ECONOMICS
& Sociology

Robert Mroczek, Red Meat Sector After Accession of Poland to the EU, *Economics & Sociology*, Vol. 2, No 2, 2009, pp. 69-76.

RED MEAT SECTOR AFTER ACCESSION OF POLAND TO THE EU

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Received: July, 2009
1st Revision: September, 2009
Accepted: November, 2009

ABSTRACT. Common Agricultural Policy (CAP) has a small effect on pork and beef market in Poland in spite of the fact that it has a wide range of instruments at its disposal. Elimination of customs barriers after the accession of Poland to the European Union in May 2004 increased the trade of pork and beef mainly with the Community countries what resulted, first of all, from domination of our prices – in respect of producers as well as of processors. Beef livestock producers were the first who benefited from this situation because the prices of beef after 2004 began to increase and the regress of slaughter cattle management in Poland was inhibited.

JEL Classification: Q1, P2

Keywords: red meat sector, pork and beef producers, European Union, agriculture, processing.

Introduction

Since the moment of entrance of Poland to the EU, we have recorded increase in export of agri-food products from Poland. The entrance of Poland to the EU has opened a new, big market for Polish agri-food products. Customs barriers in trade have disappeared and by this, the conditions of competition between the EU countries have been equalized.

Production of red meat in Poland

Pork is a dominating direction of meat production in Poland; its participation is equal to 55% of this market. Poultry meat production is found on the second place (ca 33%) and beef and veal – on the third place (ca. 12%) (Table 1).

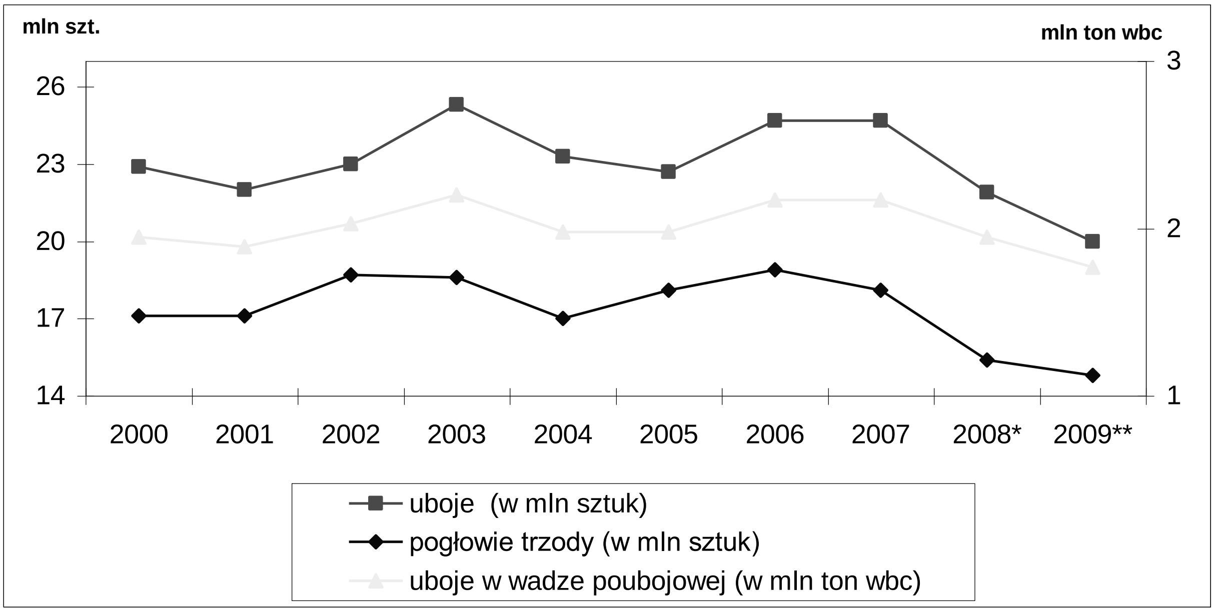
Coverage of Polish agriculture with the Common Agricultural Policy did not eliminate fluctuations in pork livestock production and the employed mechanisms did not prevent a considerable decline of pig number in 2008 and 2009 (Fig.1). High variation of prices and fluctuations in slaughter livestock production are not favourable for processing enterprises.

Table 1. Meat production in Poland in HCW* (in thousand tons)

Specification	2001	2003	2007	2008
Production of livestock in total	2963	3461	3737	3569
including: pigs	1886	2209	2165	1937
cattle and calves	342	355	405	417
poultry	696	859	1116	1165
Industrial slaughters:				
pigs	.	1495	1852	1640[a]
cattle and calves	.	228	348	360[a]
Slaughters of industrial companies				
pigs	751	1033	1221	1120[a]
cattle and calves	133	172	228	245[a]
Slaughters of big and medium-size companies	516	726	951	872
pigs	105	108	147	158
cattle and calves				

* hot carcass weight (after slaughter)
[a] preliminary estimate based on GUS (Main Statistical Office) and IAFE-NRI data
Source: R. Urban "Evaluation of economic condition of poultry, meat and oils industry". Lecture delivered during Conference of the Committee of Agriculture and Agricultural Trade of National Economic Chamber. Warsaw, 21.04. 2009.

Meat industry, as being the greatest receiver of slaughter animals, is interested in raw material with high quality parameters and stable supplies. The integration links between the producers of pigs and slaughter cattle and the meat industry enterprises are not sufficiently developed. It is one of shortcomings, which limits our competitivity on the EU market of meat.



* slaughters according to preliminary estimate of IAFE-NRI, ** prognosis

Figure 1. Pork meat production
Source: as in Table 1.

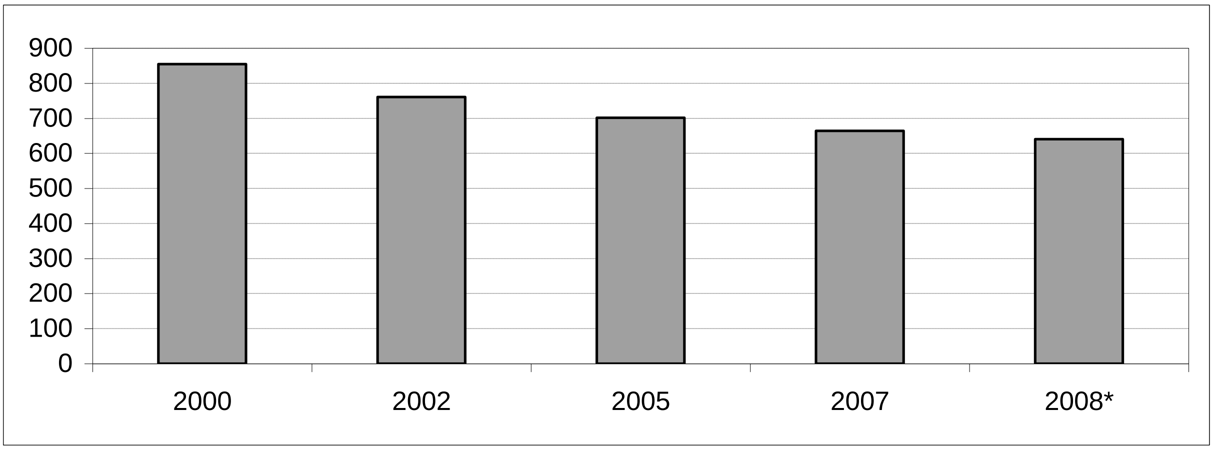
Polish	English
mln szt.	mln heads
mln ton wbc	mln tons in HCW
uboje(w mln sztuk)	slaughters (in mln heads)
pogłowie trzody (w mln sztuk)	pig number (in mln heads)
uboje w wadze poubojowej	slaughters in post slaughter weight (in mln HCW)

From among instruments and mechanisms of the Common Agricultural Policy, stabilizing the EU meat market, the following ones are most frequently employed: protective customs duties and subsidizing of meat export to the third countries[1]. Intervention purchase is conducted only in the specified situations. Recent intervention purchase of pork in the EU had place in a half of the1980-ties. The payments for private storage of pork were also seldom activated.

According to the data of the Main Statistical Office (GUS), the number of pigs in March 2009 in Poland was equal to 13.3 mln heads, i.e. it decreased to the level, being not recorded in our country for 40 years. This big reduction of pig number in 2008 and 2009 was undoubtedly affected by deterioration of pork production profitability in the years 2007 – 2008 due to increasing prices of cereals on the world markets, and of industrial feedstuffs. The disturbance of relations between the purchasing prices of pigs and cereals (feeds) was recorded. In 2007, the ratio of prices between pigs and rye decreased to a very low level of 1:5.3. The situation was not better in the first half of 2008 as it was equal to 1: 4.9. As late as at the end of 2008 and at the beginning of 2009, the situation was considerably improved; the discussed ratio amounted to 1:8.5. It may be, therefore, expected that the farmers will reconstruct their pig herds during the coming two years. Polish zloty, being strong until the half of 2008, was favourable for import of pork from the EU countries to Poland; hence, it was an effective inhibitor, limiting increase of purchasing prices of pork in our country.

Process of concentration of pig production in Poland goes slowly. In 2007, there were 664 thousand farms, which managed pigs, i.e. by almost 200 thousand less than in 2000 (Figure 2).

[1] According to data of Agricultural Market Agency, subsidies paid to pork export in the years 2004-2008 amounted to 104.4 mln PLN and covered 100.6 thousand tons, including 81.0 thousand tons, financed only in 2008. The subsidies were suspended in August 2008 by the Regulation EC/ 795/2008. Export subsidies for beef were found on a similar level and covered 41.0 thousand tons.



* estimate

Figure 2. Pig producers in Poland (in thousand)
Source: Characteristics of agricultural farms in 2000, 2005 and in 2007. GUS, Warsaw 2001, 2006, 2008.

Pig production remains still dispersed, in spite of the fact that pig number increased almost twice in the greatest herds, counting above 200 animals. In 2008, the mentioned herds covered 28.6% of pigs in total and in 2001, it was 15.7%[2] (Figure 3).

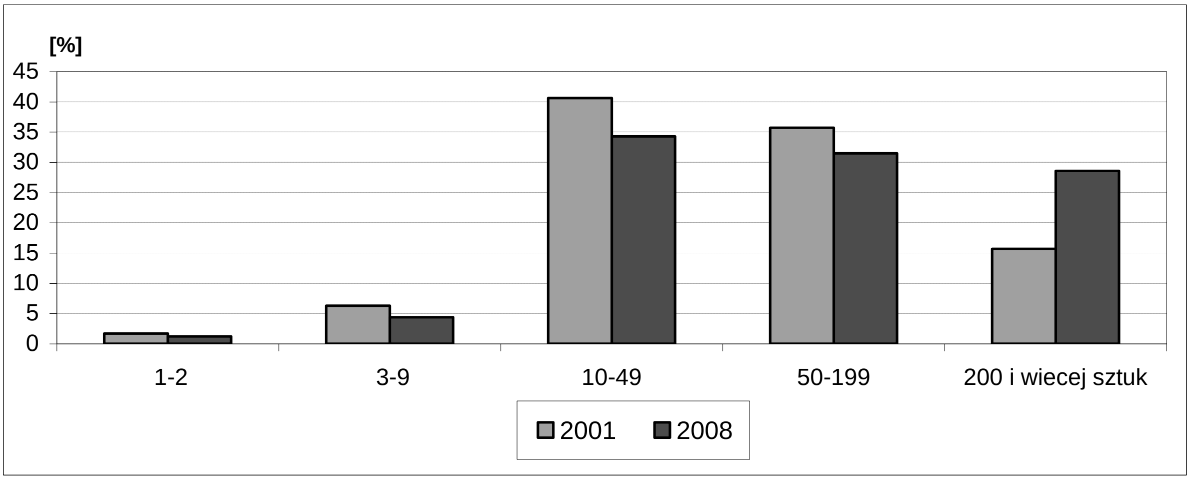
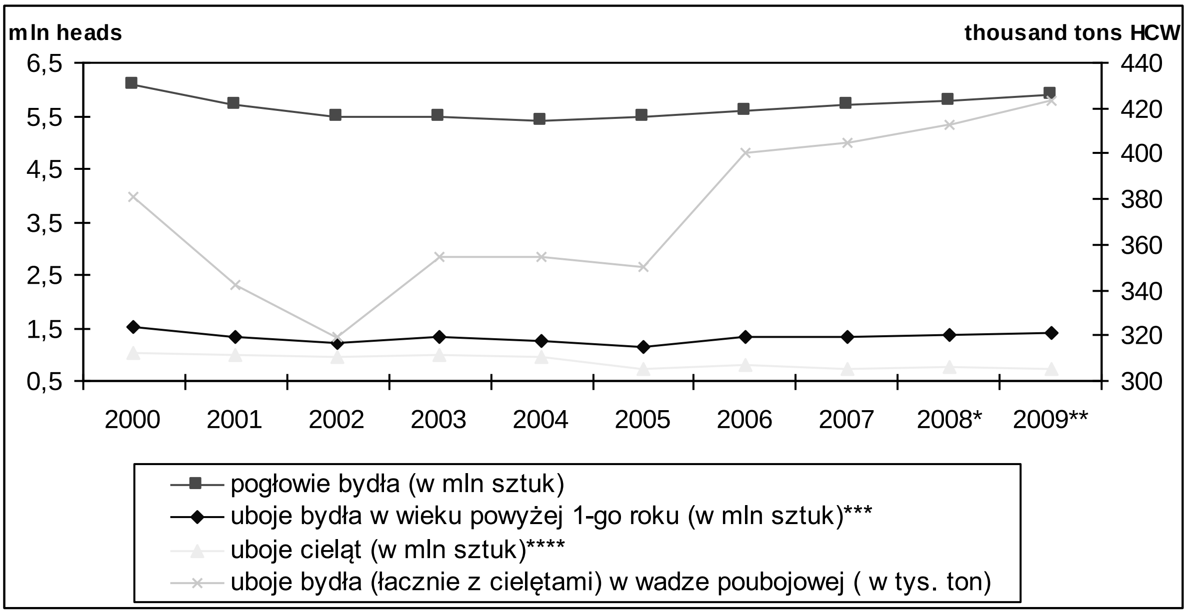


Figure 3. Distribution of pig number according to management scale in 2001 and 2008
Source: Utilization of land, area of sowings and number of farm animals in 2001 and 2008, GUS (Main Statistical Office), Warsaw, 2001, 2008.

Accession of Poland to the EU inhibited the regress in beef production in Poland. In the years 2003 – 2005, the purchase prices of beef livestock increased by ca. 60% and amounted to ca. 4 PLN/kg; they were maintained on the mentioned level during the next three years and during the first four months of 2009, they increased to 4.6 PLN/kg. Production of beef, expressed as hot carcass weight (HCW) in 2006 reached 400 thousand tons (Figure 4). More than half of beef, produced in Poland, is destined for export.

[2] In 2007, pig number amounted to 17.1 mln heads and in 2008 – 15.4 mln heads (state in July).



* slaughters according to preliminary estimate of IAFE-NRI, ** prognosis, *** including export of fattened cattle, ****including export of calves

Figure 4. Beef production
Source: Own elaboration based on GUS data. Rynek mięsa (Meat market), State and Perspectives, no 35, "Market Analyses", 2008.

Polish	English
pogłowie bydła (w mln sztuk)	cattle number (in mln heads)
uboje bydła w wieku powyżej 1-go roku (w mln sztuk)	cattle slaughters at the age above 1 year of life (in mln heads)
uboje cieląt (w mln sztuk)	slaughter of calves (in mln heads)
uboje bydła (łącznie z cielętami) w wadze poubojowej (w tys. ton)	slaughters of cattle (including calves) in post-slaughter weight (in thousand tons)

In 2007, there were 718.3 thousand agricultural farms, dealing with cattle management and breeding in Poland, i.e. less than in 2002. Within the mentioned group, including almost 720 thousand farms, 91.3% possessed cows. In the dairy farms (being specialized in milk production) beef production is most frequently a by-product. Most of the cattle intended for slaughter in Poland derive from dairy breeds and their crossbreds with meat breeds, so the quality of such meat is lower than from meat breeds as it is in France, Great Britain or Italy.

Also, in such situation, the process of production concentration may be observed. In 2001, the smallest cattle herds, i.e. counting 1-2 and 3-9 animals, covered more than a half (52%) of total cattle number and in 2008, it was equal to 26%. During the discussed period, the number of cattle in the greatest herds, i.e. having more than 30 animals, was increased up to almost 41% of total cattle number (in 2001, it amounted to 12.8%). (Fig.5)[3]. The mentioned increase comes greatly from agricultural farms' specialization in milk production and increase of dairy cow herds. We have to remember that milk production in Poland after 2004 is subject to dairy quota system.

[3] In 2001, cattle number was equal to 5.7 mln heads and in 2008 – 5.8 mln heads (state in June).

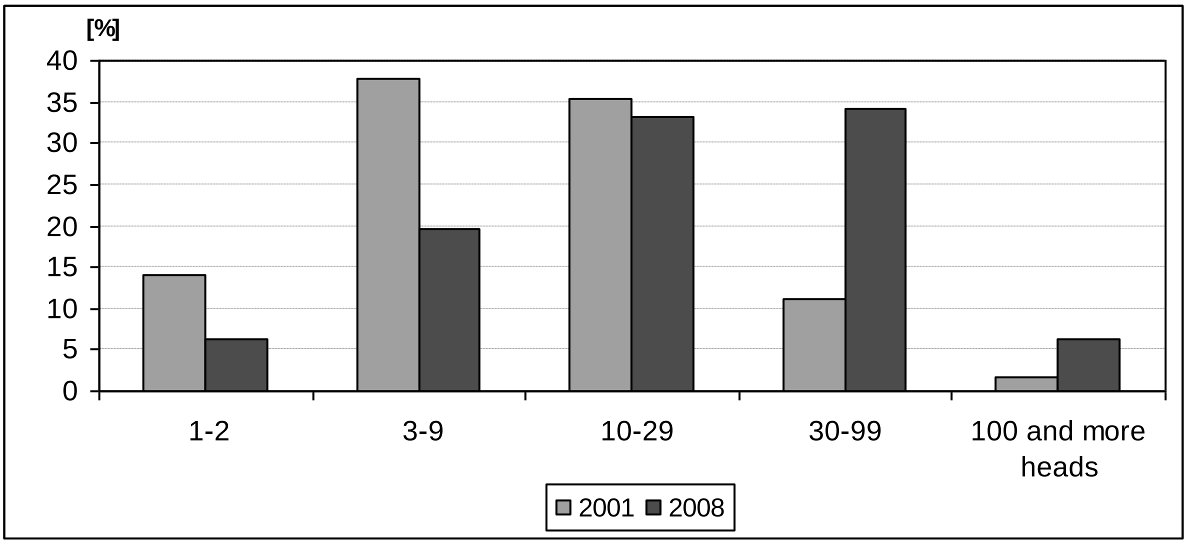


Figure 5. Distribution of cattle number according to management scale in 2001 and 2008
Source: Utilization of land, area of sowing and number of farm animals in 2001 and 2008, GUS, Warsaw, 2001, 2008.

State of adaptation of animal product processing enterprises to the EU standards

In spite of certain earlier announcements, the accession of Poland to the European Union in May 2004 has neither caused any mass bankruptcy of meat processing enterprises in our country, nor brought any flood of food from the West.

At the beginning of 2004, that is, few months before the entrance of Poland to the EU, 101 meat processing plants in Poland had the license for trade with the EU-15, including: 61 entities of the red meat sector and 40 poultry sector enterprises. During the next few years, very significant changes had place in the discussed structure. In the half of 2008, 928 meat industry enterprises possessed a license for trade with the EU (Figure 6).

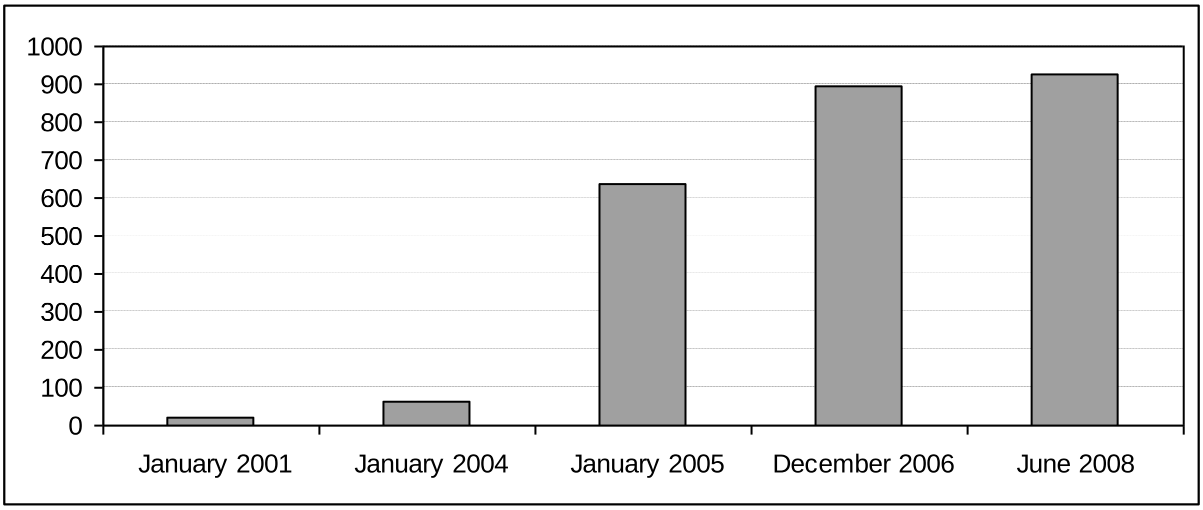


Figure 6. Meat industry enterprise, entitled to trade with the EU countries
Source: Own elaboration based on data of Veterinary Inspection and R. Urban: State of the main food economy sectors after the entrance of Poland to the European Union. Sector of cereals, meat and drinks. Report PW no 25, p.34, IAFE_NRI, Warsaw, 2006.

The greatest dynamics of adaptative processes in red meat processing enterprises occurred in the year of accession to the EU. During 12 months of 2004, the number of meat industry enterprises with export license for sales to the Community market increased 10 times; at the beginning of 2005, there were 638 plants (Figure 6).

Export of red meat and its products

Accession of Poland to the EU meant abolition of customs duties and opening of the borders for trade with the Community countries. The Common European Market is a basic outlet market for Polish agri-food products. 75-80% of our export is directed to the mentioned countries, including ¾ to the EU-15. Germany is the main buyer of our food. In the years 2003 – 2007, the incomes of red meat sector increased by 48% while incomes from export of the products were four times increased. It is an evidence of competitivity of the discussed sector of food industry on the EU market. In 2007, the incomes from export constituted already more than 11% of incomes from the sales of red meat products and they were also maintained on the mentioned level in the first half of 2008, in spite of unfavourable exchange rate of PLN in relation to EUR (Tab.2).

Table 2. Net incomes and export participation in the incomes of red meat sector [a]

Specification	2003	2004	2005	2006	2007	1st half of 2008
Incomes from the sales (in mln PLN)	14498.2	17296.4	18585.8	19983.7	21617.7	11053.7
Participation of export in incomes from the sales (in %)	4.4	5.5	8.2	11.1	11.2	11.6

a – it refers to the companies covered with financial reporting, with employment above 9 persons
Source: Own calculations based on unpublished GUS data

Table 3. Foreign trade of pork and beef

Specification	in thous. tons (in HCW)			in mln EUR		
	2003	2006	2008	2003	2006	2008
Pork						
Export	254.5	383.3	405.1	226.2	581.4	702.2
Import	54.0	181.6	492.2	82.8	319.7	1014.4
Balance	200.5	201.7	-87.1	143.4	261.7	-312.2
Self-dependence (%)	110.0	110.3	95.7	x	x	x
Beef						
Export	92.5	202.9	226.0	166.5	608.0	667.0
Import	5.2	10.1	19.4	2.1	29.4	42.0
Balance	87.3	192.8	206.6	164.4	578.6	625.0
Self-dependence (%)	132.5	193.0	198.2	x	x	x

Source: R. Urban "Economic situation of meat industry". Lecture, being delivered during the National Meat Congress, organized by the Meat and Fat Research Institute, Warsaw, May 14, 2009.

Since the moment of entrance of Poland to the EU, we have recorded increase in export of agri-food products from Poland. In the years 2003 – 2008, our export of food increased by almost 3 times, i.e. from 4.0 billion EUR to ca. 11.3 billion EUR and balance of foreign trade increased from 453.5 mln EUR to 1491.9 mln EUR[4]. During the discussed period, pork export increased three times, reaching value of 700 mln EUR and that one of beef – even more, i.e. 4-times – up to 667 mln EUR. In 2008, due to unfavourable macroeconomic factors, including strong Polish zloty in relation to EUR and growing prices of pork in our country, we have become net importer, instead of net exporter. More than half of beef, produced in Poland, is exported, although we are not considered as the leading producers of this product in the EU (Tab.3).

Summing up

1. The entrance of Poland to the EU has opened a new, big market for Polish agri-food products. Customs barriers in trade have disappeared and by this, the conditions of competition between the EU countries have been equalized.

2. Considerable increase of export of meat and its products from Poland to the EU market after 2004 is an evidence of competitivity of Polish agricultural producers and processing enterprises.

3. Positive balance in turnover of meat and its products with the EU countries results, first of all, from our price domination and quality of the offered products. The mentioned dominations are decreasing due to, *inter alia*, increase of prices of manufacturing factors.

4. Common Agricultural Policy does not have a direct effect on competitivity of meat sector, only affects it indirectly, via stabilization of prices, utilizing first of all, protective customs duties and subsidies for meat export to the third countries.

5. Common Agricultural Policy has not eliminated fluctuations in live pork production, being usually called “swine cycles”.

6. Concentration of pork production is proceeding on because in the years 2001 – 2008, the participation of pig number in the greatest herds (above 200 heads) was twice increased and constituted 28.6% of the total number of pigs; in smaller herds, the discussed percentage was decreased. The number of farms, keeping pigs, decreased from 876 thousand in 2000 to 664 thousand in 2007.

7. After 2004, the number of meat processing enterprises with export license to the enlarged EU market was considerably increased. The discussed companies had to conduct necessary investments in order to meet the EU norms and standards of production.

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