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# THE ASSESSMENT OF COMPETITIVENESS OF POLISH FOOD PRODUCERS

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## Abstract

*The purpose of the work is an assessment of the impact of integration with the EU to the competitiveness of Polish producers of the food on the Community market, as well as on markets of the third countries. The competitiveness of Polish food producers in the study is understood as capacity of national food producers to be situated in foreign markets and the capability of developing the effective export. Polish food producers are competitive on the international market and the measures of the discussed competitiveness after the accession to the European Union have improved and the perspectives are good. The most competitive sectors of Polish food economy include meat sector, and fruit-vegetable, confectionery sector, secondary processing of cereals and manufacture of tobacco products. The so-far existing source of comparative advantages in food sector included first of all lower prices and production costs. A significant role in revealing of the discussed advantaged was played by the adaptive processes of food sector to functioning in the market system and good adaptation of our producers to act of the Common European Market.*

***Key words****: competitiveness, food producers, foreign trade, price advantages*

## Introductory comments

Not very long time ago, the competition concerned mainly regional or national markets and the international competition was strongly limited by geographical factors and institutional barriers, created by the particular states or their groups. The recent years, as distinguished by the phenomenon of accelerated systemic transformation as well as by the development of the processes of globalization and international integration have led to diametric change of the existing situation. At present, the competition is extremely seldom limited to a given country

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or geographical region and almost all economic entities must cope with the strong competition having the international nature.

It is evident therefore that Poland – in order to be a rightful partner of other countries, especially of the EU member states and to be able to develop – must be competitive on the international market. Polish economic entities, including Polish food producers should be also competitive – if they want to achieve success – in relation to enterprises, functioning in the Common European Market as well as on the third markets. Such approach to the problems of competition and competitiveness caused that in the studies, conducted by the IAFE-NRI, the competitiveness of Polish food producers is understood as capacity of national food producers to be situated in foreign markets – on the EU market as well as on the third markets and the capability of developing the effective export.

## Methodology of the studies

When assuming the above definition as the basis, for the needs of the evaluation of international competitiveness of Polish food producers after the accession of Poland to the European Union, the analysis of the results of Polish foreign trade of agri-food products in the years 2004–2009 in comparison with the last year before Poland's accession to the European Union, was carried out. Additionally, the analysis of export orientation index for main sections of food industry was conducted. In further part of elaboration, price advantages of Polish food producers as well as export subsidies were discussed.

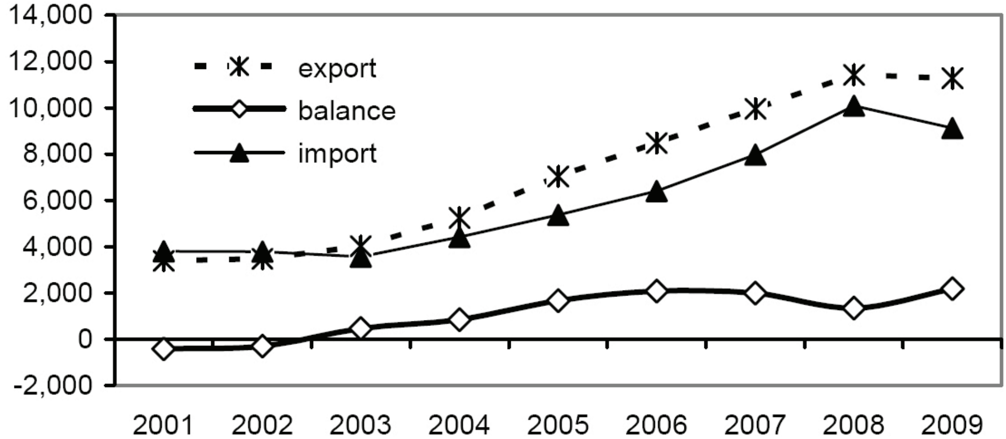
This study is based on statistical data from the National Research Institute of Agricultural and Food Economics, Central Statistical Office, the Ministry of Agriculture and Rural Development, the Ministry of Finances, Analytical Centre of Customs Administration and Agricultural Market Agency, which were used for the analysis of international competitiveness of Polish food producers.

## The results of Polish foreign trade of agri-food products

More than 6 years after the accession of Poland to the European Community, it may be very well visible that the entrance into the CEM (Common European Market) structures occurred to be very favourable for Polish food economy. The results of foreign trade of agri-food products are very good. In spite of different conditions, they support good preparation of the discussed sector to running the activity on CEM and in most of other markets. Food producers successfully utilize competition advantages, having mainly a price nature. A high increase of export of Polish food products has been recorded; it compensated considerably the lower increase of import of the mentioned products. Polish food producers have improved their position in the market of the enlarged EU. Mutual full opening of the markets has become a strong impulse for development of Polish food economy what is confirmed by the results of foreign trade of agri-food products **[3]**.

In the years 2003-2005, value of export of agri-food products increased by more than 75%. Increase of import was slower; it was increased by more than 51% during the discussed period. Such quick export increase was not a single phenomenon, caused by integration impulse. During the subsequent years, the increase of foreign trade exchange of agri-food products was continued. In 2006, export was increased by almost 21% and import – by ca. 19%. In 2007, further development of our trade exchange was recorded but for the first time, the rate of growth of import was higher as compared to export i.e. export was increased by 17% and import by 25%. The mentioned relation was maintained also in 2008 although indicators of dynamics of export and import growth were somewhat lower than in 2007 and amounted to 15% and 26%, respectively. In 2009 export and import decreased, export by 1%, but import by 10%. During six years of Poland's membership in the Community, export of agri-food products was increased almost three times and import – more than 2.5 times **[1]**.

*Figure 1 - Results of Polish foreign trade of agri-food products (in mln EUR)*




*Source: Foreign trade of agri-food products. Market analyses. No 16-31, IAFE-NRI, AMA, MARD, Warsaw 2002-2010 and unpublished data of CAAC. Own elaboration.*

The trade exchange with EU member states was developing quicker than with the third countries. CEM became the dominating market of supply and sale for Polish agri-food sector as early as during the first year after the accession. During the successive years of our membership, the participation of the EU in export of the discussed group of goods was especially quickly growing – from 65% in 2003 to almost 74% in 2005 and as much as 80% in 2007 – 2009. The participation of the EU in import of agri-food products was more stable and amounted to ca. 61-63% in the years 2003-2006; in 2007, it exceeded 67% and in 2008-2009 it approached 70%. The development of trade exchange with the EU countries concerns not only the EU-15 but also the "new" member states. The membership in the EU gave a very strong and unexpected impulse to trade exchange of Polish agri-food products with the EU-10/12. A part of Polish food market, taken over by the foreign producers, including those from the EU, was considerably smaller than the part of the world and the EU market, gained by Polish producers. In effect, balance of foreign trade of agri-food products in the years 2003-2009 was considerably improved: the total one – from 446 to 2 171 mln EUR and with the EU member states – from 451 to 2 746 mln EUR.

*Table 1 - Results of foreign trade of agri-food products*

| Specification | Values in mln EUR | | | | Dynamics (analogical period of the previous year = 100) | | |
|---|---|---|---|---|---|---|---|
| | 2003 | 2005 | 2007 | 2009 | 2005 | 2007 | 2009 |
| Export of agri-food products | 4003.2 | 7028.0 | 9955.1 | 11281.9 | 134.1 | 117.5 | 98.7 |
| includ. to UE-25/27[a] | 2636.2 | 5190.8 | 8001.4 | 9066.2 | 137.3 | 123.4 | 98.3 |
| toUE-15 | 2042.0 | 4063.0 | 5941.2 | 6698.2 | 136.0 | 120.9 | 100.3 |
| to UE-10/12[a] | 594.2 | 1127.8 | 2060.3 | 2368.0 | 142.1 | 131.6 | 93.2 |
| Import of agri-food products | 3556.7 | 5373.5 | 7972.3 | 9111.1 | 121.9 | 124.7 | 90.3 |
| includ. from UE-25/27[a] | 2185.3 | 3388.1 | 5347.4 | 6320.3 | 122.6 | 133.8 | 90.0 |
| fromUE-15 | 1855.1 | 2938.0 | 4484.6 | 5448.9 | 122.6 | 131.3 | 91.0 |
| from UE-10/12[a] | 330.2 | 450.2 | 862.8 | 871.4 | 122.4 | 148.2 | 83.9 |
| Balance of foreign trade of agri-food products | 446.5 | 1654.5 | 1982.8 | 2170.8 | 198.0 | 95.4 | 162.0 |
| includ. with UE-25/27[a] | 450.9 | 1802.7 | 2654.0 | 2745.9 | 177.1 | 106.8 | 125.1 |
| with UE-15 | 186.9 | 1125.0 | 1456.6 | 1249.3 | 189.9 | 97.1 | 180.7 |
| with UE-10/12[a] | 264.0 | 677.7 | 1197.5 | 1496.6 | 159.2 | 121.8 | 99.5 |

[a] up to 2006 – data for UE-25, from 2007 – for UE-27 (for UE-10 and UE-12, respectively)

*Source: Foreign trade of agri-food products. Market analyses. No 21-31, IAFE - NRI, AMA, MARD, Warsaw 2005-2010 [1] and unpublished data of CAAC. Own elaboration.*

Weaker results of foreign trade of agri-food products in 2009 were the effect of accumulation of many phenomena. They include, of course, world economic crisis but also such phenomena as: appreciation of PLN, quickly proceeding up to a half of 2008; decline of the world prices of agri-food products in the second half of 2008 and in 2009 (after their sudden rise in the season 2007/2008) and depletion of export potential of two sectors, covered with quota on production, i.e. dairy and sugar industries. In spite of somewhat worse results, obtained during the recent year, the profits achieved during the first 6 years of Poland's membership in the Community are very high in the field of foreign trade of agri-food products and are the evidence of high competitiveness of our producers. Liquidation of all trade limitations concerning the access to the EU market occurred therefore *per saldo* favourable for Polish food sector.

The increase of export of agri-food products was mainly determined by a high production of these articles in our country, a high maintained demand on Polish food products in the EU countries and non-EU states as well as favourable prices of agri-food products on foreign markets. Such situation was also affected by export subsidies of which Polish entrepreneurs could take an advantage, after the accession, on equal rights with the EU entrepreneurs. Owing to such support, Polish agri-food products could compete, in respect of price, in the markets of the third states [2].

## Role of export in sales of basic sectors of food industry in Poland

The particular sections of Polish food industry are characterized by very high differentiated competitiveness. Analysis of relations of export's value of basic food products and their selling value, as conducted for the years 2003-2009, indicates that especially strong export orientation was recorded for the following branches of food industry: fish processing, potato processing (including starch production), production of fruit and vegetable juices and drinks, and of the remaining fruit-vegetable products, production of feeds for domestic animals, production of stable confectionery baking products, and of chocolate and other sweets, coffee and tea processing and production of condiments. During the successive years of our membership in the European Union, the mentioned sectors of food production maintained, as a rule, or increased participation of export in the sale of their products [2].

*Table 2 - Participation of export in the production sold of food industry in Poland (%)*

| Basic sectors of food industry | 2003 | 2005 | 2007 | 2009 |
|---|---|---|---|---|
| Fish and fish products | 62.2 | 58.3 | 58.1 | 55.9 |
| Starch and potato products | 30.3 | 41.2 | 35.0 | 31.9 |
| Fruit and vegetable juices and drinks | 42.2 | 39.6 | 33.8 | 34.9 |
| Fruit-vegetable products | 40.8 | 34.9 | 38.7 | 44.1 |
| Feed for domestic animals | 20.9 | 38.1 | 23.8 | 14.5 |
| Stable confectionery baking products | 37.2 | 58.0 | 61.3 | 79.7 |
| Cacao, chocolate and other sweets | 31.8 | 28.1 | 32.1 | 41.2 |
| Tea and coffee | 41.1 | 59.6 | 74.9 | 93.5 |
| Condiments | 21.9 | 28.6 | 24.3 | 17.7 |
| Red and poultry meat and their products | 15.0 | 16.2 | 18.4 | 20.4 |
| Oils, margarine and remaining fats | 7.1 | 20.4 | 32.0 | 31.0 |
| Milk and dairy products | 11.7 | 21.9 | 21.5 | 20.3 |
| Sugar | 14.4 | 20.3 | 13.9 | 13.1 |
| Spirit drinks | 10.8 | 15.4 | 11.1 | 16.0 |
| Tobacco and tobacco products | 13.0 | 23.1 | 49.2 | 86.9 |
| Cereal products | 4.9 | 8.6 | 9.4 | 18.0 |
| Cake products | 4.5 | 11.5 | 13.2 | 5.7 |
| Macaroni | 9.8 | 14.6 | 8.3 | 8.6 |
| Wines | 1.3 | 2.5 | 1.9 | 5.3 |
| Beer and malt | 1.4 | 2.4 | 4.3 | 4.2 |
| Non-alcohol products | 3.4 | 11.0 | 10.4 | 8.9 |

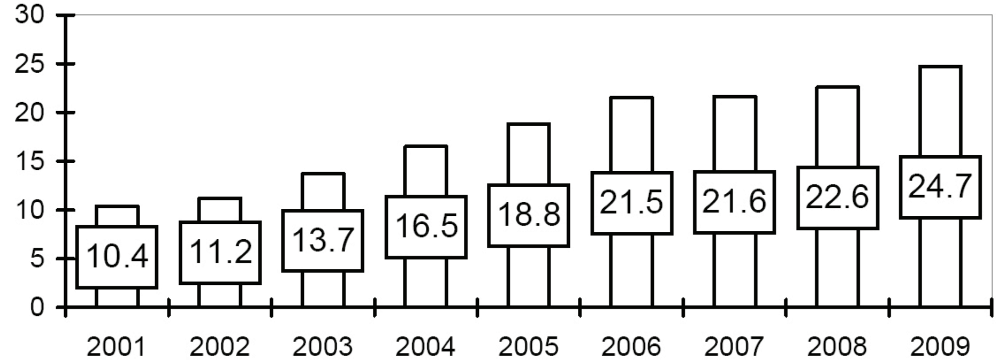
*Source: Unpublished data of GUS and CAAC. Own elaboration.*

Basic sectors of food industry are characterized by export orientation similar to the mean for the whole food industry. They include such sectors of food production as meat processing, production of oils, margarine and the remaining vegetable fats, milk processing and production of sugar, spirit drinks and tobacco products. At the same time, the phenomenon of a meaningful increase of export's participation in sales in a part of the mentioned sectors was recorded in the successive years, what in the future may result in their passage to the groups of sectors with a higher competitiveness.

The following sectors of food industry do not show export orientation features: production of fresh bread, macaroni and cereals products, wine and beer - producing sector and then, also, production of cakes and non-alcohol drinks. However, also in this group of sectors, the phenomenon of growing export orientation was recorded. If the mentioned tendency is maintained, the discussed sectors will also be able to change their place and pass to the group of sectors with the higher competitiveness **[4]**.

The increase of export participation in the sales of the particular sectors of food industry had a direct effect on development of export orientation and competitiveness of the whole Polish food industry. The participation of foreign sale in the total sale of the discussed industry in the years 2003-2007 was increased by almost 8 percentage points. In 2008, almost the whole increase of food industry sale was located in foreign markets and the participation of export in the income form sale of goods and services was increased by one percentage point. In the recent year near 25% of Polish food industry production was found on foreign markets. It is more than twice higher indicator as compared to the period before the entrance of Poland to the EU.

*Figure 2 - Participation of export in the production sold of food industry in Poland, in %*




*Source: Elaboration of R. Urban on the ground of GUS and MARD data.*

Increase of export orientation of the particular food industry sectors and strengthening of the position of our producers on the enlarged European market during the first period of Poland's functioning within the European Community have proved that Polish food producers were well prepared to the membership in the EU and coped perfectly on the mentioned difficult market. The increase of the rating of Polish food producers on the EU would have not occurred if Polish products had not been simply good and relatively cheap, i.e. had not been characterized by a high quality, health safety and taste values and, simultaneously, by a acceptable price.

## Price advantages of Polish food producers

Price advantages represent one of the main sources of the competitiveness of the Polish food sector. Prior to EU accession, those were as follows: ca. 20% in agriculture, ca. 30% in processing and ca. 40% in the case of consumer prices. After joining the EU, Poland retained its advantages, despite a gradual price convergence.

The analysis of the level of and fluctuations in prices for basic agricultural products in Poland and in the European Union in 2004–2009 demonstrated that (Table 3):

– price movements in the domestic market were very similar to those observed in other EU Member States. They tended to follow the same patterns, but their dynamics (both downward and upward) were usually higher in Poland than the European Union average;
– Polish producers of basic agricultural products enjoyed greater price advantages in comparison with their counterparts in the EU-15, and lower than producers in the new Member States;
– in terms of type of production, the level of price competitiveness is higher in markets related to livestock production than in those connected with crop production.

For the time being, it is impossible to establish whether regained comparative advantages of Polish producers are permanent. The slow appreciation of the zloty observed from July 2009 could again undermine Poland's competitive position in the common European market in the future. The lack of distinct price differences between Poland and the Community as well as considerable dependence of comparative advantages on the exchange rate should force domestic producers to seek and make better use of non-price factors influencing the competitive position in the common European market [4].

*Table 3 - Comparison of prices for basic agricultural products in Poland and in the EU-25/27 (EU-25/27 = 100)*

| Product | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Wheat for human consumption | 93.5 | 87.3 | 97.8 | 98.8 | 101.4 | 90.8 |
| Barley for animal feed | 90.1 | 87.0 | 89.2 | 94.9 | 100.7 | 87.4 |
| Maize for animal feed | 98.4 | 88.9 | 94.8 | 96.6 | 101.4 | 98.5 |
| Pigmeat | 102.1 | 95.6 | 88.9 | 95.0 | 103.3 | 101.1 |
| Piglets | 93.5 | 87.3 | 97.8 | 98.8 | 101.4 | 90.8 |
| Beef | 90.1 | 87.0 | 89.2 | 94.9 | 100.7 | 87.4 |
| Milk | 98.4 | 88.9 | 94.8 | 96.6 | 101.4 | 98.5 |
| Poultrymeat | 102.1 | 95.6 | 88.9 | 95.0 | 103.3 | 101.1 |
| Eggs for human consumption | 93.5 | 87.3 | 97.8 | 98.8 | 101.4 | 90.8 |

*Source: own study based on Ministry of Agriculture and Rural Development data.*

## Export subsidies

The accession of Poland to the European Community gave the possibility of utilizing the CAP mechanisms by the Polish entrepreneurs and tradesmen on the same conditions and principles as the EU businessmen and by this, of refunds to export of certain agricultural products. During the moment of Poland's accession to the EU, i.e. on the 1st day of May 2004, the European Commission used refunds to export of most of agro-food products under the strategic sectors, covered with the common market organizations, i.e. beef and veal, processed pork, poultry and eggs, milk and dairy products, cereals (potato starch), sugar, Non-Annex-I processed products and fresh fruit and vegetables. Year by year, the level of refunding rates for certain agro-food products was subject to changes, mainly to lowering or suspension to zero what affected the decrease of interest in participation in the discussed mechanism by Polish entrepreneurs. At present, they exist only in export of certain agro-alimentary products to third countries, i.e. beef, pork, poultry and eggs. The sum of refunds, paid by Poland in 2004-2009 in the amount of about 500 million EUR constituted 4% of the total sum of refunds, paid from the EU budget in this period (8 position from the EU-27) [2].

## Final remarks

The submitted results of analyses indicate univocally that Polish food producers are competitive on the international market and the measures of the discussed competitiveness after the entrance to the European Union have improved and the perspectives are good. The competitiveness of food sector is higher on the level of processing as compared to the level of agriculture. We obtain also the comparative advances in the direction of processing which are based on imported raw materials.

The most competitive sectors of Polish food economy include meat sector, and fruit-vegetable, confectionery sector, secondary processing of cereals and manufacture of tobacco products. We do not possess the univocal evaluation of the dairy industry which has reached a high dynamics of turnovers and a high positive balance of exchange but, simultaneously, it is threatened by a loss of comparative advantages. The sectors with a low competitiveness include production of cereals and cereal products, oils, feed sector and alcoholic drinks.

The so-far existing source of comparative advantages in food sector included first of all lower prices and production costs (labour, land, energy, etc.) the mentioned advantages were revealed on the open European market at the moment of abolishment of barriers to the entrance of our agri-food products to the EU market. A significant role in revealing of the discussed advantaged was played by the adaptive processes of food sector to functioning in the market system and good adaptation of our producers to act of the Common European Market.

The phenomena which have been observed since a half of 2008 (*inter alia*, weaker results of foreign trade of agri-food products) indicate that Polish food economy as affected by global phenomena has lost its high developmental dynamics but still defends quite effectively against recession and economic crisis. The discussed sector has still remained competitive. The situation is very unstable and unpredictable but the type of the satisfied needs causes that a risk of crisis in agri-food sector is smaller than in other sectors of Polish economy. It is also important that in spite of a deep recession in the countries which are the main receivers of Polish food, a weak national currency allows implementing the relatively high Polish export of food and inhibits the increasing tendencies of food import. In consequence, it allows Polish producers to maintain their competition advantages and preserve a high position of our agri-food products on the world market.

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