SCIENTITIC INFORMATION

New EU Member States: booming agro-food trade, Poland ahead

Nové členské země EU: rozvíjející se zemědělsko-potravinářský obchod, Polsko na čele

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RISING COMPETITIVENESS, SUPPORTED BY CAP

Taking over the Common Agricultural Policy (CAP) has been the decisive issue in the agro-food sector in the new EU Member States (NMS) since their accession in May 2004. These countries are now fully incorporated in the supply control system applied to major agricultural products such as grain, sugar, meat and milk. That system is primarily based on production quotas, on direct payments to farmers and on market price support by, e.g., protective tariffs on third-country products and subsidies for the export of surpluses. As a net result, the EU farmgate prices for important agricultural items are far above world market prices.

After accession, these high EU farmgate prices contributed to increasing farmers' income in the NMS. Nevertheless, food retail prices in the NMS as a whole have remained virtually unchanged: competition among the expanding number of retailers is increasing, exerting a downward pressure on prices, and with consumers' purchasing power barely rising, there is little scope for prices to go up. Perhaps the only exception throughout the whole region has been the price of sugar, experiencing an upward trend. That rise is attributed to the application of the EU intervention price, which (at EUR 630 per tonne) is double the world market price. The introduction of the EU intervention price in the NMS fuelled producer prices of sugar beet and, with some time lag, also retail sugar prices.

With the lifting of the final customs barriers, trade between the EU-15 and the NMS has been booming. Western European demand for NMS agro-food products, which have proved competitive, has exceeded expectations. However, the expansion of NMS exports has been mainly due to increased deliveries of non-processed agricultural items or less processed no-name foodstuffs. In any case, the first impact on the agro-food trade balance in the NMS-4[1] has been highly positive (with the exception of Hungary). Poland in particular has been able to fully exploit the new opportunities in the enlarged Union, thanks to investments made in the pre-accession period, mainly in food processing. In addition, Polish farmers have large production capacities and farmgate prices are still relatively low. The Czech Republic and Slovakia – though still net agro-food importers – have also improved their positions on the EU markets. Only Hungary has experienced a slight deterioration of its once prominent position on the agro-food markets, largely as a result of declining exports to outside Europe.

FARMERS' INCOMES INCREASING

Increasing revenues based on higher prices and larger sales have helped to stabilize the financial situation in the NMS farming sector. In addition, high absorption of funds under the pre-accession SAPARD[2] programme supported income growth. However, the greatest boost to farmers' incomes has certainly been due to

[1] Czech Republic, Hungary, Poland, Slovakia.

[2] Special Accession Programme for Agriculture and Rural Development.

direct payments. In 2004, centrally-funded EU direct payments to the NMS amounted to 25% of the EU-15 level as agreed at the Copenhagen summit. Eight of the ten NMS (excluding Malta and Slovenia) opted for direct EU farm payments under the Simplified Aid Payment System (SAPS). Under SAPS, the entitled farmers obtain area-based subsidies. The national SAPS rates are oscillating around EUR 40 per hectare according to the reference land and yields in individual countries. Thus, payments are independent of the actual production volume because they are based on reference output in the past. In addition, the NMS had the opportunity to top up payments by an additional 30% from their national budgets, to reach the ceiling of 55% of the EU-15 level in 2004.

Following new negotiations encouraged by Poland, the NMS could bring forward, by six weeks, EU direct payments to their farmers; originally these payments would have been due from 1st December 2004. Thus, payments now were due to start on 16th October – if a strict inspection of the fields found that they corresponded to the area size reported by the farmers. In case of large discrepancies those farmers lost their right to receive direct payments. However, the discrepancies found were mostly minimal and the bulk of farmers received payments based on area, which boosted overall income.

Although the NMS did not fully exploit the possibility to top up direct payments from their national budgets, total farmers' incomes in 2004 were significantly higher than in earlier years. According to first estimates of Eurostat, there are remarkable differences in income growth among the NMS-4. While farmers' incomes doubled in the Czech Republic and expanded by three quarters in Poland, they increased by just about one quarter in Slovakia and Hungary. The two former countries are apparently benefiting from their neighbourhood to the crucial German market, which absorbs the bulk of their agro-food exports; they have the important comparative advantage of lower trans-

Table 1. NMS-4: agro-food trade (SITC 0, 1, 4)*

	January to September 2003				January to September 2004					
	Exports (EUR million)	Imports (EUR million)	Balance (EUR million)	Exports (Imports = 100)	Exports (EUR million)	Growth of exports (2003 = 100)	Imports (EUR million)	Growth of imports (2003 = 100)	Balance (EUR million)	Exports (Imports = 100)
Czech Republic										
Total	1 056	1 553	-497	68	1 345	127	1 904	123	–559	71
of which EU-25	850	1 183	–333	72	1 137	134	1 496	126	–359	76
Share of EU-25 (in %)	80	76	.	.	85	.	79	.	.	.
Hungary										
Total	1 870	969	901	193	1 932	103	1 266	131	666	153
of which EU-25	1 193	759	434	157	1 354	113	1 048	138	306	129
Share of EU-25 (in %)	64	78	.	.	70	.	83	.	.	.
Poland										
Total	2 705	2 294	411	118	3 341	124	2 696	118	645	124
of which EU-25	1 754	1 456	298	120	2 381	136	1 663	114	718	143
Share of EU-25 (in %)	65	63	.	.	71	.	62	.	.	.
Slovakia										
Total	422	663	–241	64	528	125	795	120	–267	66
of which EU-25	358	543	–185	66	45	128	654	120	–196	70
Share of EU-25 (in %)	85	82	.	.	87	.	82	.	.	.

* Food, live animals, beverages, tobacco, animal and vegetable oils, fats and waxes

Source: National statistics, own calculations

port costs – a decisive factor in the case of exports of goods with relatively low kilogram prices (which make up the bulk of Czech and Polish agro-food exports). Also, Czech and Polish farmers and traders have a better knowledge of the German markets and are able to find possible market niches more quickly.

In addition, growers of sugar beet in Poland and the Czech Republic have cultivated the largest areas among the NMS. They have been involved in the generous EU sugar quota system and have thus experienced particularly high profit. In fact, sugar beet has probably been the most lucrative crop for growers in the NMS, due to the very high price guaranteed by the CAP. Still, despite the current high income, the future of sugar beet growers and processors is uncertain. Under pressure from the WTO, the Commission has proposed a 33% cut in the sugar support price, coupled with a 16% reduction of production quotas and with free trade across borders for sugar quotas. This proposal however has so far not been accepted by the EU Member States. Poland, as the largest producer of sugar beet and sugar among the NMS, is not going to back the Commission's plans for reforming the EU sugar market.

CZECH REPUBLIC

For many years the Czech Republic has registered an agro-food trade deficit. In 2004, in particular after the country's accession to the EU, agro-food trade was booming but the deficit increased somewhat. Among Czech food products entering the EU markets, sugar exports registered the most impressive growth: in the first three quarters of 2004, they rose by 158% and amounted to EUR 163 million. After the stored sugar supplies had been sold, the price of sugar in the Czech Republic started to rise. Exports of cattle and beef expanded strongly as well, accompanied by shrinking inventories. Overall Czech exports of live animals and meat to the EU doubled in the first three quarters, to EUR 138 millions. Prices of slaughter pigs on the domestic market were falling in the first months after joining the EU as pork imports rose strongly. With about 50 thousands tonnes, pork accounted for the greatest part of Czech meat imports in 2004.

Fears that the domestic dairy market would be flooded with the EU products have not materialized. Quite the contrary, German milk processors bought (cheaper) Czech milk, resulting in temporary shortages for Czech milk processors close to the border. In addition, the demand for Czech high-fat cream was soaring. Total exports of milk and dairy products (in a value of EUR 131 million) rose by 90% in the first three quarters of 2004, of which those to Germany tripled. The overall dairy trade surplus increased by more than 50% to EUR 84 million. This all points to the Czech Republic's increasing integration into the EU markets. In January to September 2004, agro-food exports already covered 76% of imports from the EU, while one year earlier the coverage rate had accounted for 72%.

Table 2. Czech Republic: agro-food trade (SITC 0, 1, 4)

	January to September 2003				January to September 2004					
	Exports (EUR million)	Imports (EUR million)	Balance (EUR million)	Exports (Imports = 100)	Exports (EUR million)	Growth of exports (2003 = 100)	Imports (EUR million)	Growth of imports (2003 = 100)	Balance (EUR million)	Exports (Imports = 100)
All countries										
SITC 0	834	1 302	–468	64	1 081	130	1 572	121	–491	69
SITC 1	199	163	36	122	203	102	237	145	–34	86
SITC 4	23	88	–65	26	61	265	95	108	–34	64
Total	1 056	1 553	–497	68	1 345	127	1 904	123	–559	71
EU-25										
SITC 0	664	983	–319	68	903	136	1 229	125	–326	73
SITC 1	167	121	46	138	175	105	183	151	–8	96
SITC 4	19	79	–60	24	59	311	84	106	–25	70
Total	850	1 183	–333	72	1 137	134	1 496	126	–359	76
Share of EU-25 (in %)	80	76			85		79			

Source: National statistics, own calculations

HUNGARY

Thanks to comparative advantages related to soil fertility and climate, Hungary has for many years reported an average annual surplus of about EUR 1 billion in its agro-food trade. Following a huge grain surplus in 2004, Hungary has been looking for international outlets. But finding markets has been a problem, as the last year's grain harvests were excellent throughout Europe. At the end of November 2004, Hungarian grain producers offered some 2.2 million tonnes of grain for intervention purchases supported by the CAP budget, accounting for half of the total EU-25 figure. The huge Hungarian share is explained by the fact that other EU countries have larger own storage capacities than Hungary. Still, Hungary's crops sector has been more competitive than the domestic animal sector.

As for the cattle and pig sectors in Hungary, they have been crowded out by cheap imports. In 2004 pig farming remained a loss-making business: with an estimated EUR 1.20/kg, production costs exceeded average farmgate price for live pigs by about 15%. Despite cheap feed costs due to the huge grain surplus in 2004, pig stocks will most probably rise only modestly in 2005 as price competition on the EU markets has increased.

As a result of the less competitive domestic animal sector, imports of animal products, in particular pig and poultry meat and milk, from other EU countries were on the rise. Total agro-food imports from the EU rose by 38%, while exports to the EU were up 13% in the first three quarters of 2004. Hungary's agro-food surplus with the EU dropped by EUR 128 million to EUR 306 million year-on-year. While in January to September 2003 agro-food exports to the EU-25 had exceeded imports by 57%, one year later the coverage rate dropped by 28 percentage points to 129%. Thus, in contrast to the other NMS-4, Hungary registered only comparatively small market share gains on the EU markets in the first stage after accession.

As a traditional exporter of agro-food products, Hungary is ready to work against these negative trends. Greater support is to be given to the production of poultry meat in particular; the strongest expansion is envisaged for the output of duck and geese. These (mostly fresh) specialities are to be exported to the EU. As for the pig sector, Hungary will have to invest about EUR 100 million in order to conform to the EU standards.

POLAND

Since the removal of trade barriers as of May 2004, among all NMS Poland has been the largest supplier of beef to the EU buyers – in particular from Germany, Austria, the Netherlands and Italy. The country's cattle sector has been highly competitive on the EU markets. For instance, at the beginning of December 2004, in Poland the average price for beef meat amounted to EUR 2 per 1 kg, while in Austria it

Table 3. Hungary: agro-food trade (SITC 0, 1, 4)

	January to September 2003				January to September 2004					
	Exports	Imports	Balance	Exports (Imports = 100)	Exports (EUR million)	Growth of exports (2003 = 100)	Imports (EUR million)	Growth of imports (2003 = 100)	Balance (EUR million)	Exports (Imports = 100)
	(EUR million)									
All countries										
SITC 0+1	1 814	917	897	198	1 867	103	1 221	133	646	153
SITC 4	56	52	4	108	65	116	45	87	20	144
Total	1 870	969	901	193	1 932	103	1 266	131	666	153
EU-25*										
SITC 0+1	1 157	718	439	161	1 308	113	1 011	141	297	129
SITC 4	36	41	–5	88	46	128	37	90	9	124
Total	1 193	759	434	157	1 354	113	1 048	138	306	129
Share of EU-25 (in %)	64	78			70		83			

* Estimate

Source: National statistics, own calculations

Table 4. Poland: agro-food trade (SITC 0, 1, 4)

	January to September 2003				January to September 2004					
	Exports	Imports	Balance	Exports (Imports = 100)	Exports (EUR million)	Growth of exports (2003 = 100)	Imports (EUR million)	Growth of imports (2003 = 100)	Balance (EUR million)	Exports (Imports = 100)
	(EUR million)									
All countries										
SITC 0	2 582	1 994	588	129	3 146	122	2 305	116	841	136
SITC 1	111	134	–23	83	174	157	197	147	–23	88
SITC 4	12	166	–154	7	21	175	194	117	–173	11
Total	2 705	2 294	411	118	3 341	124	2 696	118	645	124
EU-25										
SITC 0	1 714	1 243	471	138	2 287	133	1 413	114	874	162
SITC 1	36	82	–46	44	83	231	107	130	–24	78
SITC 4	4	131	–127	3	11	275	143	109	–132	8
Total	1 754	1 456	298	120	2 381	136	1 663	114	718	143
Share of EU-25 (in %)	65	63			71		62			

Source: National statistics, own calculations

was 39%, in Germany 33%, in the Czech Republic 13% and in Hungary 10% higher. Also Poland's pork exports boomed in the first few months of EU membership, as Polish companies sold their available slaughter animals to the EU-15 markets. The consequence was a rapid increase in domestic pork prices. As a result, large pig processors in Poland turned to imports of cheaper frozen pork mainly from France, Denmark, Germany and the Netherlands.

Because of the strong EU demand for Polish dairy products (mostly milk and cheese), exports reached a record level in 2004, again primarily due to price competitiveness. For illustration, at mid-2004, in Poland the average purchase price of farmers' milk was EUR 0.15 per litre, whereas in Slovakia it was EUR 0.22 and in the Czech Republic, Hungary and Germany about EUR 0.26. In October 2004, the prices of Polish dairy products were still 40% lower than those in Western Europe and dairy became the fastest growing export segment. Total exports of dairy products jumped by above 50% to nearly EUR 600 million in 2004, of which three quarters went to the EU. So far, Polish agro-food exporters have been the most successful ones in increasing their shares in the EU-15 markets. In addition, Polish agro-food exports to the other NMS have expanded above average as well.

After several years of registering deficits in its agro-food trade, and a moderate surplus in 2003, Poland probably generated a surplus of about EUR 1 billion last year. In the first three quarters of 2004, total agro-food exports rose by 24% year-on-year, to EUR 3.3 billion; exports to the EU – accounting for nearly than three quarters of the total – even increased by 36%. With agro-food imports from the EU expanding by just 14%, agro-food exports exceeded imports already by 43%, compared to 20% in 2003.

The turnaround in Poland's agro-food sector is closely related to the country's accession to the EU, which removed all barriers and brought more money into the sector. Polish food producers and exporters are now benefiting from their investments in the pre-accession period that were made in order to adapt to the strict EU norms and rules. Also, Polish farmers have some comparative advantages that are now being exploited: they dispose of a large agricultural area; the climate is relatively mild; and farmgate prices in Poland are lower than in the main competitor countries. Last but not least, many people in the rural areas are ready to work for little money.

SLOVAKIA

Slovakia has been a net importer of agro-food products for many years. Due to the more dynamic growth of non-agricultural trade, the importance of the agro-food sector for the foreign trade balance dropped up until 2003. But, like in Poland or the Czech Republic, the EU accession brought a boost for Slovakia's agro-food trade as integration into the EU market increased

Table 5. Slovakia: agro-food trade (SITC 0, 1, 4)

	January to September 2003				January to September 2004					
	Exports	Imports	Balance	Exports (Imports = 100)	Exports (EUR million)	Growth of exports (2003 = 100)	Imports (EUR million)	Growth of imports (2003 = 100)	Balance (EUR million)	Exports (Imports = 100)
	(EUR million)									
All countries										
SITC 0	351	526	−175	67	451	128	652	124	−201	69
SITC 1	52	111	−59	47	48	92	109	98	−61	44
SITC 4	19	26	−7	73	29	153	34	131	−5	85
Total	422	663	−241	64	528	125	795	120	−267	66
EU-25										
SITC 0	288	415	−127	69	384	133	520	125	−136	74
SITC 1	52	104	−52	50	46	88	102	98	−56	45
SITC 4	18	24	−6	75	28	156	32	133	−4	88
Total	358	543	−185	66	458	128	654	120	−196	70
Share of EU-25 (in %)	85	82			87		82			

Source: National statistics, own calculations

further. Agro-food exports to the EU rose by 28% in the first three quarters of 2004 and already accounted for 87% of total agro-food exports – the highest share among the NMS-4. Exports were dominated by milk. The low price of milk purchased by Slovak dairies from local farmers resulted in an expansion of milk exports to neighbouring markets (mainly the Czech Republic and Hungary) where milk prices are higher. The export surplus in milk and dairies, at EUR 46 million in 2003, rose even further in 2004. Likewise, trade in sugar as well as animal and vegetable fats was highly positive. Despite a significant expansion of meat exports, Slovakia has remained a net meat importer. In sum, Slovakia was also able to improve its position on the EU markets in the accession year, with agro-food exports covering 70% of imports from the EU, as against 66% one year earlier.

OUTLOOK

The medium- and long-term prospects for agro-food trade of the new EU Member States will critically depend on these countries' ability to shift from the now dominating anonymous, low value-added goods to higher-price (trade mark) market segments or towards products of organic farming and for market niches. However, any substantial real appreciation of NMS currencies against the euro would have a comparatively even stronger (negative) impact on the flow of trade between the EU-15 and the NMS. That would remove the gains that the new Member States booked in the first months of their EU membership.

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