

Polish Agro- Food Trade with European Countries Before and After Joining EU

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Abstract. Foreign trade in agricultural and food products is a very important component of trade and agricultural policy. In the recent years these policies change influencing on the result of this trade and indirectly on food producers as well as consumers. The aim of this paper is look through the agri- food trade between Poland and European Union countries and the process of Poland's integration with the European Union which had an essential impact on trade between the member countries. The integration process connected with transition from a protective trade policy to a liberal trade policy was favourable for Poland. From 1989 to 2003, the volume of trade turnover in agri- food products between Poland and European Union increased over twofold. The European Union member states are main trading partners of Poland. They accounted for over half (51.6%) of the turnover in farm and food trade in 2003. The main partners on the export side are: Germany, Netherlands, Great Britain and Italy; and on the import side are Germany, Netherlands, Spain and Italy. Trade in farm and food goods with the European Union was favourable for Poland for the first time since 2003. Poland has gained trade advantages in the food sector after integration with the EU.

Key words: agricultural trade, products' structure, trade agreements with EU

1. Introduction

Accession of Poland and other countries of South and East Europe aroused controversy among the societies which demanded government representatives to give them an assessment of profits or losses arising due to the process. It is obvious that these countries are poorer and expect profits to exceed costs of the membership in such a strongly integrated structure.

Despite numerous fears, first year of the membership apparently was positive for Poland. There is clear increase of trade turnovers, especially concerning agri- food goods. Moreover, improvement of farmers' situation, who have a possibility of applying for various forms of support within Common Agricultural Policy, was noticed. Furthermore, balance of

trade settlements with EU amounted to 1.6 milliard EUR¹. However, it should be considered that the period is too short to allow to evaluate how these phenomena are constant and if there are any negative effects to take place in some spheres of economic and social life, even though experiences of other poor countries, which accessed earlier, indicate that significant benefits occur usually after some years of the membership.

2. General macroeconomic tendencies and their impact on trade turnover value

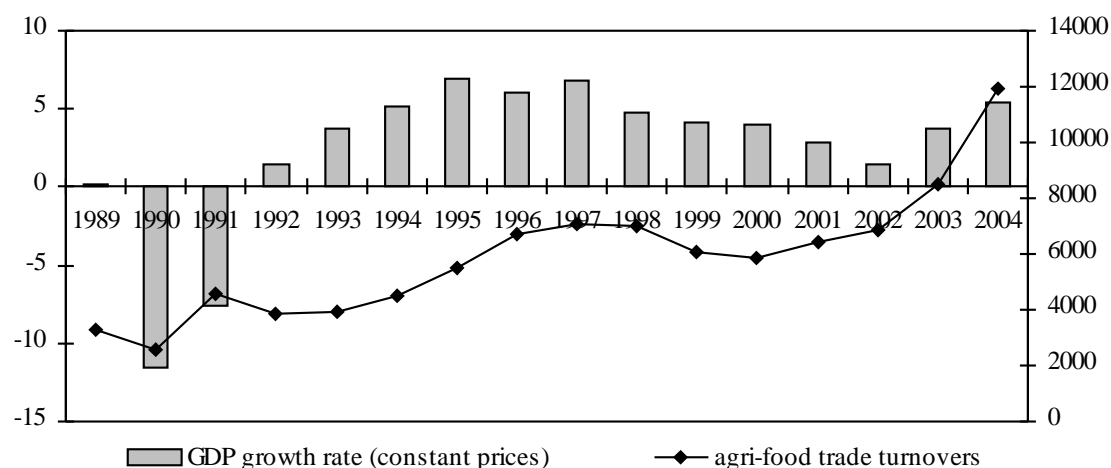
Analysis of fundamental macroeconomic measures and comparison of the measures with trade turnovers value allow, to a large extent, to draw a conclusion that economic growth acceleration in Poland as well as in other countries² was conditioned by significant boost to international trade, including agri-food goods. Graph 1 presents the GDP growth rate in constant prices and value of agri-food trade turnovers in Poland from 1989 to 2004. It shows that, in general, the growing and downward trends are similar (apart from four years: 1992, 1996, 2001, 2002). These exceptions are obvious, because economic recovery depends on numerous factors, not only on trade turnovers value; however, when domestic demand is growing slowly, economic development depends on foreign demand – an export. According to the demand, quite strong growth in GDP in Poland in 2004 (5.4 percentage points in comparison to the previous year) is a result of significant, continuous growth in the export value (17.7%)³, individual consumption (3.4%) and irregular growth in accumulation (12%) and investment gross expenditure on fixed assets (5.3%)⁴.

¹ According to the Government Information Centre's announcement on January 26th 2005 value of payments to the EU budget in 2004 amounted 1.2 milliard EUR, and as a Member State Poland received about 2.8 milliard EUR (including the pre-accession funds).

² Amount of international trade, according to the OECD data, after stagnation in 2001-2003, increased by 9.5% in 2004 and 9% in 2005.

³ Polish export in 2004 increased by 25.6 percentage points (in EUR) and by 37.7 percentage points (in USD); agri-food export in comparison to the previous year increased by 30% percentage points (in EUR) and by 43.8% percentage points (in USD).

⁴ See: Kotyński J. *Zmiany w handlu zagranicznym Polski po wejściu do Unii Europejskiej (Changes in foreign trade of Poland after accession to the European Union)* [in:] *Polityka gospodarcza Polski w integrującej się Europie 2004- 2005 (Economic policy of Poland in integrating Europe 2004- 2005)*.



Graph 1. Dynamics of GDP growth (constant prices) and value of agri-food turnovers in Poland (in million USD)

Source: authors' elaboration based on the CSO and the FAPA data

In spite of the economic growth, there were no significant changes in unemployment in Poland in 2004. The unemployment rate amounted to 19.1% and in comparison with 20% unemployment the previous year remained the highest among 25 members of the European Union. Such a great number of labour supply allow to keep wages and production costs at a relative low level, enabling Polish goods to have easier access to foreign markets.

Increase of prices of consumer goods and services, in comparison to the previous year (inflation rate amounted to 0.8% in 2003, whereas in 2004 it amounted to 3.5%), was a result of growth in fuel and, energy prices as well as the direct tax and the excise as an effect of adjustment to the European market. Furthermore, there was also increase of agri-food goods' prices as a consequence of demand's growth, because they were cheaper and of good quality in opinion of European consumers.

3. General tendencies in agri-food trade with EU

3.1. EU as a trade partner of Poland

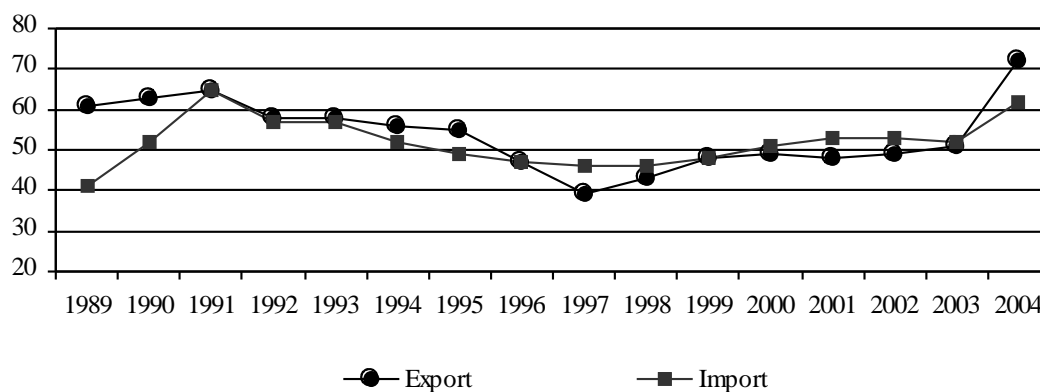
The European Union, from the beginning of the transformation has been the greatest trade partner of Poland in agri-food goods' turnover. In 1989 about 61% of Polish agri-food export landed in the EU market, whereas 41% of the import came from the EU (table 1).

Table 1. Share of the European Union in Polish agri-food goods' trade in 1989- 2003 (in %)

Specification	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Export	61	63	65	58	58	56	55	47	39	43	48	49	48	49	51	72
Import	41	52	65	57	57	52	49	47	46	46	48	51	53	53	52	62

Sources: The FAMMU/ FAPA reports of 1995- 2003.

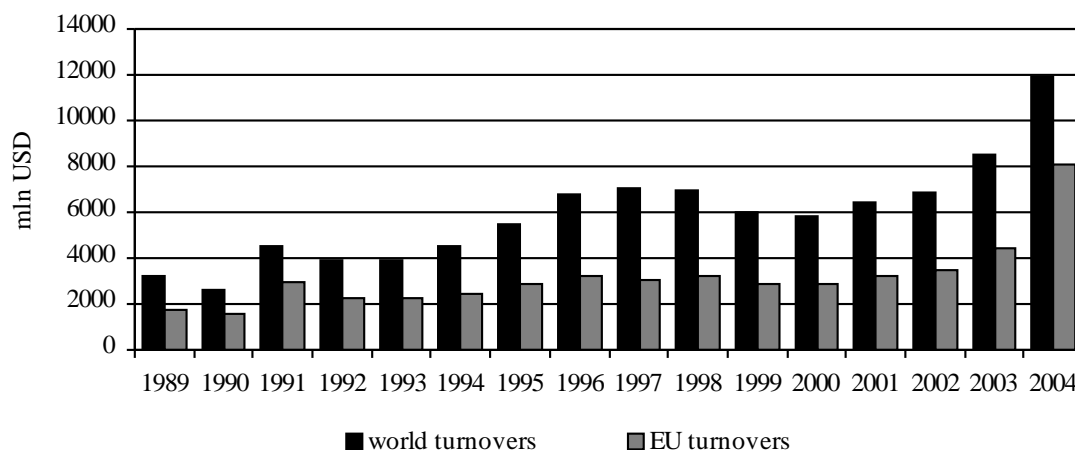
From that point, downward trend of the EU countries share in Polish export and import has been noticeable and from 2000 amounted to about 50% (in 2003 it amounted to 51% in the export and 52% in the import). In 2004 another wave of growth in the EU countries' share in agri-food goods' trade was observed. Such rapid growth, to 72% of the export and 62% of the import related to another enlargement of the European Union with ten new countries, which had been in good trade relations with Poland (apart from Malta and Cyprus) regarding geographical situation and the CEFTA agreement (graph 2).



Graph 2. Share of the European Union in Polish agri-food goods' exchange in 1989- 2004 (in %)

Source: authors' elaboration based on the FAMMU / FAPA data.

Value of agri-food goods' trade turnovers with the European Union and the world has been showing growing tendency from 1989 (graph 3). However, the growth was much greater regarding the EU – more than 4.5 times in 2004 in comparison to 1989, than concerning trade with all countries where it amounted to about three times (2.95). Regarding general agricultural turnovers, there were evident three clear periods: the first one in 1991 (growth in 77 percentage points higher in comparison to the previous year), the second one from 1994 to 1997 and the third one which started in 2000, with significantly high growth by 27 percentage points in 2004 in comparison to 2003. The situation is similar regarding trade with the EU, even though the middle period (1994- 1996) brought a slow recovery in agricultural trade exchange and the third period (2000- 2004) presented considerable growing trend from 2003. The growth, in comparison to the previous year, amounted to 25 percentage points in 2003 and as much as 84 percentage points in 2004. That disadvantageous situation in the middle period was caused by such numerous factors as unfavourable climate conditions, appreciation of PLN, stagnation of the export as a result of increase of the Union duties after implementation of the Final Act of the GATT Uruguay Round, weak economic situation in Europe, especially in Germany and various instruments of common trade and agricultural policies applied by the Union.

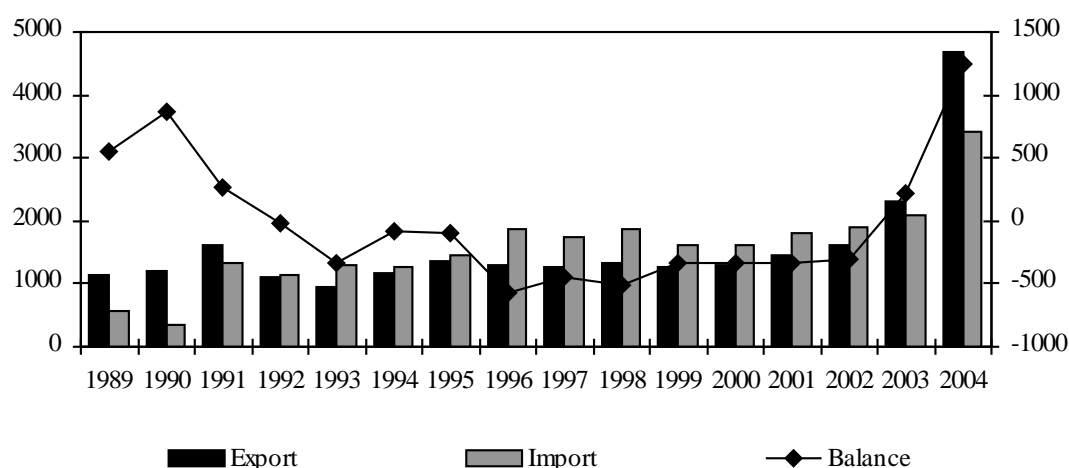


Graph 3. Value of Polish agri- food turnovers with the European Union and world countries in 1989- 2004 (in million USD)

Source: authors' elaboration based on the FAMMU / FAPA data.

3.2. Balance of agri- food trade with EU

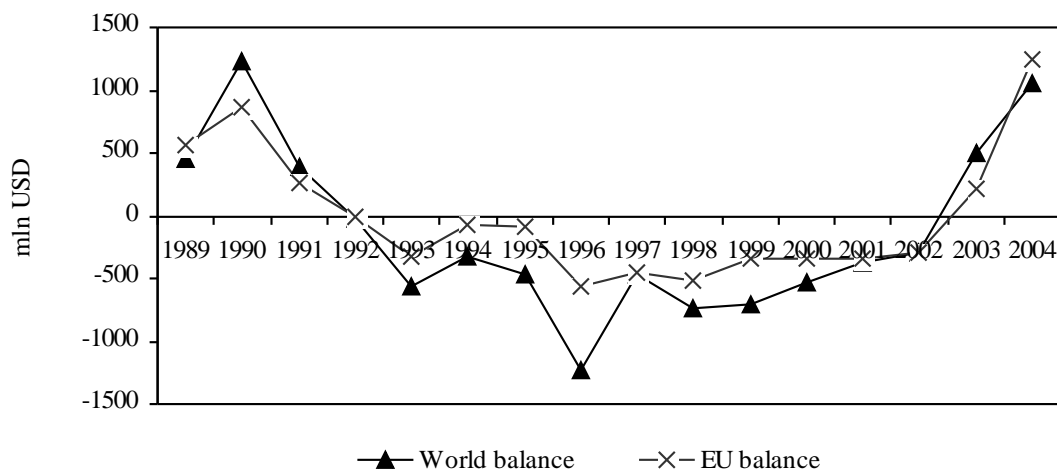
The year of accession of Poland to the EU presented very significant increase of the export value and positive balance in agricultural trade with the Member States. As it has been mentioned above, value of trade turnovers with the European Union has been showing growing tendency from 1989; the growth in the period of 1989- 2004 was much higher for the import (about six times) than the export (over four times). Much stronger increase of the import caused immediately negative balance in the trade balance from 1992. Only 2003 occurred to be advantageous for agri- food goods' trade exchange. After eleven years of negative trade balance with the European Union, Poland got a surplus of 218 million USD. The tendency was also noticeable in agricultural trade with all countries (graph 5).



Graph 4. Value of Polish agri- food turnovers with the European Union countries in 1989- 2004 (in million USD)

Source: authors' elaboration based on the FAMMU / FAPA data.

Both trajectories on the graph 5 are very similar, gaining in 2004 surpluses of 1250 million USD (with the EU) and 1061 million USD (with the world). Balance of trade with EU in the period was a part of world's balance apart of 1989 and 2004, when trade results in agricultural trade with EU occurred to be more beneficial than in the world's trade. It was service of full liberalization of trade with the Union partners as well as considerably low prices of good-quality products in Poland in comparison to the Union market.



Graph 5. Balance of Polish agri-food trade with the European Union and world countries in 1989-2004 (in million USD)

Source: authors' elaboration based on the FAMMU / FAPA data.

Results of agricultural trade with the EU, concerning production branches, show that a reason of such a trade balance during the years was negative balance of plant products' trade. Animal products' trade in the period indicated an advantage of the export over the import. Nevertheless, in 2004 some changes happened – positive balance occurred for the first time in the plant branch with significant increase of the export of oil seed, oil and vegetable fats, sugar and confectionery products.

3.3. Changes in agricultural trade with EU

To sum up, four periods of agri-food turnovers with the EU can be distinguished.

1. 1989-1991 – with positive trade balance, resulting from very low import (it increased rapidly in 1991) and comparatively high value of the export. For the period, average value of the export amounted to 1316 million USD, whereas average value of the import was almost twice lower and amounted to 755 million USD. Average value of trade balance amounted to 561 million USD.
2. 1992-1995 – characterised by downfall of the export in comparison to the previous period – average value of the export in the period amounted to 1152 million USD as well as increase of the import –

average value of the import amounted to 1281 million USD. Due to that, the period is distinguished by trade deficit, which amounted on average to 129 million USD.

3. 1996 –2002 – characterised by the export of gradual, permanent growing tendency as well as much larger import and its tempo of growth, what resulted in significant increase of negative trade balance on average by 276 million USD to a level of 405 million USD.
4. From 2003 – the period is open, due to the fact that it has just started. It is characteristic that the positive balance in agri-food trade was caused by rapid growth in Polish export on the European Union Members States’ markets.

4. Structure of goods

In Polish export structure of goods plant and animal preserves have been dominating for years and in 2004 they amounted to 67% of the whole agricultural export, whereas in the import plants and plant preserves have been leading with 37% and 23% of purchase value (graphs 6 and 7). In 2004 increase of turnovers in all goods’ groups in trade with EU had place (both with the “15” and the new members of the European Union). The greatest growth in Polish export can be seen in groups of substances, animal preserves and plants, whereas the import was growing faster in groups of animals and their preserves.

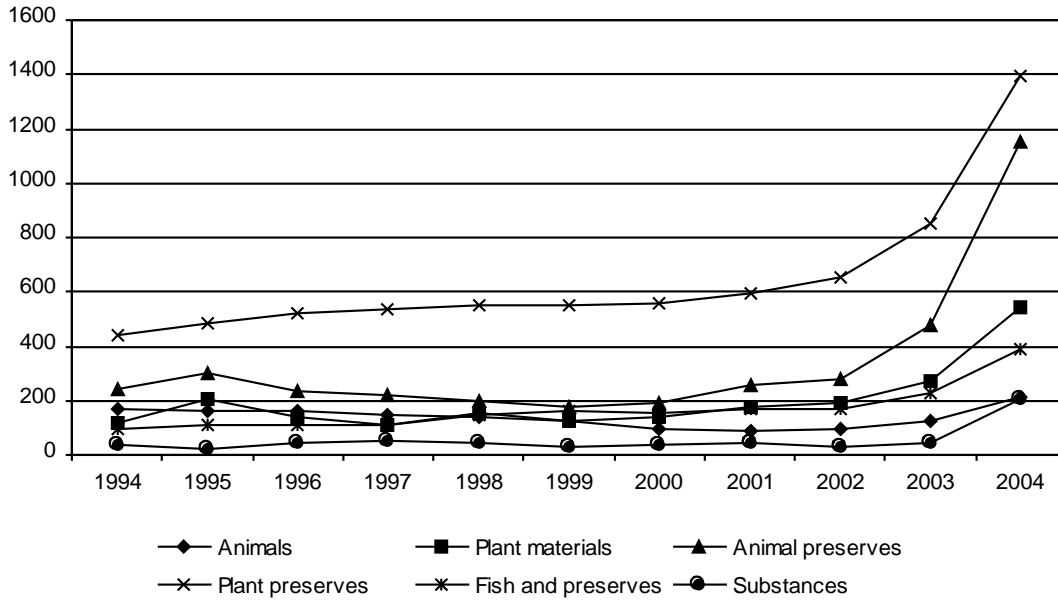
Table 2. Turnovers (in million USD) and dynamics of the agri-food export and import growth to and from the EU, including goods’ groups in 2003 and 2004 (the previous year equals 100)

Specification	Export (in million USD)			Import (in million USD)		
	2003	2004	2004/2003	2003	2004	2004/2003
Animals	126	211	167%	36	82	228%
Plants	268	545	203%	540	807	149%
Animal preserves	477	1153	242%	124	365	294%
Plant preserves	853	1398	164%	609	883	145%
Fish and preserves	230	390	170%	76	134	176%
Substances	45	206	458%	283	450	159%
Other	309	774	250%	423	704	166%
Total	2308	4677	203%	2091	3425	164%

Source: authors’ elaboration based on the FAPA data.

It should be noticed that downfall trend of the animals’ export and stagnation in the substances’ export were overcome in 2004, which was a record-breaking year in trade relations with the EU. Such an high export in 2004, which amounted to 3759 million EUR (in 2003 it amounted to

2637 million EUR) was gained by Poland thanks to high increases⁵ in the following groups of goods: cattle, red meat and giblets, animal fats, milk, cream, ice-cream, butter, cheese and curd, fish and crustaceans, cereals, oil plants' seed, fresh potatoes, fresh fruit, oils and vegetable fats, white sugar, confectionery products, tobacco and products, alcohol and alcoholic beverages.

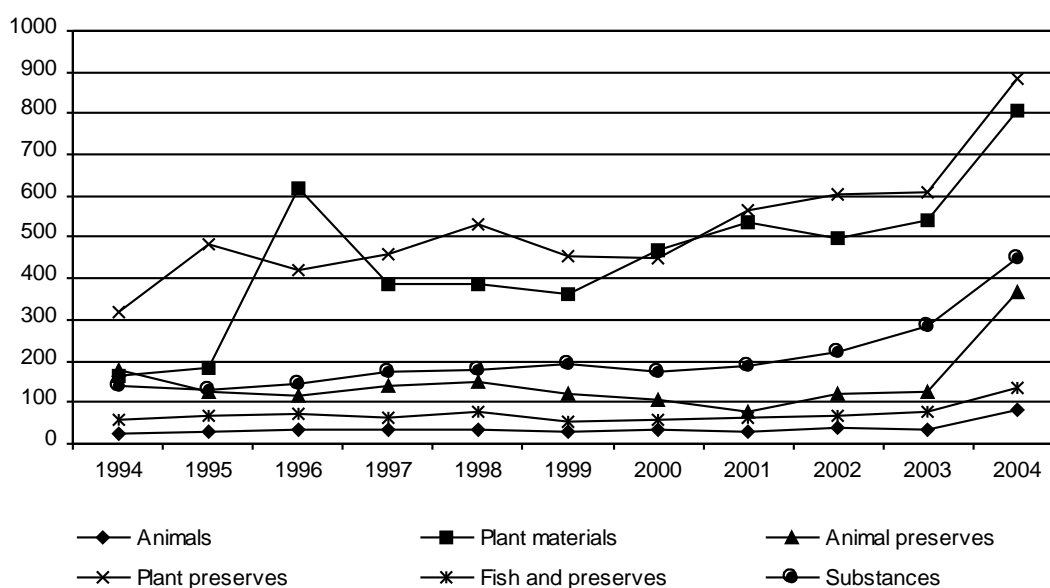


Graph 6. Polish agri-food export from the EU including goods' groups in 1994- 2004 (in million USD)

Source: authors' elaboration based on the FAMMU/ FAPA data.

The import of the value of 2754 million EUR in 2004 increased by 25 percentage points in comparison to the previous year (in 2003 it amounted to 2211 million EUR) in the following groups of goods: cattle, sheep, red meat and giblets, poultry and giblets, animal fats, fish and crustaceans, cereals, fresh potatoes, tobacco and products.

⁵ Dynamics calculated according to value of the export. The situation is different when considering amount of the export, i.e. downfall of animal fats' export from 4 thousand to 3 thousand tones, whereas value of the export increased from 1.2 million EUR in 2003 to 2.2 million EUR in 2004, as well as water and non- alcoholic beverages, which were exported in the amount of 91 thousand tones in 2003 and 83 thousand tones in 2004, and the value increased significantly from 19 million to 62 million EUR.



Graph 7. Polish agri- food import from the EU including goods' groups in 1994- 2004 (in million USD)

Source: authors' elaboration based on the FAMMU/ FAPA data.

In 2004 Poland had negative trade balance in the following groups of goods: fresh fruits (-171 million EUR), oils and vegetable fats (-151 million EUR), coffee, cocoa and tea (-119 million EUR), oil meals and cakes (-109 million EUR), cereals (-99 million EUR), alcohol and alcoholic beverages (-86 million EUR), flowers (-55 million EUR), starch, semolina and malt (-49 million EUR), cereal milling products (-41 million EUR), animal fats (-17 million EUR) and fresh potatoes (-7 million EUR).

5. Trade relations between Poland and the European Union

Process of integration of Poland with the European Union undoubtedly played the essential role in trade exchange with the Member States. After the block of socialist countries (Soviet Union) collapsed, a new direction of cooperation with West Europe became certain and initially had a form of agreements signed with the EEC, later it resulted in trade turnovers' amount. The liberalization process for agro- food products' trade began in 1989, but the main reduction in trade barriers took place when the Association Agreement⁶, signed on December 16th 1991, was validated and the European Union was obliged to ensure greater trade preferences for Poland. Asymmetry in the reduction of trade barriers lasted until 1995. Afterwards, Poland was obliged to systematic liberalization of food import restrictions from the EU countries. After validation of the European Pact, the list of preferential products was changed several

⁶ The European Treaty signed on December 16th 1991 came into effect on February 1st 1994, but its trade part, called the Interim Agreement started to be obligatory on March 1st 1992

times, existing contingents were enhanced, and preferential mechanisms were changed to adjust agricultural trade liberalization consistent with market realities of both sides. However, these changes did not go far enough. Cancelling or commuting instruments of trade policy, but omitting interventionism tools used within agricultural policy lead to unequal rules of competitiveness. Therefore, after more than one-year of negotiations, significant changes concerning agricultural trade were made in September 2000 which validated the January 1st 2001 Agreement called “double zero” option. Within this agreement, import custom duties and export subsidies on non-processed agricultural products were cancelled. It enabled two-way trade of pork, poultry, milk products and wheat as well as vegetables, fruit and juices.

This incomplete liberalization did not allow completion of liberalization of agro-food trade. Enhanced scope of the Double Zero Agreement started to be obligatory from the beginning of 2003, when complete liberalization took over non-competitive foreign products. Duties and restrictions on products vulnerable to competition from imports were to be cancelled selectively⁷.

Complete liberalization and mutual agricultural trade started to be obligatory on May 1st 2004, when Poland became a legal member of the European Union. From that moment, Polish agricultural markets became part of the European common market, and Polish products were exported to the other members without any restrictions with a few exceptions in the milk, meat, fish and poultry industries. These industries have to adjust their standards to the European Union requirements.

To sum up, the most essential events which impacted the value of turnovers and balance in agro-food product trade and exchange between Poland and the European Union were as follows:

1. 1989 – signing of an agreement concerning trade as well as economic and trade co-operation between Poland and European Communities,
2. 1992 – validation of the Interim Agreement concerning trade co-operation,
3. 1995 – Poland became a member of WTO; validation of agreements of GATT Uruguay Round; symmetric and mutual liberalization of agricultural trade,
4. 2001 – the “Double Zero” Partial Agreement,
5. 2003 – the “Double Zero” Enhanced Agreement, and
6. 2004 – Poland became a member of the European Union.

⁷ A. Marszałek: Integracja Europejska (European Integration). PWN, Warsaw 2004, pp.482- 483.

6. Conclusions

Drawing general conclusions, it is important to note the analogy between trade liberalization as well as volume and balance of trade between Poland and the European Union. The trade period studied coincides with the most important dates of recent trade cooperation between Poland and the EU. There was a large increase (and surplus) in trade after the year 1989 until the interim agreement took effect. Next, the European Agreement, established an association between Poland and the European Community members, and created guidelines for trade exchange with countries of the European Union. This led to the creation of a free trade zone. However, it concerned only industrial goods and trade in agricultural products considered “susceptible”, and trade patterns exhibited gradual liberalization according to the rule of asymmetry on behalf of Poland as a weaker trading partner. In spite of this rule, the greatest advantages from the Interim Agreement were achieved by agricultural producers and exporters from the European Union, who as a result of the greater opening of Polish markets gained a new outlet. On the other hand, Polish farmers and traders did not gain access to the European market within the trade quotas and other instruments of trade and agricultural policy applied on a large scale.

The situation improved, when the agreement called “Double Zero” came into effect in 2003, and agricultural trade was liberalized. Next, when Poland became a full member of the EU in May 2004, competitiveness of Polish agricultural products on the European market led to an increase in trade volume, especially on the side of exports. As a result of the accession, a new phase of economic integration was started. Through creation of a common market, which eliminates trade barriers such as customs and export subsidies, Polish farm and food goods have gained greater access to the European market.

With this information concerning trade relationship changes and analyse of trade volume in farm and food goods between Poland and the European Union, the following conclusions can be drawn.

1. Accession of Poland to the EU resulted in implementation of the trade policy that is being delimited by the organs of Commune and limitations of last barriers of trade (the most of the WPH requirements had been implemented before the accession) in forms of non- dumping customs and protection means as well as removal of border control of goods).
2. Severance of mutual cooperation of the ex-Soviet Union caused increase of interest in cooperation with West Europe, what resulted in positive trade balance in 1989- 1991.
3. After the transformation, the European Union has become the most important trade partner of Poland. In 2004, the EU-25 share in agri- food goods’ trade amounted to 72% in export and 62% in import.

4. Until 2003, growth in trade exchange was dictated by increase of the import. Change of the situation took place in 2004, when the export increased by 30 percentage points, whereas the import – by 25 percentage points (calculated in EUR).
5. Analysed period is characterised by systematic liberalization of agricultural trade. As a result of signing the European Agreement, the EU customs were reduced in 80%, but it was not enough to win the EU markets. Although there were asymmetric association agreements, considerable difficulties in Polish export access to West European markets, resulted from other instruments of market protection, the CAP instruments as well as inaccurate trade preferences. Quantity of contingents was defined on the base of high export amount, observed in the first period (1988-1990), which occurred at the beginning of the transformation and rapidly decreased after 1992.
6. When the trade part of the European Agreement took effect in 1992, expectations concerning further increase of export and improvement of trade balance for Poland were not fulfilled. The second and third periods (1992-2002) showed negative trade balance. Despite greater scale of preferences given by the EU, the import from the Union was growing faster than the export, what resulted in deepening negative balance in the third period.
7. Years of 1995-2002 were characterized by significant increase of agricultural import from the EU, as an effect of symmetric mutual liberalization from 1995, when Polish food market became more available for the Union's goods. That unfavourable situation was caused by both internal and external factors, such as unfavourable climate conditions, appreciation of PLN, stagnation of the export as a result of increase of the Union duties after implementation of the Final Act of the GATT Uruguay Round, weak economic situation in Europe, especially in Germany and various instruments of common trade and agricultural policies applied by the Union. The last issue indicates, that in spite of reducing the customs, access to the market can be protected by other instruments, such as sanitary and veterinary requirements, quality norms, complicated administration procedures etc.
8. The last, fourth period shows that if the trade policy applied by the EU was uniform or very similar and provide equal game rules for the both partners, Poland would be able to manage the Union competitiveness and put Polish food products on the EU market. Positive balance in 2004 amounted to 1005 million EUR and was by 579 million EUR greater than in 2003. Moreover, the thesis was also confirmed in 2005, when despite significant strengthening of Polish currency (PLN), the surplus from January to September amounted to 1279 million EUR. Our comparative advantage results from lower prices, healthier food (containing less chemical ingredients) or

better taste, closeness of great and rich German market, flexibility of Polish farms which are able adjust their production structure to the market requirements easier and faster.

9. The goods structure of Polish export has been dominated by plant and animal preserves for years; in 2004 they amounted to 67% of total agricultural export. On the other hand, in Polish import plants and plant preserves has been leading – appropriately 37% and 23% of the purchase value.
10. Improvement of general trade balance is mainly a service of “old” members of the European Union, whereas positive balance in the plant branch resulted from exchange with 9 new Member States.

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