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1 General review

1.1 General Overview of agricultural and national economy developments

The growth trend in the Polish economy, which had started in 2003 continued in 2005, when GDP grew by 3.2% in comparison to previous year. It was mainly due to growing exports, and in the third and fourth quarters of 2005 increase of consumption and investments. The registered unemployment rate has been slowly but systematically decreasing and at the end of December 2005 was 17.6% of the economically active civilian population (versus 19.1% in the previous year). For the first time in 7 years the level of employment has grown - in the third quarter 2005, 412000 more people were employed compared to the same period in 2004. The inflation rate till April 2005 was higher than a year earlier, but since May the trend reversed and the inflation rate fell to 0.7% in December 2005 (year on year). This situation was influenced by lower inflationary expectations and end of the price shock effect caused by EU-Accession. Further appreciation of Polish zloty in relation to the euro as well as to the dollar took place in 2005.

Poland has become a more and more attractive country for investments. Higher dynamics of investments has been determined by domestic demand as well as by possible export growth. In the last quarter of 2005 total household consumption was 3.1% higher than in the previous year and it has been forecasted that in 2006 it will grow by a further 3.7%. Good situation on the market as well as restructuring undertakings caused firms' profitability to rise. In particular, the motor industry production more than doubled in the period 2003-2005. The greatest development has been observed in the construction industry.

Last year was the second year of two-digit growth of trade in goods and services, with the value of exports rising 19.1% in euro terms whilst the value of imports rose 13%. The trade deficit fell from 11.6 billion euro to 9.3 billion euro and its relation to export has fallen from 19.5% to 13%., which shows progression towards balance in foreign trade. It was possible mainly due to growing competitiveness of Polish economy. The situation is even better because of high dynamics of export of high processed commodities.

The share of agriculture, forestry and hunting in GDP in 2004 was 2.9%. Almost 17% people were engaged in the agricultural sector. The situation of agriculture improved in 2004: for the first time in three years the volume of agricultural rose (by 2.6%) though the terms of trade shifted against agricultural producers as agricultural output prices rose grew by 1.4% while the level of prices of goods and services bought by farmers were 2.4% higher than in 2004.

In 2004 the Utilised Agricultural Area (UUA) was 16.3 million ha accounting for 52.2% of the country's total land area. Until 2003, the UUA had been systematically declining. But EU-Accession resulted in an increase of the UUA by 158000 ha. This was due mainly to the opportunity to claim EU direct payments.

1.2 Overview of agricultural and rural sector development

1.2.1 Production

Total sown area (11.2 million ha) was 92000 ha, smaller than in previous year. Cereal crops in 2005 were 32.3 dt/ha and were lower by 8.8% than in 2004. According to preliminary data global agricultural output in 2005 was 2.1% lower in comparison to the previous year, when there was a particularly good harvest. The fall in plant production (by 9.1%) and the increase of animal production (by 5.8%) influenced the global agricultural output.

Harvests of basic cereals with cereal mixed, potatoes, sugar beets and ground vegetables will be lower than the average harvests obtained in 1996-2000. The harvests of basic cereal mix are estimated to be 24 267 thousands tons (lowered by 1.2% than average in the period 1996-2000). Similar situation concerned harvests of rape and agrimony (1 434 thousands tons), which are expected to be lowered by 1.2% in comparison to 2004 year. Production of potatoes and sugar beet is forecasted to be also lowered by 21.4% and 13.8% respectively. That would be mainly due to decrease in sowing area (by 16.7% and 3.7% respectively) and lower crops than in 2004. Harvests of ground vegetables are predicted to be lower and are said to be 4.8 million tonnes, tree fruit – 2.4 million tonnes and berry fruits including hazelnuts – 0.48 million tonnes. This year may bring also some decrease of plant production because of weather conditions which caused late vegetation.

At the end of June 2005 number of pigs amounted 18.1 million which was 6.6% higher in comparison to 2004. It proved the earlier symptoms of growing profitability of animal production. The result of survey conducted in August 2005 showed that decreasing tendency stopped. Sows for breeding grew to 1.8 million. Significant growth of cattle and pig stocks in 2006 has been forecast. In June 2005 there were 5.48 million cattle, which was 2.4% more than in 2004.

The production of poultry meat was 11% higher than in previous year (growth to 1 million tonnes). It was mainly due to growing domestic demand and export as well as declining feed prices. First months of 2006 brought the detection of bird flu virus to Poland. The consumers started to limit their demand for poultry meat in the last quarter of 2005 in the threat of the virus. However the production of poultry is predicted to be in 2006 more or less at the same level than in 2005.

Milk production in Poland in 2005 was 0.8% higher in comparison to 2004 and amounted to 11576 million litres. Milk yield per cow increased to 4174 litres (65 litres more than in 2004). Deliveries of raw milk to dairy processors increased by 10% (to 8584 million l). The quota for

wholesalers was exceeded while the quota for direct sales was not fully utilized. In such a situation the dairy plants imposed charges on milk producers. The Accession to the EU influenced in positive way the financial situation of dairy processors. Domestic supply increase from 82% in 2004 to 88% in 2005.

1.2.2 Prices

The index of agricultural output prices to input prices moved unfavourably for farmers, falling to 99. Prices of cereals in the 2004/2005 season declined below the level observed in the previous period without any seasonal increase before the harvest in 2005. That situation was hard for farmers as well as for storage companies. Low prices of raw material influenced in a positive way the situation of grain processors. It has been predicted that the prices in 2005/2006 season would be determined mostly by supply pressure. Wheat prices are expected to vary between 370/380 PLN/t and 400-420 PLN/t (82 to 93 euro per tonnes) at the end of that season. Rye prices are forecast to be 300-310 PLN/t (66 to 68 euro per tonne).

Procurement prices of pork in the first half of 2004 gradually increased and in June 2004 exceeded the level from June 2003 by 49%. Retail pork prices were higher by 12.4%. The second half of 2004 brought stabilization at the level from June 2003. Retail prices were growing by October: they were higher than in December 2003 by 21.7%. This growth influenced the demand and caused decrease of consumption. In the first quarter of 2005 they were between 3.86 PLN per kg – 3.95 PLN (0.85 to 0.87 euro) per kg while in December 2004 it was 4.4 PLN (1.2 euro) per kg. In the second half of year 2004 the prices of pork in Poland were higher than in European Union. It caused hampering exports and triggering imports. In the first half of 2005 Polish pork was cheaper than European. This situation is expected to be continued in 2006.

Average prices of beef in the first months of 2005 were between 4.10 PLN and 4.20 PLN (0.91 to 0.92 euro) per kg, while in the first half of 2003 were 2.62 PLN (0.65 euro) per kg and in 2004 3.04 PLN (0.75 euro) per kg. Retail level of beef prices also increased: in July 2004 were by 40% higher than in December 2003. Since then they started to stabilize and by March 2005 were 1% higher in comparison with prices in December 2004. This price level is expected to remain similar by the end of 2005 and 2006.

Deep decline of prices and profitability of production of poultry was observed. It was mainly caused by the threat of bird flu disease. The situation was even worse because of closed Russian market. However total decline of prices in 2005 was only 5% in comparison to 2004.

Since the beginning 2005 till August the milk prices were declining (from the peak in December 2004). In September 2005 the seasonal increase of prices took place, but its dynamics was much lower in comparison to respective months in the previous year. Average milk price was 6.4% higher than in 2004 .

1.2.3 Agricultural trade

The growing importance of agri-food goods in export has been observed. The membership in the EU has meant the easier access to European markets and higher agri-food foreign trade turnover. It was the third year of surplus in trade of these goods. Their export grew by more than 35% in 2005, and its share of total exports exceeded 10%. The positive balance of agri-food trade was 1.6 billion euro versus 0.7 billion euro in 2004. The main factors which influenced such a big growth were: high quality and taste of Polish food, competitive prices, abolition of quotas and minimal prices as well as modernization of farms and food processing plants.

The main Polish trading partner in agri-food goods exchange is EU-25. The value of Polish export to the Community was by 39% higher in comparison to 2004 and was 5.3 billion euro (which constituted 74% of the total agri-food export value). Import was growing at the same time but with relatively slower pace: it increased by 26% in 2005 in comparison to previous year and was 3.4 billion euro. Meanwhile importance of other trading partners was decreasing (especially of countries like Australia, Canada, Japan and USA).

Exports of livestock products increased in value by 46% to be 2.9 billion euro in 2005 and those of crops increased by 25% to 3.6 billion euro. That growth was mainly due to rising sales of sugar and its products, grain and its products as well as horticultural products. The growth of import of livestock products, which increased by 38% to 1.3 billion euro, was higher in comparison to crop products import growth (which increased by 19% to 3.7 billion euro). The highest increase was observed in import of dairy products, meat and its preparations and livestock – their import value doubled. The highest growth of crop products import considered spirits, potatoes and their preparations as well as tobacco products. Meanwhile the import value of grain and its preparations as well as coffee and tea decreased. The forecast for 2006 shows that observed tendencies would last this year although their size would be expected to be smaller: it is predicted that size of import as well as export of crop and livestock products would be lower. It has been estimated that the value of agri-food export in 2006 would be by 10% higher in comparison to 2005 (and it would be 7.7 billion euro) and

import would grow by 9% to 5.9 billion euro: it means that balance would be 1.8 billion euro, that is 0.2 billion euro more than in 2005.

1.3 Agricultural and rural policy developments

Almost 94% area of Poland is of rural character with almost 40% of the total population living there. Therefore policies considering rural development are inevitable for socio-economic growth of whole country. The main problems which face rural areas in Poland are high unemployment rate, hidden unemployment in agricultural holdings and low level of education which implies obstacles with getting other job than in agriculture. Another barrier for development is low level of technical infrastructure in rural areas.

In period 2004-2006 policy supported rural areas has been implemented through Rural Areas Development Plan. According to this Plan there has been 3 592 million euro to be allocated in 2004 – 2006, of which 2 866 million euro from the EU budget and 726 million euro from the national budget. The Plan consists of seven programmes:

- structural disability pensions,
- support for semi-subsistence farms,
- support for farming activity conducted on areas with unfavourable natural conditions,
- support for agri-environment measures and improvement of animal welfare,
- forestation of agricultural land,
- harmonization of agricultural holding standards with those of the European Union,
- agricultural producer groups.

Second important programme, co-financed from the common budget in the period 2004-2006 is Sectoral Operational Programme Restructuring and Modernization of the Agriculture and Rural Development in 2004-2006. Financial assistance within this Programme is 1 784 million euro, of which 1 193 million euro from the EU budget and 591 million euro from the national budget. The tasks within this programme is support of investments in agricultural holdings, facilitating the start of young farmers, development and improvement of technical infrastructure, support for agricultural advisory services, land consolidation, improvement of processing and marketing of agricultural products, management of agricultural water resources, trainings, restoring forest production potential destroyed by natural disasters, village rehabilitation and preservation and protection of cultural heritage. The biggest interest was mainly in two measures: facilitating the start of young farmers (so called ‘Young Farmer’) and investments in agricultural holdings. From the beginning of the Programme till

30 June 2005 there were 43 600 applications submitted which accounted for over 4 billion PLN.

Apart from Programmes implemented in the framework of common European policies there are other sources of support of rural development. One of them is Rural Areas Activation Programme (PAOW). It has been based on the agreement between Poland and the International Bank for Reconstruction and Development in 2000. The financial resources – 118.8 millions euro – has been granted in the form of a loan from the World Bank. Objective of PAOW was economic development of rural areas. It has been done by supporting employment off the farms, decentralization of public administration and regional development, as well as supporting the process of building institutional potential necessary to obtain and use the pre-Accession and structural funds.

1.4 Issues related to the enlargement

The adjustment process to the EU norms and standards was a great challenge for the Polish economy, in particular for the agricultural sector. Pre-Accession programmes, co-financed from the EU budget were PHARE, ISPA and SAPARD. Their main objective was to support implementation of the *acquis communautaire* in Poland. This has been done by improvement of infrastructure, improvement of agricultural competitiveness and processing industry, adaptation of the agri-food sector to requirements of the European market as well as development of multifunctionality in rural areas.

Before the Accession significant adjustments in the food-processing industry took place. In 2004 investment expenditures increased by over 33% and were 6 billion PLN. Investments consisted of modernisation processes and adaptation of the European norms (considering sanitary, veterinary, quality and environmental protection standards). Almost 60% of investment expenditures were spent on machinery and technical equipment. Thanks to modernisation processes which started in the pre-Accession period, currently 1700 plants can sell their products on the European market. Nearly 2300 plants produce their goods for the domestic market. The number of plants entitled to export red meat to the Russian Federation is 18; the number of such dairies is 35. Some meat and dairy produces are allowed to export their products for the US, Canadian and Korean markets.

Since the Accession Polish rural development policy has been co-financed from the European Agricultural Guidance and Guarantee Fund (EAGGF). The distribution of the EU funds in the agricultural sector is executed in terms of the Plan for Development of Rural Areas (PROW)

and the Sectoral Operational Programme “Restructuring and Modernisation of the Food-Sector and Development of Rural Areas” (SOP) for the period 2004-2006. The PROW was created as a completely new programme for the first membership period in the EU. The SOP has been interpreted as continuation of the SAPARD Programme. Measures within both the Sectoral Operational Programme and the PROW started gradually in the second half of 2004 and first quarter of 2005.

After the Accession to EU Poland became one of the main beneficiaries of the EU assistance programmes. Farmers gained 1.7 billion PLN by the end of 2004 and c.a. 6 billion PLN had to be paid in the first quarter of 2005. The subsidies from the EU funds and national budget contributed to the improvement of financial situation of agricultural farms. Some part of financial support was spent on consumption, but some helped farmers to undertake new investments. Significant improvement of farmers’ income was observed in the first year of the Polish membership in the EU. Although costs of agricultural production increased which meant that some of direct payments recompensed that rise (which for Polish farmers were lower than for EU-15 farmers) still the Accession for Polish farmers has been profitable.

2 Development of the cereal sector in Poland

2.1 Market development

Poland’s EU accession brought about significant changes to the cereal sector which was due to the **changes in agricultural policy** in that sector as well as the adjustment to the new market conditions. The major changes related with the implementation of the CAP included:

- a) significant decline in the market price support, resulting in the lower prices as compared to Pre-Accession years,
- b) implementation of direct payments support in the form of Single Area Payments Scheme (SAPS), and Complementary National Direct Payments (CNDP),
- c) implementation of the EU intervention system,
- d) significant changes in the policies in the related pig and poultry sectors resulting in the increased demand for feed grains,
- e) increase in the investment support within the SAPARD and structural funds.

Current developments in the cereal sector are affected by the changes in relative prices throughout the agricultural sector. Grain production and other crops (except for sugar beet) experienced either no price increases or price decreases as in the case of cereals while, in general, animal production experienced significant price increases. Two pre-Accession years were marked by high cereal prices, partly due to poor harvest (figure 1) In crop production however these modest or negative price effects have been compensated by the implementation of area-linked direct payments (table 1). Poland applied SAPS (decoupled from production) and CNDP (coupled with production) which in total provided positive production incentives, at least, as far as area sown is concerned. In the pre-Accession years the significant price support in the cereal sector was accompanied with the similar support in the poultry and pig market. Pre-Accession direct payments in the cereal sector were limited to a certain part of the marketed production.

In general, before Accession the intervention commenced already during the harvest season, thus crowding out private operation of market agents (see box 1 in annex). In total, state policy in Poland in that sector was very much subject to political swings and therefore was characterised by significant year to year volatility.

The first year of the EU membership coincided with the record harvest. However, the change in the nature of intervention system, higher quality requirements, minimum lot size for deliveries (80 tonnes) as well as withdrawal of rye from intervention (due to 2003 reform) resulted in many farmers finding it difficult to comply with the new intervention regime. In 2004/05 the number of farmers delivering cereal into intervention was significantly smaller than it used to be before Accession. The total grain delivered to intervention storages amounted to 979000 tonnes (table 3). In the current season 2005/06 the volume of intervention procurement is estimated at a similar level – 1 million tonnes). Up to 23.03.2006 total offers for more than 800000 tonnes had been lodged with the Agricultural Market Agency out of which 541000 tonnes were already accepted.

In Poland the annual volume of marketed cereal has varied from 3 to over 5 million tonnes, which correspond to 14-21% of the total cereal production. In the recent years the volume of marketed cereals has been increasing. However, in the first marketing year after EU Accession (2004/05) this process slowed down due to: (i) the change in the system of intervention procurement, as well as (ii) an increased share of feed cereals which are mainly destined for on farm utilisation. In the current (2005/2006) marketing year, the share of marketed cereals is expected to rise somewhat from the 2004/05 level but not back to earlier

levels. Wheat is characterised by the highest share of marketed production (30-45%) and amounted to 2.7 to 4.3 million tonnes. Such large fluctuation brought about variation in production – wheat is very sensitive to weather changes because of low inputs use. Rye procurement ranged from 0.4 to 0.7 million tonnes (15-20%). The lowest share of sales is observed in case of feed cereal, such as oats, mixes, feed barley and triticale (hardly up to 10%) (table 2).

Most of the procurement still takes place during the harvest season. The reason is that the cereal producers are still poorly equipped with storage facilities. This is one of the explanations why in the pre-Accession period the large volume of cereals was selling during the harvest season. After joining the EU in this respect the situation has little changed and the cereal sales after the harvest has increased (figure 2). This may represent a new pattern related with the policy change however, in the season 2004/05 this may partly be explained by the expectations of price increases which made farmers wait. As a matter of fact in that season most of the intervention procurement took place at the end of the intervention period in May and June.

The exchange rate was another important determinant of farmers' decision on when to sell their cereals, both on the market and into intervention. Exchange rate showed relatively high volatility during the first marketing years after EU Accession. The importance of this factor was exacerbated by the generally low level of prices during that time (high harvest and stocks). Due to the appreciation of the exchange rate the amount of direct payments per hectare in the year 2005 was more or less at the same level as in 2004 in terms of zloty compared to a 22% increase in EURO terms (result of *phasing-in* mechanism) (table 1). Similar effect applied for the intervention price. Over longer period the Polish zloty is expected to further appreciate against the EURO.

The abolition of preferential credit lines for purchases, storage and processing of cereals (major support instrument before Accession) has limited the number of companies interested in cereal procurement. The concentration process applies also to the farm level where the minimum lot size for deliveries for intervention (at present 80 tonnes) as well as the high quality requirements limit the access of small producers to intervention purchasing - only small number of large cereal producers can fulfil these requirements. Accelerated restructuring of the milling sector, related *inter alia* to the increased quality requirements, represents another factor eliminating from the market chain many small, local processors who cease the activity. The above listed sectoral changes are conducive to reduction in market

“absorption”, especially in local cereal markets and increased supply pressure on producer prices.

The CAP has changed not only the levels of incentives and relative prices but also improved predictability of most policy elements. More stable policies have positively affected efficiency of the cereal market. In particular, the change in the moment of commencing the intervention purchasing has improved price determination throughout the marketing year – prices started to reflect the storage costs, providing incentives to private operation in purchasing and storage.

More than 60% of cereals, around 16 to 18 million tonnes a year, are used for animal feed; with 70 to 80% of that total being fed on the farm of origin. However structural changes in animal production in recent years (concentration and intensification of production) have led to increases in the demand for compound feedingstuffs, with less on-farm feed mixing. The increase of animal livestock prices after EU-Accession was an additional incentive to switch to using compound feeds. About two-third of the manufactured feed is for poultry production and one-quarter for pig meat production.

In the recent years the importance of wheat, barley and rye in animal feeding decreased in favour of mixes, oats, triticale and maize. The share of oats and mixes in feed amounts to 17-18% followed by wheat (11-14%), triticale, barley and maize (each around 10%) and rye (6%).

In public debate, significant importance is given to the prospected development of the biofuel market and potential extra demand for cereals for that purpose. Taking into consideration Poland’s obligation of increasing the utilisation of biofuel in the economy (commitments of complying with the Directive 2003/30/WE) it can be estimated that in the period from 2005 to 2020 the demand from fuel industry may increase from 178 million litres to 850 million litres (in 2010 – 500 million litres), which corresponds, respectively to 0.54 million tonnes up to 2.5 million tonnes of cereals (mainly rye). The development of bioethanol production appears therefore of crucial importance for the future balance of the Polish cereals market (table 5).

Since 2000 the balance of trade in cereals and cereal products has been improving. In 2005 Polish exports of all grains amounted 1.35 million tonnes, while imports amounted 0.495 million tonnes. Still trade volumes (exports in particular) reflect the level of harvests in each particular year (figures 3, 4 and 5). Exports of milled cereals have increased from 24000 tonnes in 2000 to 48000 tonnes in 2005, however imports of these products group have also

remained at high levels, ranging from 24000 tonnes (in 2002) to 305000 tonnes (in 2005). Poland is a net importer of that group of products, due to high imports of malt (180000 tonnes in 2005) and grits (41000 tonnes in 2005). Over the last three years (since 2002/2003) Poland has doubled its exports of processed cereal products (pasta, bread and confectionary) up to 198000 tonnes in 2005. Poland is a net exporter of processed cereal products with surplus of 89000 tonnes in 2005.

The increasing net exports of cereals highlights the importance of the EU export support schemes for Poland. However, in both 2004 and 2005, Polish cereals traders found it difficult to gain access to the schemes. As at April 2006, Polish traders have not received any EU export subsidies within tenders from the free market and have sold only 183000 tonnes of wheat out of intervention stocks of 1108000 tonnes. This problem stems from the sea transport costs associated with additional distance in relation to the main export outlets (Northern Africa, Near East) as compared to the cereals located in France, Germany or UK. Consequently, the tenderers who want to export cereals from Poland, in order to cover the extra transport costs, need higher export refunds and therefore tend to be uncompetitive both in the tenders for export from free market and from intervention stocks.

The only available data on structural changes at farm level in cereal production include Agricultural Census results of 1996 and 2002. The results indicate that: the average size of cereal area per farm in 2002 amounted 5 ha, about 40% of cereal area were in farms with more than 15 hectares of cereals, there has been increased number of farms with commercial cereal production (c.a. 52% in 2002) and about 11% of cereal area were in farms which do not market their production. The concentration process has been continuing since 2002 with emerging sector of commercial farms specialising in crop, in particular in cereal production.

2.2 The importance of cereals in the Polish crops sector

Cereals dominate in Polish crop production, occupying roughly three-quarters of the total arable area. An upward tendency has been observed during the last decade. At the same time the importance of rapeseeds is increasing, although its share in crop rotation remains small (5%). On the other hand the share of fodder crops and potatoes has fallen.

Among the cereals the share of wheat, triticale and maize is increasing at the expense of rye and oats. The main alternative crop for cereals is rapeseed. However, its requirements both concerning the soil quality demand and milder climatic conditions as well as higher use of inputs (mostly chemical) limit its importance only to the western regions of the country.

Moreover, the trade-off between cereals and rapeseeds is determined by their relative prices. In Eastern Poland, cereals compete with the fodder crops mainly because of the importance of milk production in that region.

There were two contrary forces influencing farmers' planting decisions in 2005. Direct payments and price support through the intervention procurement encourage cereals production, but low cereal prices countered this to some extent. Cereal production has fallen in those regions with relatively small farms. In regions where larger farmers predominate there have been no significant changes in plantings.

2.3 Input markets¹

Post EU-Accession, most agricultural inputs and services have increased in price – between May and December 2004 prices of agricultural inputs increased on average by 19%. The prices of agricultural machinery increased by 41%, energy by 25% and mineral fertilisers by 22%. Only the prices of feedstuffs and pesticides remained unchanged. In 2005 the prices of goods and services purchased by farmers increased by 2.4%. The prices of agricultural machinery increased by 3.6%, mineral fertilisers by 1.5% and energy by as much as 24% for heating oil and 12.1% for mineral gas and 2.4% for electricity.

Machinery

The increase in VAT rate for machinery inputs from 0 to 22% due to EU Accession triggered price increases. Only larger scale farmers, who choose one of the options available can claim back the VAT on inputs (in practise those who run bookkeeping accounts), others pay the VAT in a lump sum. In 2005 average prices of particular machinery items increased. Comparing to 2004 the increase ranged from 6% to almost 53%. Average annual price of a set of machinery containing 34 items was 15.6% up from 2004 and in December 2005 was 3.6% up on December 2004.

Seeds

The market for seeds shows a long term decline in production and sales though the record yields in 2004 resulted in the production of seeds in 2004/05 being higher than the previous year, despite a decline in the area planted. Preliminary estimates are that the total area of seed production in 2005 declined by 17%. The production of certified seeds of cereals, potatoes

¹ Based on „Rynek środków produkcji i usług dla rolnictwa” Institute of Agriculture and Food Economy, September 2005

and legumes is dominated by domestic production though in 2005 the share of certified seeds in production was still insignificant (10.7% of cereal area and 4.2% of potato area) (figure 6).

A high proportion of the seeds used for maize (61%), legumes (70%), grasses and sugar beet (over 50%) are imported.

Energy

Comparing to June 2004, in June 2005 the prices of oil based fuels were significantly higher, (heating (fuel) oil by 16.9%, light heating oil by 28.6%). In contrast, the prices of coal and electricity increased by 1.8 and 2.4%. In general, the EU-Accession of Poland to the EU did not cause any changes on the market of energy in agriculture. The energy prices increased further in the first months of 2006, reflecting the world market development.

Fertilisers

In June 2005 the prices of mineral fertilisers and lime were on average 3.7 and 2.2% up from December 2004. Higher increases occurred in the prices of granulated superphosphate (by 7.7%), and potash salt (by 7.4%). Nitrogen fertiliser prices increased on average by 3.6%. Only the prices of ammonium phosphate declined by 0.6%.

The use of mineral fertilisers under 2005 crops totalled 98,1 kg of NPK per 1 ha of agricultural land and was 1.2 down from 2004 (figure 7). The use of lime declined by 6.7 kg to 86.8 kg of CaO per 1 ha of agricultural land.

Pesticides

The supply of pesticides in 2004 amounted to 8726 tonnes (in terms of active ingredient) (table 10), which was 21.4% up from 2003. The supply of pesticides in 2005 is estimated at about 9000 tonnes, in terms of active ingredients, which gives 0.7 kg per ha of agricultural land (including orchards) (figure 9). Taking into account expected threat of weeds and pests as well as price relations a moderate increase in demand for chemicals is expected in 2006.

2.4 Outlook for Cereals

(a) Short term:

On the supply side the following factors and developments can be expected:

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- the 2006 harvest may be affected by the hard winter conditions which may cause damage to winter sowings. However, the extend of this phenomena has not been assessed yet,
- further, however small, increase in the use of fertiliser and pesticides will bring increases in yields,
- for the time being the plausible assumption is that 2006 harvest will reach 2005 level.

The following factors will be in play on the demand side:

- pork production in 2006 is estimated to increase by around. 10% compared to 2005, which will increase feed demand,
- in 2006 adverse consequences for the poultry market from avian flue would reduce feed demand. The extend of this effect is difficult to estimate at the moment,
- The production of certain cereal products for human consumption (bread, confectionary, pasta) will increase, mostly for exports,
- it can be estimated that the net effect of the above factors will be neutral and the total demand for cereals in 2006 will remain at the level of the previous year.

The following developments in the marketing can be expected:

- further concentration at the production, procurement/sale, participation in intervention, processing and trade.

(b) Longer term:

On the supply side the following factors and developments can be expected:

- gradual increases in yields up to perhaps 3.6 tonnes/ha in 2013. So far such an average yield has only been achieved in the years with favourable growing conditions which was the case for 2004. This will result from further removal of financial constraints, improved farm management and the emergence of specialised farms.
- the total area under cereals will not change significantly. The switch to the Single Payment Scheme (SPS) in 2009 may remove current incentives to increase the cereal area associated with production linked CNDP operated in 2004-2008,

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- the introduction of SPS in 2009 will trigger Set-Aside which should take several thousand hectares out of production on medium and large farms. However, this area could be used for the production of cereals for biofuel purposes,
- as in the past there may be further increase in the area of maize, associated with the demand from animal production.

The following factors will be in play on the demand side:

- no significant change in the human consumption can be expected due to low income elasticity of demand for this product group,
- further increase in pork and pig production may bring a 10-15% increase in the demand for feed cereals by 2013 up to 20 million tonnes. This assumption however is contingent on expansion of pork exports and the poultry market recovering from the current crises due to avian flue.,
- over 5 to 10 years, a significant demand for course grains could be created by the development of the biofuel industry as meeting EU targets would mean demand for 1.5 million tonnes of rye in 2010 and 2.5 million of rye in 2020.

Other expected market and structural developments:

- further concentration at all market levels including farm production, procurement, processing and trade,
- increase in the share of marketed production due to development of the sector of commercial, specialised farms and increased demand for manufacture feed,
- the net effect of the changes in supply/demand developments will tend to be net positive balance of trade. Consequently there will be a scope for role for the public intervention system including export support. The outcome of the WTO negotiations as well as modifications in the market price support in the sector (both the level and the system of intervention) may however decrease the relative importance of public market intervention in the Single Market.

Statistical Annex

Figure 1

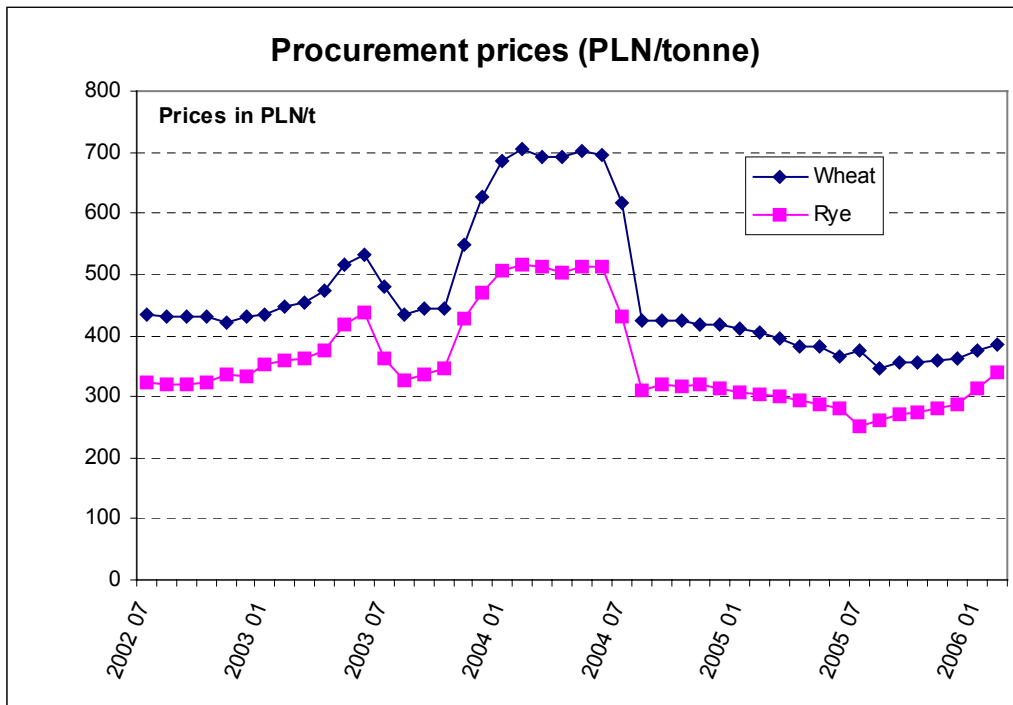


Table 1

Direct payments for cereals in Poland, 2004-2006

		2004	2005	2006 (estimate for various exchange rates)**	
SAPS	EUR/ha	44,46	57,42	69,93	
CNDP	EUR/ha	61,83	72,65	77,05	
Total	EUR/ha	106,29	130,07	146,98	
EUR/PLN		4,74	3,92	3,80	3,90
SAPS	PLN/ha	210,53	225,00	265,73	272,73
CNDP	PLN/ha	292,78	282,35*	292,79	300,50
Total	PLN/ha	503,31	507,35	558,52	573,22

* - the eligible area was exceeded by 103 234 hectares and reduction coefficient was applied

** - own estimation

Source: Ministry of Agriculture and Rural Development, own estimation

Table 2

Share of marketed production of cereals, 1996-2006

	Wheat			Rye			Total cereals		
	Production	Procurement	Procurement/ Product. (in %)	Production	Procurement	Procurement/ Product. (in %)	Production	Procurement	Procurement/ Product. (in %)
1996/97- 2000/01	8 772	2 711	30,9	5 160	545	10,6	25 189	3 671	14,6
2000/01	8 503	3 687	43,4	4 003	391	9,8	22 341	4 546	20,3
2001/02	9 283	4 132	44,5	4 864	611	12,6	26 960	5 256	19,5
2002/03	9 304	4 316	46,4	3 831	560	14,6	26 878	5 414	20,1
2003/04	7 858	3 791	48,2	3 172	606	19,1	23 391	4 921	21,0
2004/05	9 893	4 003	40,5	4 281	715	16,7	29 635	4 795	16,2
2005/06*	8 771	3 326	37,9	3 404	453	13,3	26 928	4 532	16,8

* - July - February

Source: Central Statistical Office, own estimation

Figure 2

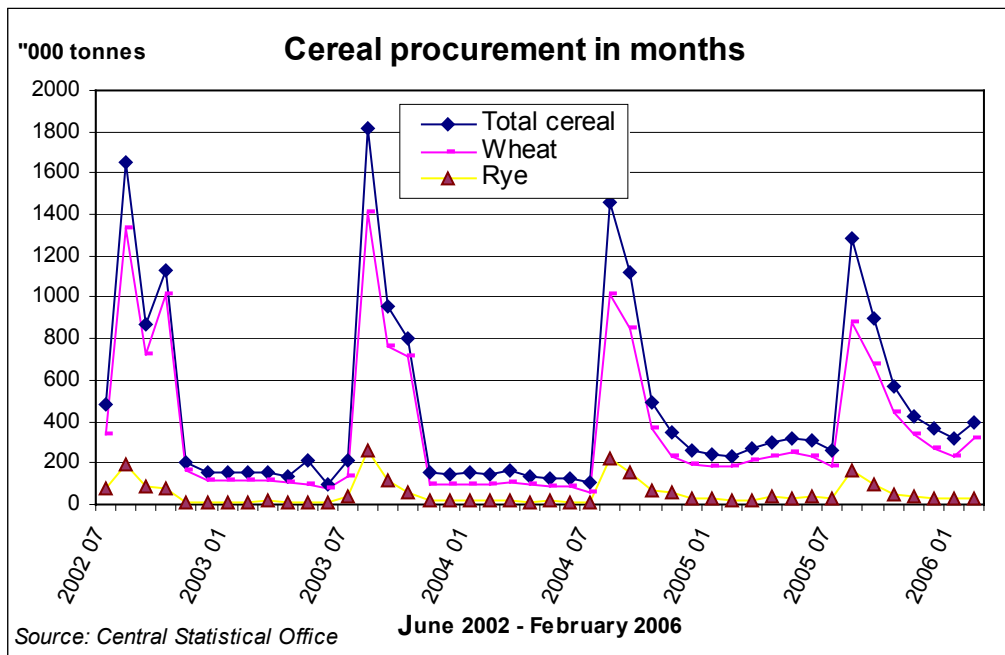


Table 3

Procurement to intervention ('000 tonnes)

	Direct procurement	Procurement with supplementary payment	Total
2000/01	-	3487	3487
2001/02	940	3098	4038
2002/03	300	4224	4910
2003/04	238	4317	4867
2004/05	979	-	979
2005/06*	1000	-	1000

* - own estimation

Source: Agriculture Market Agency

Table 4

Cereal used for Feed

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Total	15 510	16 420	17 612	16 420	16 050	17 250
Of which						
On farm	13 110	13 830	14 912	13 520	13 000	13 700
Manufactured in feed industry	2 400	2 568	2 700	2 900	3 050	3 500

Source: Institute of Agriculture and Food Economy (IAFE)

Table 5

Projection of demand for bioethanol and rye in accordance with EU directive (2003/30 WE)

Year	Share of bioethanol in fuel in terms of energy (%)	Demand for bioethanol in biofuel (Mio litres)	Demand for rye production ('000 t)	Area of rye for bioethanol (000 ha)
2005	2,00	178	539	180
2006	2,75	244	739	246
2007	3,50	309	936	312
2008	4,25	373	1 130	377
2009	5,00	437	1 324	441
2010	5,75	501	1 518	506
2020	10,00	850	2 576	859

Source: own estimation

Assumptions: Yields of rye - 3 t/ha, Demand for fuel in Poland - 4.29 mln tones per year

Figure 3

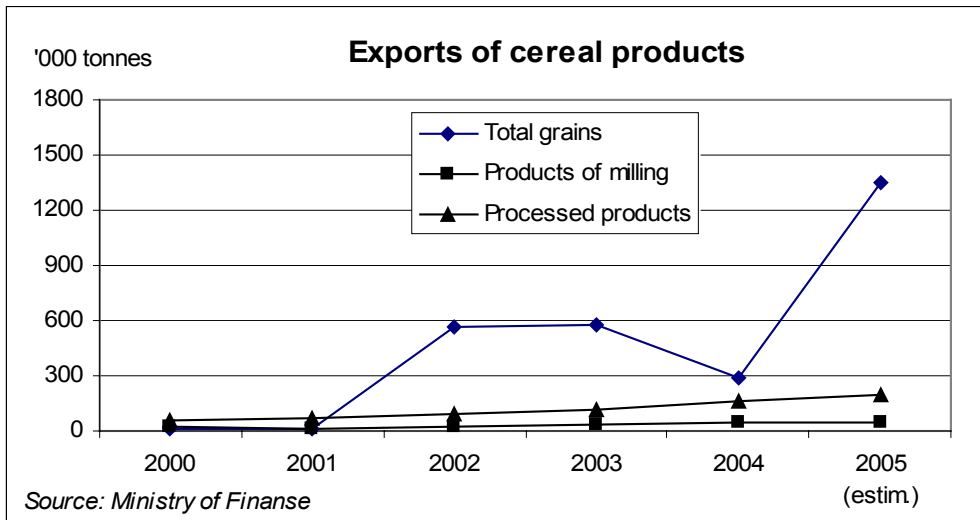


Figure 4

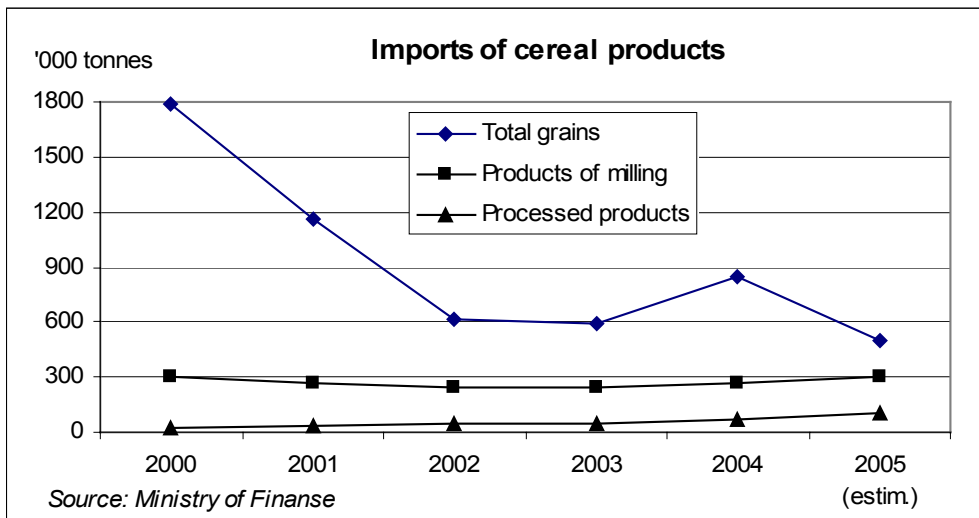


Figure 5

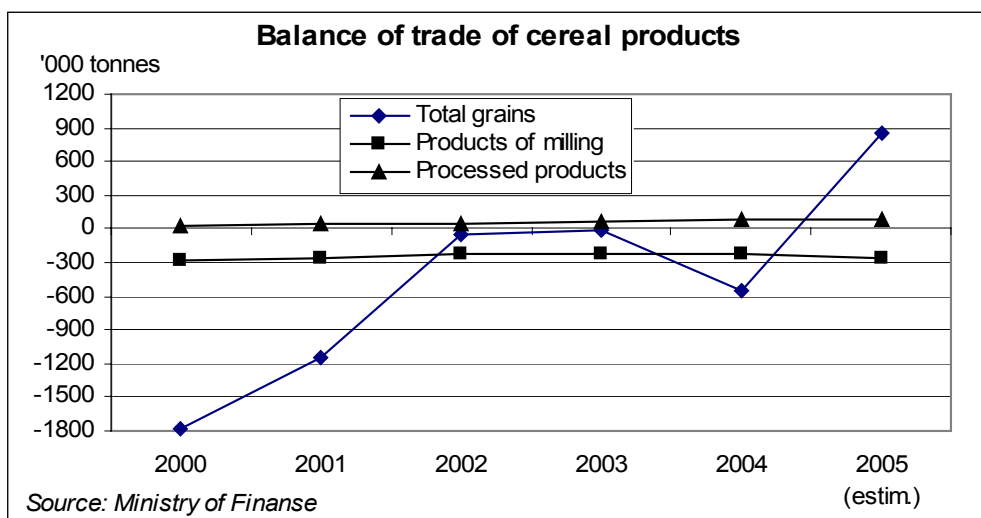


Table 6

Cereal Areas, 1996-2005 ('000 hectares)

	1996-2000	2000	2001	2002	2003	2004	2005
Sown Area	12 473	12 408	12 386	10 764	10 889	11 285	11 193
Cereals	8 796	8 814	8 820	8 294	8 163	8 377	8 329
Wheat	2 577	2 635	2 627	2 414	2 308	2 311	2 218
Rye	2 275	2 130	2 002	1 560	1 479	1 549	1 415
Barley	1 143	1 096	1 071	1 051	1 016	1 014	1 113
Oats	590	566	531	605	527	520	539
Mixes	1 402	1 478	1 471	1 365	1 454	1 461	1 436
Triticale	663	695	838	944	986	1 059	1 195
Maize (corn)	97	152	224	319	356	412	339
Maize (sillage)	151	162	180	196	239	290	326
Share in crop rotation (sown area)	70,5%	71,0%	71,2%	77,1%	75,0%	74,2%	74,4%
Other crops							
Rapeseed	410	437	443	439	426	538	550
Potato	1 292	1 251	1 194	803	766	713	588
Sugar beet	395	333	318	303	286	297	286
Feed crops	919	913	898	492	697	783	837

Source: Central Statistical Office

Table 7

Cereal Yields, 1996-2005

	1996-2000	2000	2001	2002	2003	2004	2005
Cereals	2,86	2,53	3,07	3,24	2,87	3,54	3,23
Wheat	3,4	3,23	3,53	3,85	3,4	4,28	3,95
Rye	2,26	1,88	2,43	2,46	2,14	2,76	2,41
Barley	2,99	2,54	3,11	3,21	2,79	3,52	3,22
Oats	2,43	1,89	2,46	2,46	2,24	2,74	2,46
Mixes	2,70	2,09	2,76	2,81	2,48	2,96	2,73
Triticale	3,03	2,73	3,22	3,23	2,85	3,52	3,27
Maize	5,62	6,06	6,07	6,16	5,29	5,69	5,73

Source: Central Statistical Office

Table 8

Cereal Production, 1996-2005

	1996-2000	2000	2001	2002	2003	2004	2005
Cereals	25189	22341	26960	26878	23391	29635	26928
Wheat	8772	8503	9283	9304	7858	9893	8771
Rye	5160	4003	4864	3831	3172	4281	3404
Barley	3420	2783	3330	3370	2832	3571	3581
Oats	1437	1070	1305	1487	1182	1431	1324
Mixes	3 779	3083	4060	3836	3608	4322	3916
Triticale	2005	1901	2698	3048	2812	3723	3903
Maize	557	923	1362	1962	1884	2344	1945

Source: Central Statistical Office

Table 9

Structure of sown area , 1996-2005 (in %)

	1996-2000	2000	2001	2002	2003	2004	2005
Sown Area	100	100	100	100	100	100	100
Cereals	70,5	71,0	71,2	77,1	75,0	74,2	74,4
Wheat	20,7	21,2	21,2	22,4	21,2	20,5	19,8
Rye	18,2	17,2	16,2	14,5	13,6	13,7	12,6
Barley	9,2	8,8	8,6	9,8	9,3	9,0	9,9
Oats	4,7	4,6	4,3	5,6	4,8	4,6	4,8
Mixes	11,2	11,9	11,9	12,7	13,4	12,9	12,8
Triticale	5,3	5,6	6,8	8,8	9,1	9,4	10,7
Maize (corn)	0,8	1,2	1,8	3,0	3,3	3,7	3,0
Buckwheat and millet	0,4	0,5	0,4	0,3	0,3	0,5	0,0
Other crops							
Maize (sillage)	1,2	1,3	1,5	1,8	2,2	2,6	2,9
Rapeseed	3,3	3,5	3,6	4,1	3,9	4,8	4,9
Potato	10,4	10,1	9,6	7,5	7,0	6,3	5,3
Sugar beet	3,2	2,7	2,6	2,8	2,6	2,6	2,6
Feed crops	7,4	7,4	7,3	4,6	6,4	6,9	7,5
Others	4,1	4,0	4,3	2,2	2,9	2,5	2,5

Box 1.

Main features of intervention system in cereal market in Poland before EU-Accession

In Poland the **intervention procurement system** was introduced in 1990. The system was characterised by such instruments as: advance payments, authorised storage. Its main role was to remove the cereal surpluses from the market just before the harvest and store them, for example, for three months. After that the cereals could be traded on the market. The intervention prices were 5-30% above the institutional minimum prices which were agreed with the farmer's union. From 1999 the system of intervention changed. The intervention prices were reduced and the supplementary payments were introduced in order to compensate farmers for the lower price level. Intervention procurement was directed to private operators on their own account enabling them access to preferential credits. The private storage mechanism was also introduced for those farmers who stored at least 300 tonnes of their own cereal production by the end of October. The scope of intervention procurement was very significant. In 2002 and especially in 2003 it accounted for almost all cereal procurement (4.910 and 4.867 million tonnes).

Figure 6

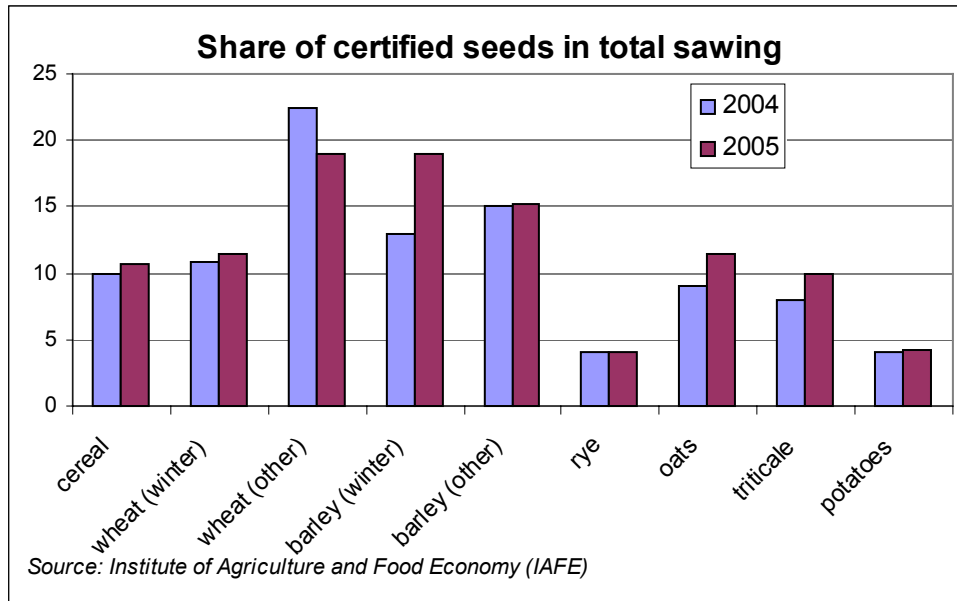


Figure 7

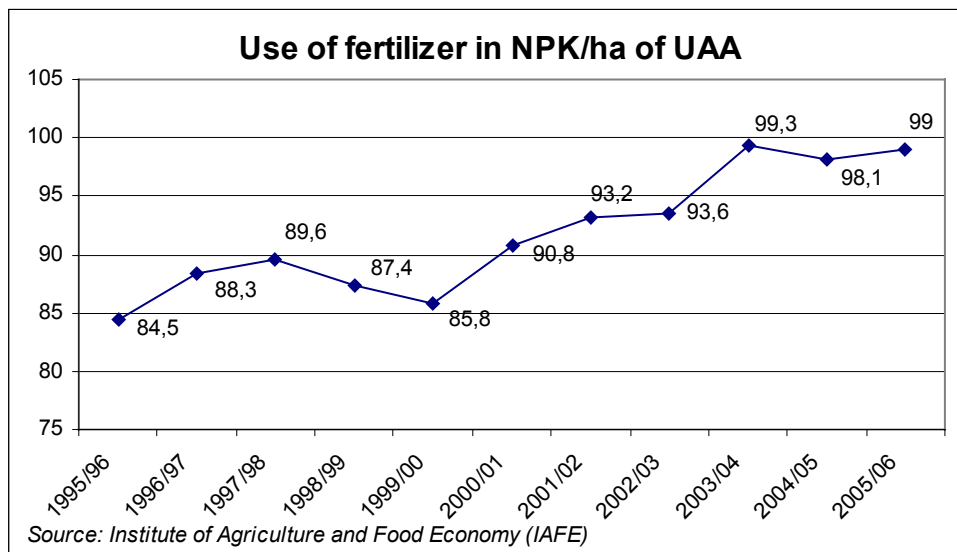


Table 10

Supply and use of pesticides, 2000-2005 (in tonnes of active substances)

	2000	2001	2002	2003	2004	2005*
Total Supply	8847	8855	10358	7185	8726	9000
' - production for domestic market	6271	5731	4670	4978	4639	
' - imports of pesticides	2576	3124	5688	2207	4087	
Use in kg for 1 ha on arable land and orchards	0,62	0,62	0,78	0,53	0,68	0,7

Source: Institute of Agriculture and Food Economy (IAFE)

- CEEC AGRI POLICY -

**CEECAP Cereals Study
Worksheet**

Country: Poland

Harvest Year		2000	2001	2002	2003	2004	2005 (Est)	2006 (Forecast)**
Total Cereals	000 ha	8814	8820	8294	8163	8377	8329	8300
of which 2 main crops								
(a) pszenica	000 ha	2635	2627	2414	2308	2311	2218	2250
(b) żyto	000 ha	2130	2002	1560	1479	1549	1415	1350
Output*								
Total Cereals	million tonnes	22.267	26.902	26.838	23.347	29.635	26.928	27,000
Utilisation	million tonnes	25.283	26.531	27.614	26.051	26.089	27.179	27.2
<i>Human Food (b)</i>	million tonnes	5.793	5.793	5.792	5.762	5.765	5.741	5.85
<i>Animal Feed (c)</i>	million tonnes	15.51	16.398	17.612	16.42	16.05	17.25	17.3
<i>Industrial Use (d)</i>	million tonnes	0.931	1.102	1.161	1.121	1.18	1.21	1.25
<i>Seeds</i>	million tonnes	1.956	1.835	1.799	1.838	1.839	1.808	1.8
<i>Wasted and loses</i>	million tonnes	1.093	1.403	1.251	0.909	1.255	1.17	1,000

Source:

Central Statistical Office and estimations and forecast of the Institute of Agriculture and Food Economics

Notes:

* - data on output are expressed in the marketing years

** - own estimation

(a): Please state crops

(b): Include quantities used in processing/manufacturing for human consumption

(c): Include quantities used in processing/manufacturing for animal feed

(d): All non-food and non-food uses