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Poland's Current Agricultural Trade Problems

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POLAND'S CURRENT AGRICULTURAL TRADE PROBLEMS

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INTRODUCTION

The increasing deficit in Poland's agricultural trade with the capitalist countries reached over US\$1 billion annually in the late seventies, accumulating to a total of one quarter of Poland's global indebtedness to the West.

In the paper "Poland's Agricultural Trade--Present State and Perspectives" published by the Vienna Institute for Comparative Economic Studies in May 1985, I analyzed the reasons for the deficit in Polish agricultural trade and the possibilities and conditions for regaining a balance of trade in agriculture. The purpose of this paper is to review the current problems of Poland's agricultural trade and to analyze the most important external and internal limitations for growth of agricultural exports.

1. Foreign Trade and Finance Situation.

Poland's economic growth during the last few years has been strongly affected by foreign trade exchange and financial constraints. After many years of a deepening trade and payments deficit¹, a strong growth in exports was observed in the period 1982-84. The growth rate of exports in the years 1982-84 was higher than the growth rates of either national income or industrial production.

It is worth mentioning that Poland achieved a positive trade balance with capitalist countries in spite of unfavorable external conditions, i.e., the economic sanctions imposed by the West in particular the blockade of

¹In 1981, foreign indebtedness of Poland in convertible currency reached 24.7 billion dollars and negative balance of trade amounted \$2.3 billion.

credits by Western countries and the suspension of the most favored nation treatment by the USA.

In 1985 and in the first half of 1986, however, the rate of growth of Polish exports decreased slightly. If this trend continues it might be very dangerous for the Polish economy because Poland would be pressed to continue the program of paying debt and because foreign exchange earned from its exports is the principal source of purchasing needed imports. In 1985 export earnings financed nearly 70 percent of the imports to Poland from capitalist countries. Only 5 percent of imports from capitalist countries was financed with long-term credit and the remaining 25 percent was financed with short- and medium-term credit. In 1985 Poland's net hard currency debt increased by nearly 20 percent to \$29.3 billion in comparison to 1981 debt, while its net debt to socialist countries increased to 5.6 billion rubles, or nearly 7 billion dollars.

Merchandise trade played a dominant role in Poland's balance of payments relations with socialist countries. In 1985 imports to Poland from socialist countries increased faster than exports which resulted in a negative balance of trade of 1.2 billion rubles, the greatest negative balance of trade since 1981. The deficit was financed by long-term credit from the Soviet Union and the International Bank of Mutual Economic Cooperation.

The debt increase in hard currency was caused by the increase in unpaid interest from the credits guaranteed by Western governments and by the devaluation of the dollar. Contrary to the negative balance of merchandise trade with socialist countries, Poland had a trade surplus with capitalist countries in 1985. The positive balance of trade in convertible currency

amounted to \$174 mill in 1985, which was \$282 mill lower than in 1984. The main reason for the decline of Poland's trade surplus with capitalist countries was a substantial decrease in exports of metallurgical products, energy and fuels.

2. Trends in Agricultural Production

Unlike the above mentioned commodities, Polish agricultural exports to both capitalist and socialist countries has experienced high growth. This increase in exports of agricultural products during the last few years was due to the strong increase in agricultural production. Since 1982 favorable tendencies have dominated Polish agriculture. The substantial increase in agricultural production achieved during this period was mainly due to the introduction of new agricultural policy which is discussed below. The general economic situation of Poland at the beginning of the eighties determined the strategic target set up for agriculture. The priority objective set by the "Program for Development of Agriculture and Food Economy until 1990" adopted by the Polish Parliament in June 1983 is to achieve national self-sufficiency in food by the end of the 1980s.

It was determined that Polish agriculture has the potential for feeding the country's growing population (37.2 million in 1985 and 38.3 million by 1990) and that despite a reduced per capita meat consumption compared with the 1970s, the dietary intake of the average citizen will be sufficient from the health and social development viewpoint.

This strategic objective underlay the common principles of agricultural policy (particularly the principle of unity of Polish farming)--equal rights for all sectors, permanence of private family farms and continuous profitability of production and the following main directions of effort:

1. Application of economic instruments to achieve a restructuring of the national economy to meet the needs of the food sector, particularly in melioration, chemical fertilizers, machinery, equipment, water and electric power.
2. Shaping economic conditions to guarantee the profitability of production and incomes of the farming population on a par with incomes of the population outside agriculture.
3. Increasing economic efficiency, particularly better yields in crop production.

The achievement of food self-sufficiency is a difficult target and requires a necessary set of conditions, but the time that has elapsed since 1983 allows us to say that its targets are generally being accomplished though with an uneven degree of efficiency. Generally, it should be acknowledged that since 1983 agriculture has strengthened its position as an important sector of the national economy and has played an extremely important role in overcoming the effects of the 1980-81 crisis. In the years 1983-85 agricultural production increased by 9.8 percent, crop production increased 11 percent, and livestock production 8.5 percent. The increase in grain crops is especially worth mentioning.

Total grain crop production was 24.4 million tons in 1984 and 23.7 million tons in 1985, which surpassed the average production of 19.8 million tons in 1976-80 (see Table 1). The increase in grain crops was the result primarily of higher yields -from 24.8 q/ha in 1976-80 to 29.9 q/ha in 1984 and 29 q/ha in 1985 (see Table 2).

		1976-80 ^x	1981	1982	1983	1984	1985
Grains	mil tons	19.5	19.7	21.2	22.1	24.4	23.6
Potatoes	mil tons	42.7	42.6	32.0	34.5	37.4	36.5
Sugar beets	mil tons	14.1	15.9	15.1	16.4	16.0	14.6
Rapeseed	mil tons	0.60	0.50	0.43	0.55	0.91	1.07
Meat	mil tons	4.3	3.5	3.6	3.5	3.5	3.7
Milk	bln liters	16.3	14.9	14.8	15.6	16.3	15.8

Source: Statistical Yearbook, Central Statistical Office, Warsaw.

x - average

Table 2. Yields of major crops (quintals/hectar)

	1976-80 ^x	1981	1982	1983	1984	1985
Grains	24.8	24.9	26.1	27.3	29.9	29.0
Potatoes	177	189	147	155	174	174
Sugar beets	280	338	306	336	340	335
Rapeseed	19.5	17.9	16.8	22.4	23.0	23.0

Source: Statistical Yearbook, Central Statistical Office, Warsaw.

x - average

Rapeseed production amounted to 1.1 million tons, a 100 percent increase over 1981 production. The record rapeseed crop production was achieved through both an increase in harvested hectares and higher yields. The rapid increase in grain and rapeseed crops means a further adjustment in the agriculture and food economy to the new external situation. The restriction on feedstuff imports led to an adaptive mechanism in agriculture. A new structure of agricultural production has developed fairly quickly in which livestock production is based on domestic reserves with supplementing imports of the necessary feedstuff additives.

This import restriction on feeds had different effects on hog and cattle production. Pig production constitutes above 50 percent of domestic meat production in Poland. Following the recession in 1981-83 the decline

in pig stock was checked and signs of reconstruction of pig herds were noted, especially on private farms. By the end of 1984 the pig stock amounted 17.2 million heads as opposed to 15.8 million heads in 1983, a 8.4 percent increase. The growing tendency in pig stock stabilized and at the beginning of 1986 the pig stock was higher by 11 percent than in the preceding year.

Less favorable phenomena occurred in cattle stock. After an increase in the autumn of 1983, cattle stock declined in 1984 and 1985. By the end of 1985 cattle stock amounted to 10.8 million head, a decline of 2.1 percent from the previous year.

The decline was mainly the consequence of a reduction of cattle breeding on private farms. The decrease in cattle stock had a negative impact on milk production in 1985. Total milk production was 2.1 percent lower than in 1984 (Table 1).

3. Changes in Consumption

Relatively good results in Polish agricultural production allowed food rationing to be suspended with the exception of meat and chocolate. All consumption indicators with the exception of meat have almost returned to their levels of 1980. (see Table 3).

Table 3. Consumption of major food products in Poland (per capita)

	1980	1981	1982	1983	1984	1990 ^x
Meat & meat products	74.0	65.0	58.5	58.2	57.1	68.0
Milk & milk products	262.0	257.0	247.0	277.0	271.4	285.0
Butter (kp)	8.9	8.9	7.4	8.3	8.3	7.5
Vegetable oils (kg)	7.8	8.4	7.3	6.7	7.4	9.6
Eggs	223.0	227.0	200.0	198.0	205.0	225.0
Sugar (kg)	41.4	33.4	41.7	45.0	45.5	40.8
Grains (kg)	130.2	128.0	122.0	123.9	126.2	125.0
Potatoes (kg)	158.0	155.0	155.0	154.0	150.0	160.0
Fruit and Vegetables (kg)	138.7	150.4	149.8	141.6	151.6	175.0

Source: Statistical Yearbooks CSO Warsaw and Governmental Program for Development of Agriculture and Food Economy.

x - planned

4. Tendencies in Agricultural Trade

The increase in agricultural production has allowed Polish agricultural exports to increase. The 1985 value of agricultural exports was 36 percent higher than 1984 (see Table 4). A significant portion of Polish agricultural trade, both exports and imports, is with market economies. Agricultural exports to capitalist countries in 1985 increased by 34 percent and to socialist countries by 47 percent. Total agricultural imports increased, but only by 19 percent (from capitalist countries by 17 percent, from socialist countries by 36 percent) (see Table 4).

In the years 1980-81 Poland has an annual trade deficit of agricultural products of about 1.5-2.0 billion dollars. In the years 1984-85 this trade deficit decreased to 150-200 million dollars per annum. It seems that the achievement of equilibrium in agricultural trade planned for 1990 will take place much earlier.

Table 4. Turnover of Polish Agricultural Trade
(value in billion zlotys)^x

	1984	1985	1985:1984

Export			
Total	122.2	166.2	136.0
Socialist countries	19.1	28.1	147.1
Capitalist countries	103.1	138.1	133.9
Imports			
Total	153.4	182.3	118.8
Socialist countries	14.1	19.2	136.2
Capitalist countries	139.3	163.1	117.1
Balance			
Total	-31.2	-16.1	
Socialist countries	+ 5.0	+ 8.9	
Capitalist countries	-36.2	-25.0	

Source: Announcement of Central Statistical Office Warsaw.

x - there has been used average exchange rate

for 1984 1 US \$ = 113.7 zlotys
1 ruble = 71.3 zlotys

for 1985 1 US \$ = 147.9 zlotys
1 ruble = 88.0 zlotys

The commodity structure of Polish agricultural trade has not changed very much in recent years. Meat and meat products dominate Polish agricultural exports to Western Europe and the USA. In 1985 exports of canned ham and shoulders, bacon, sausages, horses and sheep increased. At the same time exports of poultry and cattle declined. The export of fresh and frozen fruit and vegetables also increased substantially during the last few years. On the contrary, exports of sugar -- a traditional commodity in Polish exports -- decreased considerably due to the decline in production and low world market prices. (Table 5)

Table 5. Main Commodities in Polish Agricultural Exports
(1000 tons)

Commodity	1976-80 ^x	1981	1982	1983	1984	1985
Cattle for slaughter	32.3	22.1	24.2	33.2	39.0	34.8
Bacon	14.0	4.8	3.4	1.7	2.1	2.4
Canned ham and shoulders	41.0	23.0	18.6	25.3	26.8	30.5
Canned meat	20.0	7.2	8.2	9.7	11.2	13.7
Poultry	20.0	14.4	13.9	13.5	14.7	14.4
Rape seed oil	34.6	5.7	2.9	4.6	36.3	37.5
Sugar	191.9	13.2	163.0	283.8	362.6	198.5
Butter	5.7	--	--	5.0	10.0	--

Source: Statistical Yearbook of Foreign Trade, Central Statistical Office, Warsaw.

x - average

Poland's agricultural imports consisted mainly of crop products. In 1984 and 1985 imports of high protein feeds, vegetable oils, coffee, tea and tropical fruit increased while imports of grains, meat and fish decreased (Table 6). Restoration of high-protein feed imports to the pre-crisis level of above 1 million tons is especially worth mentioning because of its impact on meat production. (Table 6).

5. Some Agricultural Policy Problems

Despite positive results achieved in agricultural production and trade, it must be pointed out that many external and internal problems have to be solved. The plan for the eighties stipulates the growth of investment outlays for the food economy to be 30 percent of total investment outlays.

Table 6. Main Commodities in Polish Agricultural Imports
(1000 tons)

Commodity	Y E A R S					
	1976-80 ^x	1981	1982	1983	1984	1985
Grain	6794.7	7217.8	4308.7	3243.0	2583.3	2226.3
Oil cakes and meals	1159.5	1348.2	855.6	446.5	916.3	1003.9
Rice	86.5	115.3	80.9	56.8	104.2	64.1
Vegetable oils	80.5	63.1	96.9	57.7	53.4	77.4
Meat	43.8	170.3	62.9	26.6	104.1	45.5
Animal fats	16.1	49.6	24.7	5.9	3.2	17.8
Coffee	32.8	27.6	18.9	11.5	34.4	27.8
Tea	18.4	23.6	25.4	25.9	25.5	34.6
Cocoa	20.7	33.1	12.6	23.5	21.6	28.2

Source: Statistical Yearbooks of Foreign Trade, Central Statistical Office, Warsaw.

x - average

The allocation of so considerable an amount of investment outlays is justified by previous underinvestment in agriculture. However, despite the increase in investment (61 billion zlotys in 1984, 58 billion zlotys in 1985), the improvement in supplying agriculture with the means of production, in particular machines, tools, spare parts, fertilizers and pesticides, is still unsatisfactory.

Another problem is insufficient production capacity in grain and milling as well as oil industries, insufficient storage capacity and decapitalization of production property. This is a barrier for rational use of increased agricultural production and for increasing exports.

One of the main problems which would constitute a threat of stagnation in agricultural production in Poland is the decline of farm profitability.

Rising costs of production have reduced farm profitability despite a big increase in producer prices (see Tables 7 and 8).

Table 7. Index of Prices Received and Paid by Farmers
(1980=100)

	1981	1982	1983	1984	1985
Prices received by farmers	147	258	279	309	340
Prices paid by farmers	119	269	322	363	418

Source: GUS - Main Statistical Office

Table 8. Index of Procurement Prices
(1980=100)

	1981	1982	1983	1984	1985
Wheat	170	275	388	427	470
Rye	202	337	416	413	447
Barley	170	325	407	422	454
Sugar beet	186	236	240	261	289
Cattle	170	270	303	362	409
Hogs	170	265	283	317	350
Milk	196	260	289	316	349

Source: see Table 7.

6. External Constraints for Polish Agricultural Exports.

The possibilities for increasing agricultural exports from Poland are also limited by protective and restrictive policies in Western countries. The withdrawal of most-favored-nation treatment in trade between Poland and the U.S. has resulted in a substantial decrease in agricultural exports to the U.S. (see Table 9). The substantial increase in customs duties as a result of the withdrawal of most favored national status has reduced the competitiveness of Polish products in the U.S. market (see Table 10).

Table 9. U.S. Agricultural Trade with Poland
(million dollars)

	1979	1980	1981	1982	1983	1984	1985
Exports	669.4	622.4	596.4	181.8	205.5	194.2	92.2
Imports	164.0	155.7	109.1	69.3	105.1	94.2	106.9
Balance	505.4	466.7	487.3	112.5	100.4	100.0	-14.7

Source: Eastern Europe, Situation and Outlook Report, USDA, June 1986.

Table 10. Customs Duties Levied on Polish Products Before and After
Withdrawal of Most Favored Nation Clause.

		Before	After
Tobacco	U.S. \$	0.28/kg	0.77/kg
Vodkas	U.S. \$	1.20/carton	10.50/carton
Vodkas-liquers	U.S. \$	2.00/carton	21.00/carton
Candy		2.5%	35%
Chocolate candy		7.0%	40%
Frozen foods		14.0%	35%
Jams		3.0%	35%
Pickled cucumbers		12.0%	35%
Pasteurized cabbage		7.0%	35%
Hand cheeses		10.0%	35%
Beer, fruit wine, mead	U.S. \$	0.06/gal	0.50/gal

The decline of agricultural exports has a direct impact on the possibilities for Polish import of U.S. products because of the lack of credit available to Poland.

Another factor, which negatively affects Poland's agricultural trade, is the EEC ban on agricultural imports from Eastern European countries as a result of the Chernobyl accident. Before Chernobyl, agricultural products accounted for more than 30 percent of total exports from Poland to Italy, 15 percent to West Germany, 16 percent to France and 9 percent to Great Britain.

The value of Polish agricultural exports to the European community in 1985 was over \$500 million. The import ban expired May 31 but Polish authorities estimate loss in export earnings of nearly \$50 million.

Every decline in Poland's exports jeopardizes Poland's ability to service and repay its hard currency debt. Despite the difficult economic situation, Poland tried to service its debt. During the last 4 years Poland has spent more than \$6 billion on debt servicing, but it has not been enough to stop the debt from increasing (see Table 11).

Table 11. Poland's Hard Currency Debt in Billions of Dollars

1981 -	24.7
1982 -	23.8
1983 -	26.4
1984 -	26.8
1985 -	29.3

It is estimated that with the same rate of debt growth the Polish debt will increase to \$42-45 billion during the next ten years. In order to decrease the debt, Poland will have to repay its government and commercial creditors \$3 billion per year.

This repayment plan would be possible if Poland were able to increase its exports. The analysis of the present state of development of agricultural exports from Poland leads to the conclusion that any advances in this field will not be possible without:

- (1) further implementation of the "Development Program of Agriculture and Food Economy until 1990";
- (2) complete normalization of trading conditions;
- (3) lifting of the credit blockade; and
- (4) nondiscriminating treatment of Polish exports to Western markets.