Competitiveness of the Polish Food Sector after the accession to the European Union

IWONA SZCZEPANIAK, PhD

MONIKA SZCZEGÓLSKA, MSc

The Institute of Agricultural and Food Economics – National Research Institute,
Świętokrzyska St. 20, 00-002 Warsaw
e-mails: iwona.szczepaniak@ierigz.waw.pl, monika.szczegolska@ierigz.waw.pl

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ABSTRACT

The paper focuses on the competitiveness as a driving force of market economy. The analyses of the results of foreign trade in agricultural and food products confirm that Polish agro-food sector is well prepared for operation on the Common European Market. Food producers have taken advantage of their competitive edge, mainly in terms of pricing. Nevertheless, consumers form other EU countries also accept quality features of Polish food. However, in order to maintain their position on the Common European Market, Polish producers should attach even greater attention to the promotion of their products.

Keywords: competition, competitive edge, agricultural and food products, foreign trade, prices.

1 INTRODUCTION

Competition is the basic economic mechanism of the market economy, from which competitiveness is derived and of which it is an element. Competitiveness is most often referred to the foreign or global market, but there is also the view that success on such markets is decided by the previous success in the competitive rivalry on the local and regional market. If follows from the generally quoted OECD definition, in turn, that competitiveness of the economy consists of the capacity to face international competition, and therefore to realise major exports and to maintain a high level and growth rate of domestic demand, without deteriorating the trade balance on current account (SKAWIŃSKA 2002). Competitiveness of the Polish food sector, therefore, may be defined as the ability of the local food producers to establish themselves on foreign markets – both on the EU market and on third markets, as well as the capacity to develop effective exports.

Foreign trade in agricultural and food products has always been an important part of Polish foreign trade. Nevertheless, the turnover of this category of goods since the middle of the nineteen-nineties until the year 2002 remained on a basically stable level, and the difficult conditions of access to foreign sales markets made it impossible to achieve a positive balance of trade in this category of goods. The brake through came from the day of accession of Poland to the European Union.

The EU membership of Poland was tantamount to the removal of all constraints, both in terms of tariffs and non-tariff barriers, in mutual trade in agricultural and food products, both with the “old” and with the “new” member states of the EU. As a result of this, Polish agricultural and food products may be exported to the markets of other member states without any impediments. At the same time, goods produced in those countries may freely compete on the Polish market with Polish products. By opening its market of just under 40 million consumers (with relatively small purchasing power) Poland obtained therewith the free access to the wealthy and developed European market, numbering approximately 450 million consumers.

The basic problem of the Polish food economy has now come to consist of the issue, whether the inevitable loss of some part of its own domestic market will be more than compensated by the increased sales on the markets of the other EU member states. From the formal point of view, the sufficient condition for being able to place agricultural and food products on the markets of member states of the Union consisted of fulfilment by Polish producers of the EU sanitary, veterinary, phytosanitary, animal welfare and environmental protection standards.[1] The actual utilisation of the possibilities for the growth of Polish food exports to the markets of the other EU member states was dependent, however, on the acceptance of Polish products by consumers from these countries.

2 Competitiveness of Polish Food Sector in the Enlarged EU

2.1 The development of foreign trade in agricultural and food products

Three years after the accession of Poland to the European Union it is clearly visible that the entry into the structures of the Common Economic Market (CEM) turned out to be beneficial for the Polish food economy. The results of foreign trade are very good. There has been a strong growth of exports of Polish agricultural and food products, which has more than compensated for the weaker growth of imports of such goods produced in other EU member states.[2] In this way the effective demand for Polish agricultural and food products has increased substantially. The results of the agricultural and food sector after the accession of Poland to the EU have therefore indeed confirmed its good preparedness for the conduct of business activities on the CEM and on most other markets as well, and they have also revealed the competitive advantages of the Polish food economy over the food industries of the other EU countries. As a result of this, Polish food producers have significantly improved their position in the enlarged Union. The mutual full opening of markets was not, as some economists anticipated, any break slowing down the development of the Polish food economy, but rather to the contrary – it became a strong impulse acting as the driver of development. This is indicated by the following phenomena (Table 1) (Szczepaniak 2006):

- During the three years of our EU membership the exports of agricultural and food products have increased over two times and imports by almost 74%.
- Trade with other EU member states has developed even faster. Supplies of food from Poland to EU-25 countries over the years 2003-2006 increased by over 141%, whereas imports to our country increased by almost 75%.
- CEM already in the first year after accession became the dominant procurement and sales market for Polish trade in agricultural and food products. In the successive years of our membership the share of EU-25 in exports of that category of goods grew especially fast – from approximately 65% in 2003 to as much as over 76% in 2006. The share of EU-25 in imports of agricultural and food products was more stable and varied over that period within the limits of 61-63%.
- The development of trade with countries of the Union concerned not only the EU-15 countries, but also the "new" member states. EU membership gave a new, very strong impulse for the exports of Polish agricultural and food products to the EU-10 countries. Over the years 2003-2006 the exports of such products to EU-15 countries increased by

[1] An exception from his rule consists of the granting by the EU of transition periods to selected dairy companies, meat, poultry and fish processing plants, over which periods the establishments concerned are allowed not to meet some of the EU standards, and may then sell their products only on the local market of the country.

[2] The significant appreciation of the Polish currency, which prevails since the middle of 2004 (average exchange rate of the EUR/PLN quoted by the National Bank of Poland: 2004 – PLN 4.5340; 2005 – PLN 4.0354; 2006 – PLN 3.8951) leads to the effect that the growth rate of exports of agricultural and food produce calculated in PLN is much lower than in EUR, but it may be regarded as very high anyway.

almost 135%, and to EU-10 countries by over 165%. Imports from EU-15 countries increased by 75.5%, whereas imports from EU-10 states by 68.5%.

- The part of the Polish food market taken over by foreign producers was much smaller than the part of the EU market won over by Polish producers. As a result, over the years 2003-2006 the balance of foreign trade in agricultural and food products improved significantly:
  - The total balance changed from EUR 453.5 million in 2003 to EUR 2,116.8 million in 2006;
  - With EU-25 from EUR 440.8 million in 2003 to EUR 2,517.8 million in 2006;
  - With EU-15 countries from EUR 193.1 million in 2003 to EUR 1,543.8 million in 2006.

  As a result of this, the three years of our EU membership have borne fruit in the form of fivefold growth of the total balance of foreign trade in agricultural and food products and almost sixfold growth of the balance of trade with the members of the enlarged Community.
- The index of coverage of agricultural and food product imports by exports of such products (TC – *Trade Coverage*) in the year 2006 exceeded 1.34, whereas in the year 2003 it amounted to only 1.13.

The mutual elimination of any limitations of access to EU markets and the necessity to cope with many conditions concerning access to third markets, turned out to be favourable for the Polish food economy in the final analysis. The advantages gained in the first three years of our membership of the Community in the domain of foreign trade in agricultural and food products are much greater than anticipated by previous forecasts. Accession to the structure of the Single European Market also did not result in any flooding of the Polish market with food imported from the EU, which had often been pointed out as a threat in pre-accession projections.

The good preparation of Polish food economy to EU membership was conditioned by many factors. Firstly, the technical condition of many important branches of the agricultural and food industry was much better than expected. The producers, aware of the risk of closure of their establishments, implemented a lot of investments adapting their facilities to EU standards in the period directly preceding the accession. Secondly, our producers have demonstrated good knowledge of the EU markets and a high degree of activity and capacity to ope-rate on these markets. Yet another factor, which was behind the good preparation of Pol-ish agricultural and food industry consisted of the inflow of direct foreign investments and the entry of foreign strategic investors to many Polish firms. This caused not only the reduction of the technological gap between the food industry in Poland and the food industry in the EU-15 countries, but has also resulted in the dissemination of modern methods of management, marketing, etc. Many of our enterprises have become part of foreign firms, becoming therewith included in the processes of globalisation and international specialisation. It was also not without significance that the international distribution networks, by purchasing Polish food products for the needs of their entire networks, came to assume the role of special ambassadors of Polish food.

Table 1. Results of foreign trade in agricultural and food products

Specification	2003	2004	2005	2006[a]	2004	2005	2006[a]
	EUR millions				2003 = 100		
Exports of agricultural and food products	4 010.4	5 242.2	7 028.0	8 291.2	130.7	175.2	206.7
including to EU-25	2 616.7	3 781.8	5 190.8	6 313.7	143.5	198.4	241.3
including to EU-15	*2 041.6*	*2 988.2*	*4 063.0*	*4 788.2*	*145.4*	*199.0*	*234.5*
including to EU-10	*575.1*	*793.6*	*1 127.8*	*1 525.5*	*138.0*	*196.1*	*265.3*
Imports of agricultural and food products	3 556.9	4 406.5	5 373.5	6 174.4	123.9	151.1	173.6
including from EU-25	2 175.9	2 763.8	3 388.1	3 795.9	125.1	155.7	174.5
including from EU-15	*1 848.5*	*2 395.9*	*2 938.0*	*3 244.4*	*127.1*	*158.9*	*175.5*
including from EU-10	*327.4*	*367.9*	*450.2*	*551.5*	*112.4*	*137.5*	*168.4*
Balance of foreign trade in agricultural and food products	453.5	835.7	1 654.5	2 116.8	184.3	364.8	466.8
including with EU-25	440.8	1 018.0	1 802.7	2 517.8	234.3	409.0	571.2
including with EU-15	*193.1*	*592.3*	*1 125.0*	*1 543.8*	*321.0*	*582.6*	*799.5*
including with EU-10	*247.7*	*425.7*	*677.7*	*974.0*	*171.9*	*273.6*	*393.2*

[a] preliminary data

Source: Prepared by the Author based on data from: Analizy Rynkowe Handel zagraniczny produktami rolno-spożywczymi (Market Analyses – Foreign trade in agricultural and food products), No 21-25, IERiGŻ-PIB, ARR, MRiRW, Warsaw 2005-2007.

The growth of exports of agricultural and food products over the past few years has exerted major impact upon the development of the entire food industry. The share of exports in sales of the same industry was showing a systematic growth trend and over the years 2003-2006 it increased by 6 percentage points (from close to 14% to approx. 20%). In the years 2003-2006 the total value of sales of the products of the food industry increased by approximately PLN 35,000 million, including sales worth close to PLN 13,000 million placed on foreign markets. The growth of export demand, therefore constituted in those years approximately 40% of the growth of effective demand for the products of the agricultural and food industry.

Such fast growth of exports of agricultural and food products, as well as the significant improvement of the balance of foreign trade in this category of goods after Poland's EU accession could not have happened if Polish products would not have been accepted and willingly purchased by consumers from other countries. The results of foreign trade indicate the significant degree of competitiveness of Polish food producers on international markets and they indicate that our product range offered for exports is both safe and of good quality, as well being attractively priced for foreign consumers.[3]

2.2 The strong export orientation of most segments of agricultural and food products

In accordance with the adopted methodology (SZCZEPANIAK 2005), for the purposes of analysis of competitiveness of Polish food producers after Poland's EU accession, the assessment of the relationship between the value of agricultural and food exports from Poland to the value of sales from the main sectors of farming and the food industry (so called export orientation index).

The ratio of the value of exports to the value of sales of farm products indicates that a strong export orientation in the years 2004-2006 was demonstrated by such sectors of agricultural production as the following: fruit and vegetables production, cattle and veal raising, as well as sheep and goats (Table 2). Exports of horses were also significant. In these areas, with the exception of the sector of production of fruit, there was a large surplus of exports over imports. In the sector of fruit production, in spite of large exports, a negative balance of trade was noted, which is linked with the high position of fruit imports coming from other climate zones. The remaining groups of agricultural products were characterised by much weaker exporting orientation, although in 2005 there were also significant exports of cereals, involving especially oats and rye. Also in these sectors, the role of imports was small, with the exception of cereals (owing to maize) and potatoes. In the sector of production of potatoes, mainly due to large imports of potatoes in early spring varieties, a markedly negative balance of foreign trade was noted.

Table 2. Share of exports in sales of basic sectors of agriculture (percent)

Specification	2004	2005	2006 [a]
Vegetables	33.0	31.2	26.6
Fruit	37.0	30.7	22.8
Cattle and calves	30.9	29.1	30.6
Sheep and goats	104.9	90.6	99.6
Horses	86.5	63.5	58.8
Cereals	3.5	17.1	10.2
Potatoes	2.0	0.7	0.7
Swine	0.7	1.4	3.2
Poultry	1.1	1.3	1.8
Eggs	4.4	7.5	9.6
Milk	0.5	1.9	1.8

[a] preliminary data

Source: Prepared by the Author based on data from GUS and CIHZ.

[3] An important role in the development of Polish agricultural and food exports was also played by re-export, i.e. the exports of finished goods produced from raw materials imported from other climate zones (this applies, in particular, to processed fish products, fruit and vegetable products, coffee and tea processing, the production of spices).

The different segments of the food processing industry are also characterised by very different levels of competitiveness. The ratio of the value of exports of selected products of the food industry to the value of their total sales indicates that after the EU accession particularly strong pro-export orientation was displayed by such branches of the food industry as the following: processing of fish, production of starch and processed potato products, production of fruit and vegetable juices and drinks, other processed fruit and vegetable products, production of pet food, production of durable sweet confectionery bread, chocolate and other sweet confection-nery, processing of coffee and tea, also the production of spices, food supplements and dietetic food (Table 3). At the same time, most of these branches were dependent on imports of raw materials.

Table 3. Share of exports in sales of basic food industry branches (percent)

Specification	2003	2004	2005	2006 [a]
Fish and processed fish	62.2	61.5	58.3	56.8
Starch and processed potatoes	30.3	33.2	41.2	46.3
Fruit and vegetable juices and drinks	42.2	43.7	39.6	37.2
Processed fruit and vegetable products	40.8	42.2	34.9	35.6
Pet food	20.9	30.6	38.1	39.4
Durable sweet bread confectionary	37.2	51.8	58.0	61.1
Cocoa, chocolate and other sweets	31.8	29.8	28.1	26.1
Tea and coffee	41.1	51.8	59.6	80.7
Spices	21.9	27.6	28.6	22.2
Food supplements and dietetic food	14.0	17.6	54.0	58.6
Red meat and poultry meat, as well as processed products from such meat	15.0	13.2	16.2	16.2
Oil, margarine and other fats	7.1	9.8	20.4	28.4
Milk and processed milk products	11.7	17.0	21.9	19.5
Sugar	14.4	14.9	20.3	30.9
Alcoholic beverages	10.8	13.4	15.4	15.2
Tobacco and tobacco products	13.0	16.4	23.1	37.6
Ice cream	5.6	8.5	14.6	21.5
Processed cereals	4.9	5.6	8.6	8.9
Fresh bread	0.4	0.4	0.4	0.4
Biscuits	4.5	6.3	11.5	12.1
Pasta	9.8	11.8	14.6	11.1
Wine	1.3	1.4	2.5	2.2
Beer and malt	1.4	2.4	2.4	2.8
Soft drinks	3.4	7.8	11.0	11.9

[a] preliminary data

Source: Prepared by the Author based on data from GUS and CIHZ.

In the years 2004-2006 the basic branches of the food industry were characterised by competitiveness close to the average level throughout the whole food industry. They included such branches of this industry as the following: production and processing of meat (including both red meat and poultry meat), production of oils, margarines and other fats, milk processing, production of sugar and the production of alcoholic beverages and tobacco products. At the same time, in some of these sectors (production of oil, margarines and other fats, sugar, and tobacco products) the phenomenon of marked increase of the contribution of exports to their sales, which in future periods may cause their shift to the group of segments with the highest competitiveness.

The segments of the food industry, which had low competitiveness and were not displaying the features of being export-oriented, consisted of the following: production of ice cream (although their exports have recently been rapidly growing), the production of processed cereals, pasta and fresh bread, the winery sector, beer brewing industry and soft drinks business, as well as production of fodder for livestock animals.

2.3 Price advantages of Polish agricultural and food producers

The generally noted improvement of the export orientation ratio points at the capacity of the Polish food sector to sell on foreign markets and at its increasing export focused specialisation. This high competitiveness of Polish food producers results, above all, from their competitive advantages mainly in terms of costs and prices. Prices in the agricultural and food sector in Poland are lower than in the developed EU countries. The source of such advantages consists of lower prices of the factors of production, including especially several times cheaper remuneration of labour.

Throughout the whole three year period of functioning within the EU structures the Polish food economy has preserved its price advantages over the food producers from other countries of the EU. A comparison of producer prices at the level of farming in Poland and the European Union indicates that we have a clear price advantage on the market for most basic farm products (Table 4). At the same time, the process of gradual convergence of the prices of agricultural products in Poland with EU prices may also be observed. This process was fast only in those sectors, where in the whole EU production quotas are applied, i.e. in the milk and sugar sectors, but recently also in the cereals sector.

Table 4. Comparison of prices of basic agricultural products in Poland and in the EU-25 (EU-25 = 100)

Specification	I-VI 2004	2005	2006
Wheat for consumption [a]	93.5	87.3	97.8
Barley for forage [a]	90.1	87.0	89.2
Maize for forage [a]	98.4	88.9	94.8
Pork meat	102.1	95.6	88.9
Piglets	n.a.	82.0	64.4
Beef meat	70.1	75.5	75.2
Milk	87.0	90.6	94.3
Poultry meat	70.9	77.2	67.9
Eggs for consumption	98.0	96.1	97.8

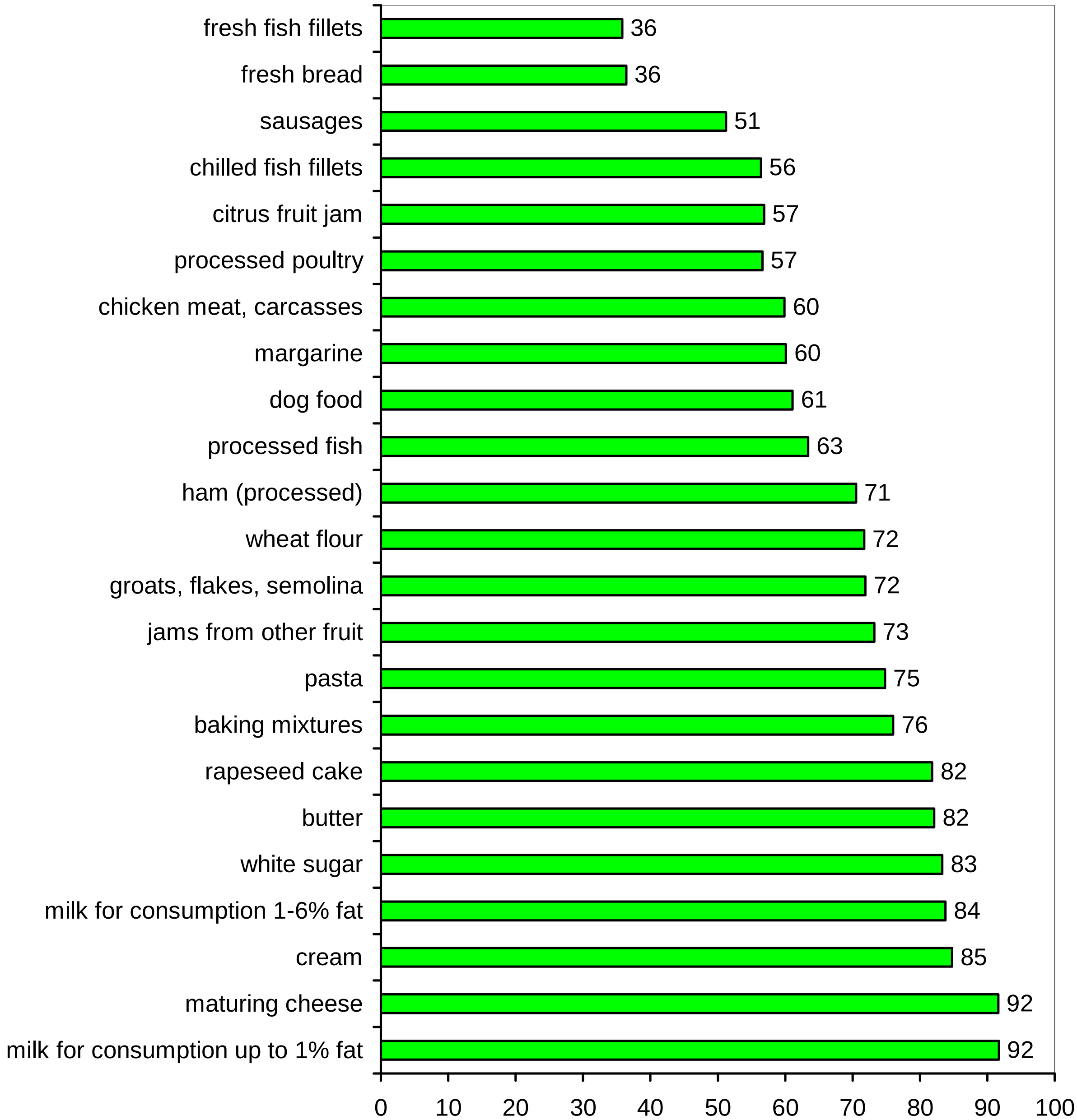
[a] Poor harvest of cereals in 2006 drove the significant increase of their prices throughout the whole of the EU. In Poland such growth was particularly strong and caused in 2007 the loss of price competitiveness of Polish producers of cereals (in the 1st quarter of 2007 the above indicated ratio increased to 109.0, for barley – to 103.6, and for maize to 104.6).

Source: Prepared by the Author based on data from the Ministry of Agriculture and Rural Development (see: www.minrol.pl).

The comparison of producer prices at the level of food processing in Poland and the European Union indicates that we also have a clear price advantage on the market for most basic products of the food industry (Figure 1). This is indicated not only by the persistent, fast growth of exports of these products, but also by the slower progressing than in the case of farm products, process of convergence of domestic prices of the products of food processing and the prices prevailing in the Union. Differentiation of these prices, however, is the natural consequence of large differences between the levels of economic development of more and less mature economies in the EU[4]. Hitherto Polish producers have managed to maintain competitive prices in spite of the clearly unfavourable evolution of currency exchange rates. In the longer and shorter run they must lay even more stress upon the limitation of costs.

[4] The level of economic development of a given country determines the remuneration and the cost of labour, and these condition the costs of production in such labour-intensive sectors of the economy as farming, and also agricultural and food processing.

Figure 1. Comparison of producer prices of basic products of the food industry in Poland and Germany in 2005 (Germany = 100)



Source: Prepared by the Author based on unpublished data from GUS and the Statistisches Jahrbuch über Ernährung, Landwirtschaft und Forsten 2003-2006.

3 CONCLUSIONS

In brief, the competitiveness of Polish food producers is high. They have significant competitive advantages and are using them skilfully. After the accession of Poland to the European Union the exports of agricultural and food products increased, mainly to the markets of other countries of the Union, and the position of Polish food producers on the European market was strengthened. In most branches the processes of adaptation of the production facilities to EU standards were completed and the processes of propagation of quality management systems were accelerated, which significantly enhanced their competitiveness. After the accession of Poland to the EU it turned out that the threats were lesser than it had been previously estimated and that our food producers take good advantage of the opportunities that have emerged as the result of the opening of the large and wealthy European market for food. This sector is well prepared to operate on the Common European Market.

The competitiveness of the Polish food sector is determined, above all, by lower prices in the agricultural and food sector in Poland when compared with the more developed EU countries. Competitiveness on the EU market and on global markets, however, are not based only on price competition. The factors of competitiveness include also: the development of enterprise, improvement of the local environment, rationalisation of organisational and ownership structures, and also competition policy realised by the state. Also the quality features, which significantly differentiate products are extremely important. They include, in particular: quality and uniqueness, in the domain of products, the ability to identify and satisfy individual needs of the clients, versatile promotion activities and the image of the firm based on confidence in the quality and reliability of the products, as well as quality of customer service. These factors may determine our competitiveness in the future and be decisive for the acceptance of Polish products by consumers from other countries.

Consumers from other EU countries already accept Polish food today, together with its quality features, as the increase of the export orientation of different branches of the food economy indicates. The growing sales on demanding foreign markets, subject to rigorous rules of quality control, indirectly gives evidence of the high quality of our food. As competition on foreign markets builds up, however, Polish producers and exporters of food should attach even greater attention to the quality aspects and promote our products even more effectively than before, the more so as following the accession to the Union they have improved their skills concerning the documentation of quality, compliance with complex procedures or the methods of communication with the closest potential recipients.

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