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Poland

Sugar

New Sugar Law

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Report Highlights:
Responding to pressure from the industry and farmers, the Polish Parliament passed a new sugar law. The new sugar legislation defines maximum sugar production limits and production quotas and provides for the establishment of a national sugar company, Polska Spolka Cukrowa (Polish Sugar Holding Company), which will incorporate sugar companies that have not yet been privatized. The Council of Ministers will set the minimum price of sugar and sugar beets. The bill is expected to bring greater predictability and profitability to the industry and farmers.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Warsaw [PL1], PL

New Law

On April 11, 2001 the Polish Parliament approved a new sugar law in Poland. The new sugar law, pending approval by the Senate and President, will replace the 1994 Sugar Law. Major changes resulting from the new law are as follows:

- Increase in Quota A. Sugar produced for the domestic market use will total almost 1.6 million tons of white sugar. Under the current 1994 law, Quota A is determined each year. For the MY 2001/02, it was set at 1.54 million tons;

- Definitional Change in Quota B. Quota B sugar now is defined as that produced for stocks. In the old law, Quota B referred to production for subsidized sugar exports. Quota B will be set by the Council of Ministers, and will not be allowed to enter the domestic market, unless there is a production disaster;

- Division of Quota A. The Agricultural Minister will split Quota A production only once. It will be divided among companies now in the market and calculated on the last 3-year average production level. Under the old law, the companies' individual production quotas were calculated annually;

- Creation of Polska Spolka Cukrowa (PSC). The company will be created from all unsold sugar companies. Sugar beet producers and sugar refineries workers will have the majority of shares. Currently, there are 33 unsold refineries. In additon, there are 16 which were provisionally contracted to the French-owned Saint Louis Sucre (SLC).

Polska Spolka Cukrowa (Polish Sugar Holding Company), PSC

The new law states that PSC will be created from companies which are not privatized at the time that the new law become effective. There are currently 49 sugar companies fully-owned by the State Treasury. Until official enactment of the law, some of these companies can still be sold. This means that some refineries still may be sold to other investors. This would result in fewer refineries being consolidated to form PSC. The GOP originally expected that PSC would be created from only 28 refineries.

However, farmers' trade unions and organizations have asked the Prime Minister that all mills, as yet unprivatized, be included in the national company, and that the State Treasury keep the remaining stakes that it holds in mills partly-owned by foreign investors. They propose that the government withdraw from signed "promise contracts" for selling 16 plants within Silesia. The Silesia Sugar Holdings are under contract to the SLC. Farmers and refinery workers want these plants to be included in PSC, as well. If the government concurs, PSC would consist of 49 refineries and represent 44 - 65 percent share of the market. (Market share depends on whether 33 or 49 refineries would be incorporated into PSC.)

The largest potential investor is SLC, which has signed a preliminary contract with the State Treasury for the acquisition of 16 Silesian mills. The acquisition now has been blocked by the Internal Affairs Ministry. SLC has filed a complaint in the Supreme Court. If the contract is not finalized by mid-May, the preliminary contract can be annulled.

Arbitration Court

The Prime Minister will establish an Arbitration Court for four years to set the rules of co-operation between the sugar mills and sugar beet producers and to resolve disputes between farmers and the processing industry on contracts and regulations. The Court will advise the Council of Ministers and the Minister of Agriculture on the minimum sugar beet price, minimum sugar price and production quota distribution. The minimum sugar price and beet price will be set by the Council of Ministers. Production quotas will be determined by the Minister of Agriculture.

Critical Comments

Some of the potential pitfalls that some see in the current proposal are as follows:

The new law replaces the current contracting process with a more structured system. Under the old law, sugar companies could contract with any farmer that they wished to. The new law requires the sugar companies to purchase sugar beets from farmers in the region. The farmers will be given options to sell a specific quantity of their produce to the companies. These options to sell are owned by the farmer and can be sold to other farmers or passed on to their heirs. Eventually, it will be possible to exchange the options for shares in the company. Producers' ownership of these options, in practice - production quotas, has been widely criticized by the Sugar Refineries Association, also known as the Sugar Economy Chamber.

The Sugar Economy Chamber also criticized the fact that the new law does not consider storage costs for sugar. Unlike most of the EU, costs of storage are very high in Poland because of high interest rates. Storage costs significantly erode companies' profits.

Further, one professor at the Institute of Agricultural Economics predicts that PSC may have problems in generating capital as the economic situation of sugar farmers in Poland is rather weak.

Also, the new Sugar Law establishes a level for Quota B sugar lower than that already negotiated. During EU negotiations, the Poles proposed that Quota B be set at 15 percent of the sugar for domestic needs. However, the new law does not provide for even this level. It only states that the quota will be established by the Minister of Agriculture. Currently, Quota B represents only about 7 percent of sugar produced for the domestic market.

Conclusion

Without more precise details of the new legislation, a complete analysis of the total impact of the new law is not possible. Nevertheless, it is clear that the sugar market in Poland will be markedly more regulated as a result of the new legislation and the establishment of the new company, PSC.

Advocates claim that the legislation does not regulate the market Polish sugar market to any greater degree than do the EU and US' existing sugar regimes. One Solidarity Elections Action (AWS) Parliament member predicted that the New Sugar Law will assure around 10 percent profitability for the industry. He maintainains that this will allow the industry to restructure and generate income for local governments. It also will assure that local market demand for sugar can be met adequately from local production, with no need for additional imports.

Others, however, have expressed surprise in the legislation's approval. To many observers, it appears that the Polish Parliament, rather than support and promote a competitive market, is going backward by creating a fairly strictly regulated market, for which consumers will be the first to pay. The move is additionally puzzling to some, who did not see profits for either the sugar industry or farmers improving measurably under the new law.