AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Scientific Journal

Warsaw University of Life Sciences – SGGW

PROBLEMS OF WORLD AGRICULTURE

Volume 10 (XXV)

Number 3

AGRICULTURE AND FOOD ECONOMY WITHIN THE EU FRAMEWORK

Warsaw University of Life Sciences Press

Warsaw 2010

Julian T. Krzyżanowski[1]
Chair of Agricultural Economics and International Economic Relations
Warsaw University of Life Sciences
Warsaw

Are export refunds necessary?

Abstract. The paper deals with the problem of export refunds in the EU agricultural trade. While examining Polish exports of beef and veal, an answer to the question is sought, if the exports refunds are necessary. The answer is positive, despite the fact that most probably the export subsidies in the EU will cease to exist after 2012.

Key words: agriculture, Common Agriculture Policy, export subsidies in Poland, beef , veal.

Introduction

The European Union supports farmers' income with three instruments:

- customs barriers and duties at the external borders of the EU
- internal support
- refunds (export subsidies).

In his study, the last instrument which has become particularly important for the Polish agricultural producers and exporters after Poland's accession to the European Union in 2004 is addressed.

As the Common Agricultural Policy is evolving, negotiations on the liberalisation of the world trade within the World Trade Organisation are carried out that also cover the problem of agricultural producers' competitiveness equalization in various world regions. A criticism of the non-European countries is primarily addressed to the export subsidies that have been applied in the European Community since its establishment, as in the opinion of the opponents the subsidies 'distort' the world trade. These opinions and various interests of particular EU Member States (as some opt for an expansion of industrial products and services in the third markets) have led to an initial agreement in the WTO forum that export subsidies for agri-food products will be abolished as of 2013.

Therefore, it seems important to examine, to a limited extent at the moment, the export subsidies in our country and the impact of their abolishment on our exports.

The refunds are intended to compensate the exporters for the fact that the prices of agricultural goods in the EU are usually higher than those prevailing in the third countries markets. These refunds are provided in the form of export subsidies.

According to the Council Regulation (EC) No 1234/2007, the European Commission can apply refunds to the cereals, rice, sugar, beef and veal, pork, eggs, poultry meat, milk and milk products, as well as to agricultural products used for production of the non-annex I processed goods (sugar, milk and dairy products, cereals, rice and eggs) exported outside the EU.

---

[1] PhD, associated professor, e-mail: julian_krzyzanowski@sggw.pl.

Analysis

The analysis in this paper is limited to the subsidised exports of beef and veal from Poland in 2004-2008. Polish exports of these goods have an upward tendency and good prospects both in the EU market and non-EU markets.

Table 1 shows the refunds for these goods as compared to other subsidised products. The specification indicates that the refunded beef and veal have been sold to Russia, Kazakhstan, Kosovo and Macedonia. Forty one tonnes were exported to these four countries during the analysed period. How does it compare to the total exports of beef and veal? According to Table 2, Polish exports to the non-EU countries accounted for 50% of the total exports before Poland's accession to the EU.

Table 1. Export refunds in Poland, 2004-2008

Product	Amount of refunds, million PLN	Volume of exports with refunds, thousand tonne	Main destinations
Fresh/chilled/ frozen bone-in and deboned beef and veal	102.6	41.0	Russia, Kazakhstan, Kosovo, Macedonia
Pork: - canned meat - sausages - cooked ham - pork half-carcasses and elements (only in the period between 30.11.2007 and 08.08.2008)	104.4	100.6	USA, Azerbaijan, Republic of Korea, Ukraine (pork half-carcasses)
Poultry meat and eggs: - live poultry and hatching eggs, million piece - poultry meat, thousand tonne	9.5	165.1 2.8	Ukraine, Belarus, Moldova, Azerbaijan, United Arab Emirates
Milk and dairy products: - butter - milk powder - cheese	301.5	145.9	Russia, Algeria, Egypt, Morocco, Iraq, Tunisia, Saudi Arabia
Sugar	1 134.7	813.1	Russia, Uzbekistan, Tajikistan
Cereals	3.1	114.1	Belarus, Russia, Ukraine
Potato starch	25.1	117.9	Belarus, Russia, Ukraine
Fresh fruits and vegetables	21.4	185.4	Russia, Belarus, Moldova, Ukraine
Non-annex I processed products	113.3	282.1	Russia, Turkey, Egypt, Saudi Arabia
Total	1 815.6	1 802.9	x

Source: [Ocena… 2009] p. 97

After the accession this share significantly decreased, and in 2008 it accounted for less than 4% of the total exports, despite the repeal of Russia's embargo.

According to Table 5 the subsidised exports constituted a significant part of exports to the non-EU countries.

Table 2. Share of 'non-EU' beef and veal exports in the total exports, %

Share	Year					
	2003	2004	2005	2006	2007	2008
Percentage	55.56	19.97	13.79	5.10	3.68	6.04

Source: own study based on the data from Table 5.

Table 3. 'Unit values' and domestic prices of beef and veal

Element of calculation	Year				
	2004	2005	2006	2007	2008
'unit values' PLN/100 kg	522	633	590	535	716
PLN/EUR exchange rate	4,5	4,03	3,85	3,78	4,41
'unit value' EUR/100 kg	116	157	153	141	162
price in Poland EUR/100 kg	193		239	236	260
Difference: domestic price – 'unit value'	77		86	95	98
Highest refund rates in EUR/100 kg	172		121	85	85

Source: own calculations based on data from table 5 (volumes and values), table 7 (refund rates). The exchange rates are taken from the official statistics [Rocznik… 2005-2009 passim].

Table 4: 'Unit values' in the exports of beef and veal to the EU countries and outside EU as compared with domestic prices

Price	Year				
	2004	2005	2006	2007	2008
'Unit value'in exports to the EU countries, EUR/100 kg	201	238	244	247	224
'Unit value' in exports to the non-EU countries, EUR/100 kg	116	157	153	141	162
Price in Poland, EUR/100 kg	193		239	236	260
Average EU price	275		318	304	322

Source: own calculations based on data from table 5 (volumes and values) and on the figures in table 3.

In 2003, the share of exports to the non-EU countries was still very high and amounted to over 55% in the total exports. After the accession of Poland to the European Union this share dramatically decreased below 20%, and even more during the 2005-2007 period following the Russian embargo imposed on animal products from Poland. The export increased again only in 2008.

Since 2005 virtually the entire beef and veal exports to the non-EU countries have been subsidised. In 2004-2008, the subsidies amounted to PLN 102.6 million as shown in Table 1.

As a matter of fact, Polish exports were limited to 3 groups of goods according to Table 6.

Table 5. Polish exports of beef, pork and pork preparations, including subsidised exports

Exports	Volume in year , thousand tonne						Value in year, million PLN					
	2003	2004	2005	2006	2007	2008	2003	2004	2005	2006	2007	2008
Exports of beef and veal (CN 0201, 0202) in total	44.1	67.1	118.2	160.9	171.0	195.5	277.3	555.2	1081.8	1483.7	1569.4	1899.4
including: to the EU-15/25/27[3]	19.6	53.7	101.9	152.7	164.7	183.7	168.9	485.3	978.6	1435.3	1535.7	1814.9
to the non-EU countries	24.5	13.4	16.3	8.2	6.3	11.8	108.4	70.0	103.2	48.4	33.7	84.5
Subsidised exports	0.0	3.8	14.7	8.0	6.8	7.7	x	x	x	x	x	x
Export subsidies	x	x	x	x	x	x	0.0	11.1	47.0	21.0	14.4	9.1
Share of subsidised exports in the total exports to the non-EU countries, %	0.0	28.4	90.2	98.0	108.0[b]	65.3	x	x	x	x	x	x
Share of subsidies in the value of exports to the non-EU countries, %	x	x	x	x	x	x	0.0	15.8	45.5	43.4	42.7	10.7

Source: as in Table 1, p. 200.

Table 6. Refunds paid to exports of beef and veal

Commodity	Year									
	2004 (since 1 May)		2005		2006		2007		2008	
	volume, thousand tonne	value, million PLN	volume, thousand tonne	value, million PLN	volume, thousand tonne	value, million PLN	volume, thousand tonne	value, million PLN	volume, thousand tonne	value, million PLN
Fresh, chilled in-bone beef and veal, carcasses and half-carcasses	2.3	5.8	9.6	21.3	3.7	6.1	2.0	2.3	3.3	3.2
Fresh, chilled deboned beef and veal	0.5	3.2	3.8	23.4	3.3	13.7	3.4	10.8	1.7	3.8
Frozen deboned beef and veal	1.0	2.1	1.3	2.3	1.0	1.2	1.4	1.3	2.7	2.1
Total	3.8	11.1	14.7	47.0	8.0	21.0	6.8	14.4	7.7	9.1

Source: as in Table 1, p. 99.

Some basic questions raised in the study should be answered. To what extent does an export subsidy cover the difference between the domestic beef and veal prices and the export prices? In other words, would the Polish exporters manage without the export subsidies? We need three following elements to calculate this:

- domestic prices
- export refund rates
- prices obtained for exported goods.

In 2004-2006 the prices of beef (price of slaughter cattle in terms of meat) in the EU showed gradual yet stable growth. They rose from 275 to 318 EUR/100 kg, i.e. by about 7% a year. In 2007, the price of beef fell by 4% (it was 304 EUR/100 kg) and grew again to 322 EUR/100 kg in 2008. In Poland, the average beef prices were significantly lower than in the Community, but the tendencies of changes were the same, although their intensity was different. During the first two years after the accession the price of beef went up from 193 to 239 EUR/100 kg, or by 23.8%. In 2007 the price of beef fell by almost 1.5% (to 236 EUR/100 kg) to rise again in 2008 and reach 260 EUR/100 kg (i.e. by 10%).

Table 7. The refund rates for beef and veal exports, EUR/100kg

Commodity	Year				
	2004	2005	2006	2007	2008
Fresh, chilled in-bone beef and veal, carcasses and half-carcasses					
0201 20 20 9110	56.5 - 97.0	41.1 - 97.0	28.7 - 69.8	28.7 - 48.8	28.7 - 48.8
0201 20 30 9110	43.0 - 71.5	30.8 - 71.5	21.5 - 52.4	21.5 - 36.6	21.5 - 36.6
0201 20 50 9110	71.5 - 123.0	51.4 - 123.0	35.9 - 87.3	35.9 - 61.0	35.9 - 61.0
Fresh, chilled deboned beef and veal carcasses					
0201 30 00 9100	102.0 - 172.0	71.3 - 172.0	49.8 - 121.3	49.8 - 84.7	49.8 - 84.7
0201 30 00 9120	56.5 - 94.5	42.8 - 94.5	29.9 - 72.8	29.9 - 50.8	29.9 - 50.8
Frozen deboned beef and veal 0202 30 90 9200	13.3 - 46.0	10.8 - 46.0	7.5 - 32.3	7.5 - 22.6	7.5 - 22.6

Source: as in Table 1, p. 99.

Export refund rates in the analysed period are presented in Table 7. Unfortunately, there are no real prices of export transactions available. Thus, we can assume approximate prices, or so called “unit values” obtained after dividing the export value by the export volume. To this end the Table 5 data are used, and the value of export to the ‘non-EU countries’ is divided by its appropriate volume. Table 3 shows the results of these calculations and other estimates.

The figures in Table 3 clearly indicate that export subsidies stopped to cover the price difference as early as in 2008. The reason behind it is the method of fixing refund rates according to ‘the lowest offer wins‘ rule, and the need to accustom the exporters to the lack of export subsidies in the next few years. Polish exporters would lose if they were not able to take advantage of the subsidies. Their losses would, however, be smaller than those of the ‘old EU’ operators. This dependency results from the above mentioned differences between the average beef and veal prices in the EU and Poland.

We may still make another comparison of the ‘unit values’ in exports to the EU and outside the EU.

In general, the prices at which beef and veal is sold in the EU are higher than those on the third markets. The prices of meat sold to the Community were higher than the domestic prices, except in 2008. This can indicate a permanent tendency of growth of beef and veal prices in Poland. However, it will still take a long time to reach the average EU price level.

Conclusions

At least two conclusions can be drawn from the above considerations:

- exports to the EU market should be continued, as the prices obtained there are advantageous
- in the case of meat exports to the non-EU countries (Poland has recently been trying to export goods to China, Japan and Korea), it should be borne in mind that not only the transportation costs are high, but also the sale prices are lower and the disappearing export subsidies cannot compensate losses in such exports.

References

Krzyżanowski J. T. [1989]: Analiza porównawcza cen w układzie międzynarodowym [In:] Ekonomika porównawcza rolnictwa – wybrane zagadnienia. Wydawnictwo SGGW, Warsaw.

Krzyżanowski J. T. [2009]: Wspólna polityka rolna Unii EURpejskiej – wybrane zadnienia. Wydawnictwo SGGW, Warsaw.

Ocena konkurencyjności polskich producentów żywności po akcesji do Unii Europejskiej (synteza) (Evaluation of competitiveness of Polish food producers after accession to the European Union (synthesis)). [2009]. Instytut Ekonomiki Rolnictwa i Gospodarki Żywnościowej, Warsaw.

Rocznik Statystyczny R. P. 2004, 2005, 2006, 2007, 2008 [2005-2009 passim]. GUS, Warsaw.

Tereszczuk M. [2009]: Assessment of competitiveness of Polish food producers in the Ukrainian market. [In:] Agri-food sector in the face of current challenges (second edition). A. Ukrainets, P. Sabluk, A. Kowalski (eds.). National University of Food Technologies (Ukraine), NSC Institute of Agrarian Economy (Ukraine), NRI Institute of Agricultural and Food Economics(Poland), Centre of Sociological Research (Ukraine), Kiev.

Tereszczuk M. [2009]: Effect of Subsidizing Export of Agro-food Products on Development of Export after the Accession of Poland to the European Union. [In:] Hradecke Ekonomicke Dny 2009. Ekonomicky Rozvoj a management regionu. Sbornik prispevku Dil. II. Univerzita Hradec Kralove, Hradec Kralove.