continued, as were the processes aiming at increasing the per cent rate of secondary processed products in the total food industry [5].

The increase in the export share (from 13.1% in 2003 to over 15.5% in 2004) is deemed an important structural change in the total food industry. It is estimated that one half of the total growth of the food and drinks production is generated by the developing export. It means that the developing export constitutes an important factor impacting the income summaries of any company from this sector; moreover, the export activity enhances and stimulates companies to highly invest [1].

In 2004, the income summary of the entire food production sector significantly grew, and the total net gain was almost twice as high as in 2003. In the subsequent quarters, this total continued to rise. The number of companies achieving reasonable net profits rose systematically as did their share in the total income structure of the whole sector. In September 2004, the Head Statistical Office in Poland conducted a survey into a group of food and drinks manufacturing companies; the survey results proved that, in this group, there were 77.5% profitable companies; they all produced 84.6% of the total turnover value of the whole group of companies surveyed [4].

Improved income summaries of food companies were reported by the majority of them; therefore, it was a common phenomenon. The income summaries worsened only in five groups of companies, whereas in the sixteen entities, they improved. The sugar and spirit industries achieved the greatest progress generated by the increase in sugar price and excise duty (in the fourth quarter of the year 2002), and, to some extent, by speeding up the restructuring processes in companies in those sectors. A significant improvement of the income summaries was also noted in tobacco, milling, potato, fish, milk, poultry,

and bakery industries, as well as in the industry dealing with manufacturing non-alcoholic beverages, beer, and the remaining food products. On the other hand, the profitability rate dropped in the wine and fodder industries, and in the juice and noodle manufacturing branches. In the middle of 2004, the profitability level, slightly exceeding 5%, was achieved in the sugar, spirit, beer, bread, non-alcoholic beverages, and remaining food products branches, as well as in industries such as: corn, potato, coffee and tea processing. The wine industry was the only one to generate losses; the meat processing industry and fodder & juice manufacturing industries showed a profitability level of less than 2% [5].

It is very important that the profitability improvement as stated in the industrial branches indicated above is correlated with the increasing investment outlay. Since 2003, investments in the Polish food industry have been greatly stimulated and livened up. Outlays on developing and modernizing the productive assets of food companies were close to US \$ 1.5 billion and were about 30% higher than in 2000-2002. The Polish food industry was the first to speed up its investments; it served as an example for other branches of the Polish economy. First of all, the large and medium-sized food companies increased their investments, and the capital expenditures rose more than 30% [2].

In 2004, the industrialization processes continued, and secondary processed products improved their position and share in the total production volume of food industry.

The Polish food manufacturers face authentic constructive chances of success in the united European market owing to their low production costs and low prices, and, also, to lower processing and trade margins. In this respect, differences between various countries are essential, because [2]:

- agricultural prices are, more or less, 20 to 25% lower in Poland than in Germany (i.e. lower than prices paid to German farmers);
- prices of food products at a level of processing are approximately 30 to 35% lower in Poland when compared with Germany;
- retail prices of food products in Poland are more than 40% lower than average prices in the 15 countries of the European Union.

Additionally, it should be stressed that the increase in food crop prices in 2004 generated an increase in the income level of farms and farming companies. This fact has been reported for the first time since many years. The total farms' income amounted to about 2 billion euro in total. The genuine

increase in the income level of farmers and farming companies will facilitate and stimulate, to a certain degree, the modernization processes within agricultural farms along with expanding their sizes [6].

Real expenses on food as incurred by the Polish agricultural farms constitute about 27% of total expenditures. Despite changes in dietary habits of the contemporary Poles, the dietary tradition in Poland differs among other dietary traditions in the “old” countries united in the European Union. Comparing the mean level in EU, an average Pole eats too much potato and corn products and too little meat and fish, milk and milk products, fruits and vegetables. Those facts constitute a basis for forecasting an increase in the consumption of red meat, in particular of pork, poultry meat, fish, fruits, and vegetables in Poland, in the near future, along with a decrease in the consumption of potatoes, animal fats, and sugar [6].

According to the estimations made by the Institute of Agricultural Economics and Food Economy, the demand for food and the increase in its export from 10% (now) to 15% in the following years will boost food production about 0.7%. What is more, it is expected that the demand for food products, especially highly processed products, also highly grows. [4].

The products still predominating in the Polish food export are minimally processed goods. On the other hand, an improvement can be foreseen, especially as the per cent share of highly processed food products in the Polish export volume grows year after year. This is because the quality of food products is constantly improved following the implementation of hygienic and sanitary standards and provisions as required by the European Union, and of new technologies. Besides, there is a certain regularly occurring fact: more and more animal products are exported, and their export value continuously rises. Even though plant products still predominate in the Polish export (their position in the export structure is relatively stable and amounts to about 60%), the exported quantity of animal products grew by ca. 6% during the year 2004. Fruits, fruit preserves, and meat and meat products still play the key role in the Polish food export. [3].

The Polish export successes comprise milk products, sugar, and sweets.

The situation in food product import is slightly different from the situation in the export sector. More and more plant products are imported into Poland at the expense of animal products; the increase in the import level of plant products is almost 5%. Polish entrepreneurs import plant products which do

not grow in our climatic zone, i.e. products for direct and instant consumption, raw products, and semi-raw products for further processing. Delicacies and other luxury products are classified separately; they are imported into Poland for the purpose of making the domestic food offer complete [3].

During the time elapsed since Poland's accession to the European Union, it was possible to clearly see and evidence that the Poland's membership in EU has positively influenced both the intensification and the geography of the Polish foreign trade. Owing to lifting all the restrictions on foreign trade within the EU, the countries from the expanded European Union essentially increased their share in the export-import exchange with Poland. As for the future, it is possible to predict the further intensification of trade turnover with the EU countries, especially as prices of the majority of food products on the market are lower if compared with other EU countries. On the other hand, it is obvious and must not be forgotten that, concurrently, the price-based competitiveness of Polish export diminishes as an effect of the increase in the manufacturing costs in Poland. Consequently, the profitability of export must be achieved by improving the efficacy and quality of management in Polish companies. Especially as the level of the average productivity of Polish food companies is low if compared with food companies in the 'old' European Union [3].

The prospective developmental scenarios of the Polish food industry are optimistic, however, several risks exist.

Some risks to the Polish food industry do not depend on the companies and their policies; they depend on the Common Agricultural Policy and probable decisions and actions passed and implemented by the World Trade Organization. Therefore, preventive measures should be implemented as soon as possible, even now, in order to be ahead of potential changes connected with the liberalization of the global food trade. The expected liberalization will surely contribute to a higher risk level generated and caused by food manufacturers from outside the European Union.

Food prices in individual EU countries will become more and more similar to each other, thus, they will disturb the efficacy and profitability of the Polish export and generate a hindrance to our domestic demand development. Another factor diminishing the Polish export profitability is the fact that the Polish currency is strengthening against the euro. A deep stratification in the population's income is considered the next "brake" on domestic food market development [2].

The above indicated risks are serious. Yet, they can be avoided provided long-term and effective measures are introduced to improve the productivity and efficacy of food companies, and continuous modernization and tuning procedures are carried out to adjust the products manufactured by those companies to customers' wishes and needs and to new legal regulations and provisions.

Polish food companies are recommended to focus on two major activities: improving the safety, quality and health values of their food products and fodders throughout the entire manufacturing line, and creating & developing safe technologies, which, at the same time, involve lower production costs [2].

Then again, the consumers' requirements and desires become more sophisticated and definite, thus, they stimulate the demand for specific food to powerfully develop. The specific foods are, in the generally known sense, products comprising an essentially increased added value, functional food (containing probiotic bacteria, prebiotics, conjugated fatty acids, products with better assimilable minerals, and adequately processed proteins), convenience food, and, finally recombined products with freely composed ingredients produced from different agricultural raw materials [2].

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