

Economic policy in Poland and competitiveness of agro-food sector

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Primary goals of economic policy since 1989

Improving competitiveness of the agro-food sector was inherent to the primary goals of economic policy since 1989, i.e..

- building market economy
- integration with the EU

Policies affecting emergence of competitive agro-food sector in Poland since 1989

- Macroeconomic stabilisation
- Privatisation
- **Trade liberalisation**
- Promoting FDI
- **Farm income/market policies**
- Changes in legislative framework due to EU accession
- **Investment support**
- **General rural polices**

Trade policy

So far

- Preferential arrangements with CEFTA, EU and other bilateral agreements
- EU and FSU were the major export markets

After EU accession

- Single market and competitive advantages and disadvantages to be revealed
- Same playing field level within EU-25

Farm income support policies

So far

- Preference for market price support with a bias in favour of capital intensive activities
- Implication for competitiveness - enhanced margins and investments in supported sectors (sugar, milk, poultry)

After EU-accession

- Preference for decoupled area-linked direct support (SAPS and SPS)
- Expected implications for competitiveness – more room for market and for comparative advantages to reveal in the single market

Investment support

So far

- Preferential credits for investment in primary agriculture and processing
- In SAPARD - preference for investment support in agriculture holdings and agro-food processing – c.a. 55% of the programme public funds

After EU accession

- Investment support planned in SOP – c.a. 70% of public funds
- Motivated less by the competitiveness concerns and more by the adverse social implications of structural change

Provision of general services

- Market information system
- Market infrastructure (e.g. wholesale markets)
- Support for producer groups
- Farm advisory system

Selected indicators of recent progress

- Productivity increases
- Structural change
- Compliance with new standards
- Enhanced trade flows

Productivity improvements

- Highest in activities closer to final consumer, which is related with intensity of investments :
(1) retail, (2) processing, (3) farming
- Improvements in agro-food processing 1999-2003:
 - ✧ **Increase in labour productivity by 40%**
 - ✧ **Decrease in energy use by 35%**
 - ✧ **Decrease in water use by 30%**

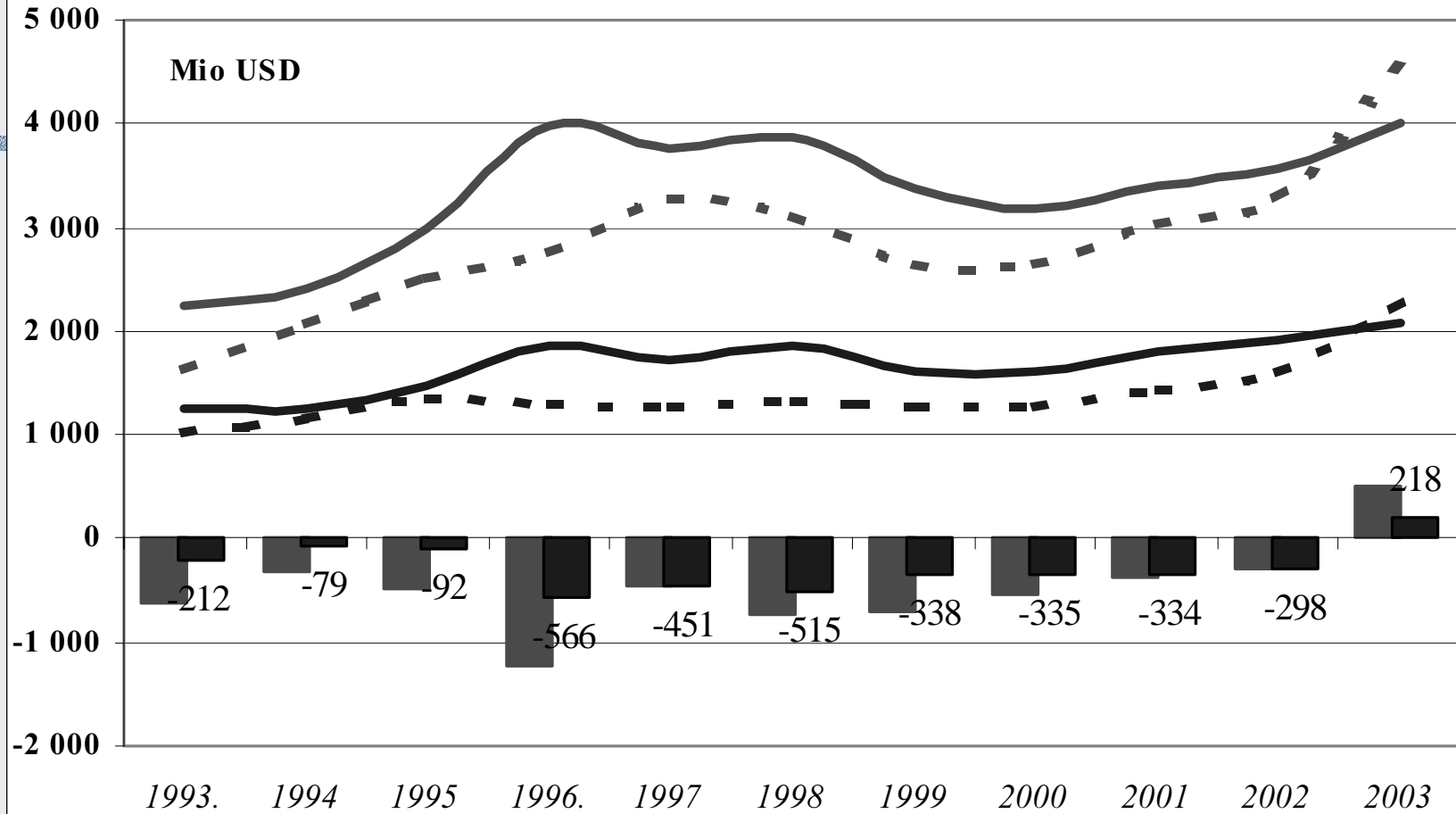
Structural change – example of milk sector

	<i>1999</i>	<i>2003</i>
Share of milk complying with the EU standards (%)	30	85
Number of farms delivering milk to processing ('000)	595	300

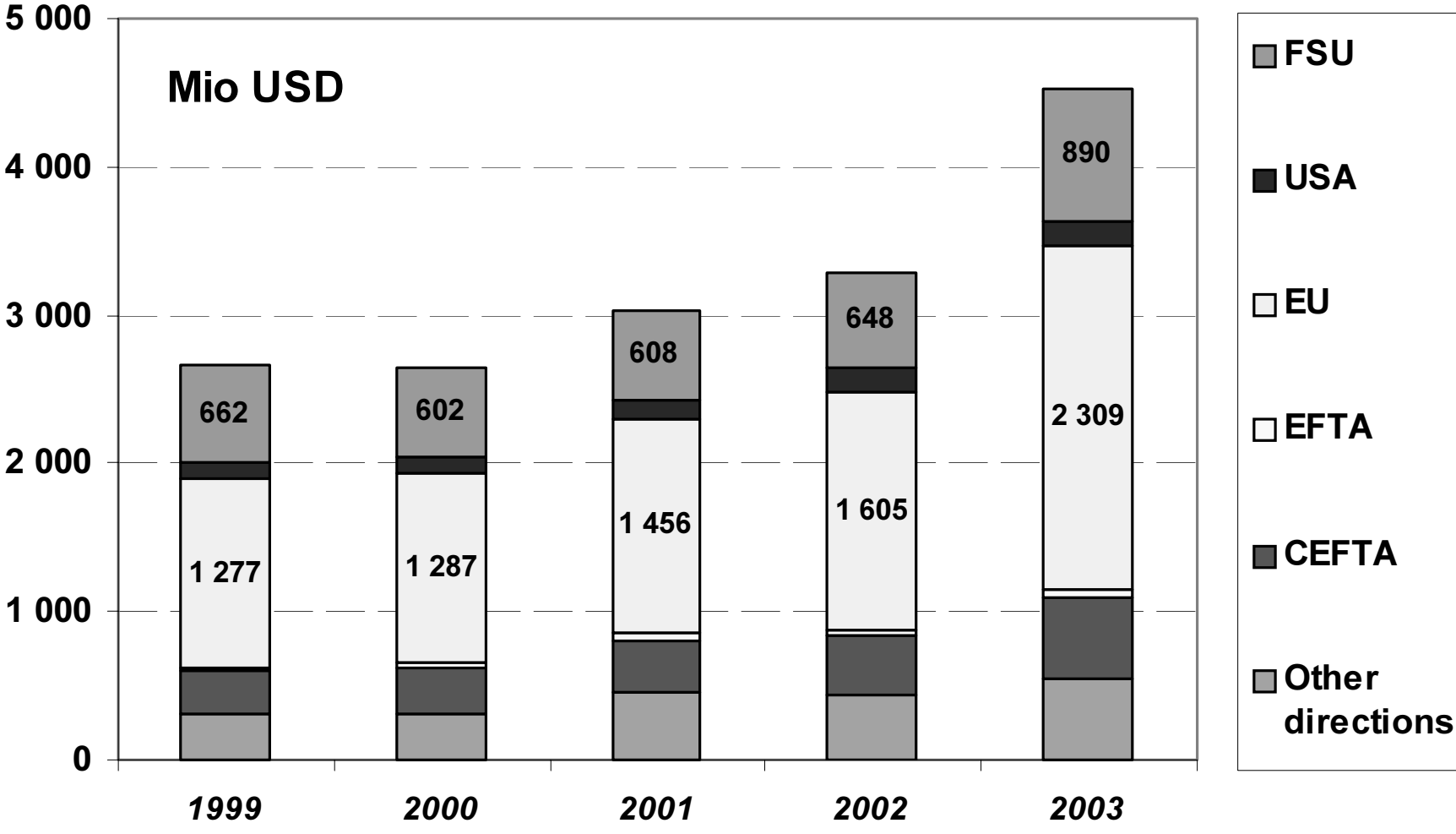
Adjustments of milk and meat processing establishments to EU standards on 1 May 2004

	Establishments meeting EU standards on 1 May 2004	Establishments with transition period by 2006	Establishments closed on 1 May 2004
Meat processing	1249	423	193
Milk processing	204	144	15
Fish processing	153	62	34

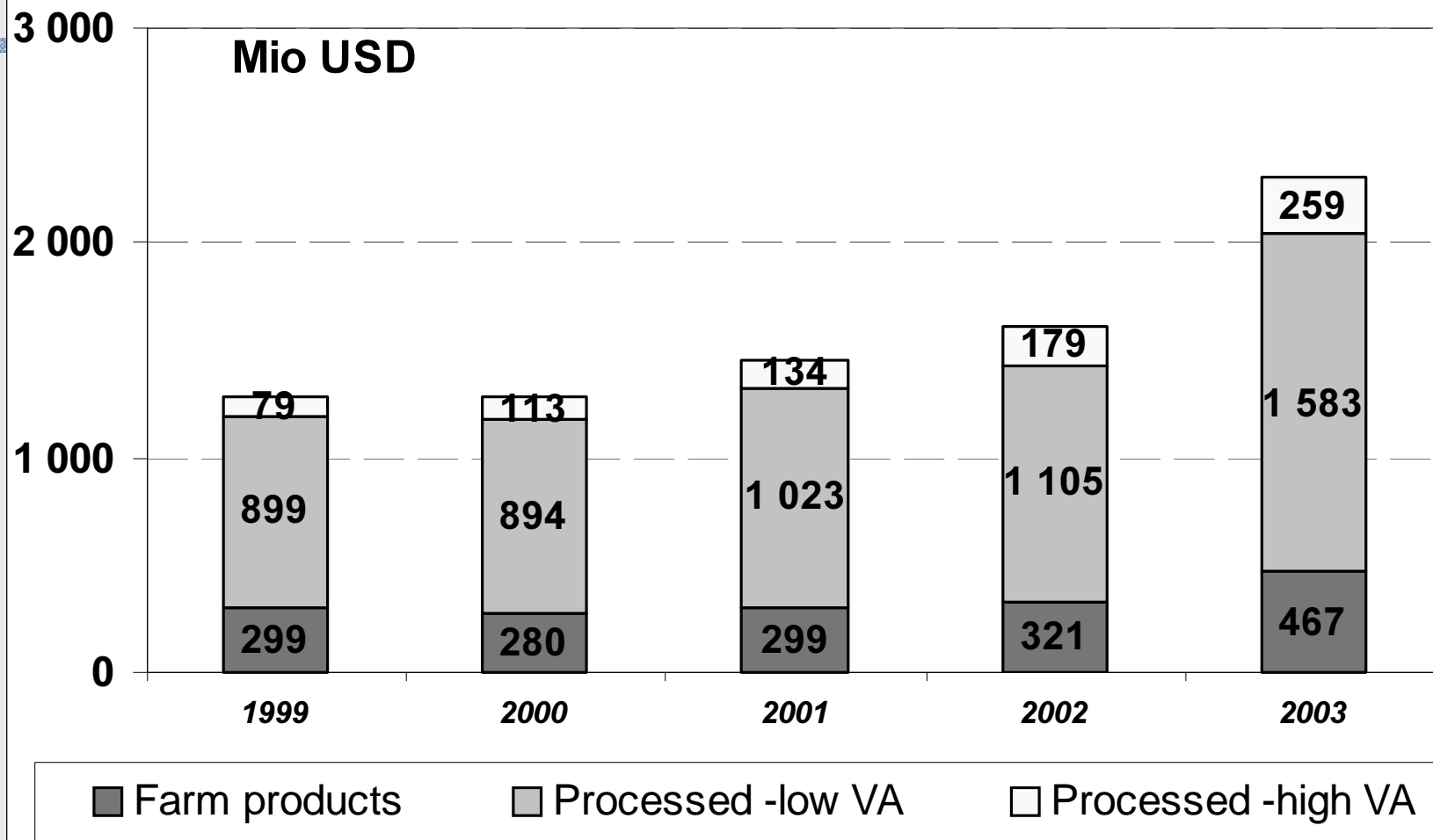
Polish agro-food trade, 1993-2003



Poland's agro-food exports by regions, 1999-2003



Poland's agro-food exports to EU by degree of processing, 1999-2003



Concluding remarks (1)

- **Dynamic nature** of competitiveness, related with evolving economic and legal conditions since 1989
- Choice of sectoral policies was subject to **superior political and economic targets**:
building market economy, EU accession
- Since 1989 major positive role of government was the provision of **stable macroeconomic conditions** including stronger integration with foreign markets.
Support policies have had ambiguous effects for competitiveness

Concluding remarks (2)

- Agro-food sector developed under **maintained high competitive pressure** of various origin:
 - trade liberalisation
 - deteriorating sectoral ToT (macroeconomic forces)
 - changing nature of retail (supermarkets growth)
 - enforcement of EU requirements
- ...which favoured improvement in competitiveness because of high potential for **productivity gains**. These gains were highest in activities closer to final consumer (retail, processing, farming)
- First evidences on **competitive performance** in the Single Market are promising. This is important for
 - improvement of export strategies of enterprises,
 - attitude towards recent and future CAP reforms