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WORKING PARTY ON THE RENEGOTIATION OF THE TERMS OF ACCESSION OF POLAND

Additional information on Poland's agricultural system and on domestic production and trade régime in alcoholic beverages and tobacco products provided by the Delegation of Poland, for the information of the members of the Working Party, is reproduced hereafter.

RECENT DEVELOPMENTS IN POLISH AGRICULTURE

This information is provided by Poland at the request of members of the Working Party on the Renegotiation of the Terms of Accession of Poland to the General Agreement. It does not purport to be a comprehensive description of the agricultural sector of the country, but is merely intended to address specific points of interest raised by the Working Party and not covered in the earlier submissions by Poland.

Basic structural features and ownership transformations

The Polish rural sector is of major importance to the social and economic equilibrium of the country. Its population (15 million) accounts for about 40 per cent of Poland's total and provides about 28 per cent of the work-force, although only a fifth of the actively farming population derive their income exclusively from farming, the rest supplementing their income with outside activities or working as part-time farmers. According to the 1990 data Poland depends on agriculture for about 80 per cent of its food consumption, some 20 per cent of industrial output and approximately 12 per cent of GDP. The average farm size is six hectares. The sector has traditionally been heavily dominated by private owners and operators (75 per cent of area and 85 per cent of the active agricultural population), while the on-going changes in the political and economic régime of the country promise to increase these indicators even further.

Until recent years, the agricultural sector in Poland was essentially inward-looking. Agricultural policy was based on notions of income parity with the urban sector and on food self-sufficiency. This policy was implemented through administered prices, subsidies and trade controls. The result was a highly distorted sector that was unable to realize its economic advantage.

The present market-based economic and social reforms have already removed, or at least substantially alleviated, some of the root causes of this situation, by lifting price and trade controls, encouraging further

privatization and consolidation of land holdings, and eliminating trade-distorting subsidies. A rapid development of the private commercial sector, now by far dominant in the economy, has provided essential support to this process, by making farmers more directly exposed, and responsive, to the realities of the market.

This structural adjustment is still obviously at its difficult initial stage, but is expected to improve the efficiency of the sector so as to secure 3 to 4 per cent annual output gains over the next few years, both for domestic and external markets. The transition should be facilitated by certain positive characteristics: the private farm sector is large and has deep-rooted traditions; Polish farmers have consistently demonstrated their resilience and survival abilities, essential ingredients for future entrepreneurs and there is a substantially developed farm infrastructure with a sizeable network of extensions services.

Sustained, long-term development of the agricultural sector depends largely on the elimination of a number of structural rigidities. Some of the most fundamental, such as the inadequate and often inefficient food processing industry, reside outside the farming sector itself. Therefore the reform programme gives the necessary recognition to the fact that such areas as product marketing and processing, transport, services and input supply, should be further de-monopolized and privatized as a matter of urgency.

One specific problem which needs to be addressed in this context, is the rôle and economic position of State farms. There are about 1,300 such entities, consisting of some 5,000 enterprises with 3.5 million hectares of land and providing employment to nearly half a million people. State farms claim about a quarter of agricultural output and exports and nearly a third of all agricultural sales. Although they may have better yields than private farms, due to a more intensive capital endowment, their overall efficiency of use of production factors is below that of the private farming. As suggested by an international group of experts, State farms cannot easily be transformed into smaller (and preferably private) units, without a major temporary loss of efficiency, dislocation of rural population and a significant depression of land prices. The reduction of State-owned farming should therefore be a gradual process, well correlated with the development of a land market and related institutions. (cf. An Agricultural Strategy for Poland: Report of the Polish-European Community-World Bank Task Force, July 1990)

One step already taken in this direction is the establishment of the Agency of Treasury-owned Property in Agriculture, which is a specialized organization managing actively Treasury-owned assets concentrated in the farming sector and used for agricultural purposes (restructuring and privatization of agricultural land, transactions in real estate, property management, etc.)

As already mentioned, one of the most essential structural problems facing the Polish agricultural sector is the insufficient compatibility between the dominantly private farming and the essentially non-private processing, which until now has been mostly owned by the State and

co-operatives. The same observation applies to marketing above retail level (the latter now clearly dominated by private traders). The recognition of these facts is well reflected in the priorities of the on-going privatization programmes. Some progress has already been achieved with regard to the development of marketing infrastructure and institutions, the main objective being to establish a comprehensive market and information service and rational spot, forward and futures market exchanges throughout the food chain.

By the end of 1991, thirty-four major State-owned food processing firms had begun privatization procedures with a view to eventually becoming private equity stock companies. This group includes ten meat processing plants, eight breweries, and five suppliers of agricultural extension services. Another group of eighty-two enterprises, including several sugar mills, farms and servicing units, had been put up for direct sale.

Government intervention

However, even without being a major direct operator in the agri-business, the State will need to intervene in market regulation. The interventions and protection granted by OECD countries to their farming are often given as examples for Poland. Since the non-agricultural sectors cannot generate value-added surplus on a scale which would sustain substantial transfers to agriculture, nearly all major financial support programmes have been discontinued and are quite unlikely to be reactivated. This policy is also based on the recognition of the emerging, new international disciplines related to domestic and export support, including those foreseen in the Uruguay Round package. Nevertheless, Poland will need to establish a system to limit excessive fluctuations in domestic prices principally for grains, poultry, pigs and dairy products. The main elements of such a system are presently being designed by the government.

The principal tasks of market intervention are entrusted to the Agricultural Market Agency (AMA), which was established in 1990 as a government-chartered institution, partially financed from the national budget. The major responsibilities of the Agency are the following:

- to engage in purchases (including imports) and sales of unprocessed and processed agricultural products for the national food reserves;

- to stabilize the domestic agricultural sector through the purchases of surplus production for subsequent commercial resales at home and abroad;

- to offer credit guarantees for entities operating in the agricultural sector;

- to analyse agricultural markets at home and abroad and to forecast their future development;

- to advise the government on the situation of the agricultural market and to propose adequate intervention, as necessary.

The interventions of the Agency may include the following products: main cereals (wheat, rye and barley), sugar, potato starch, flax fibre, slaughtered pigs, pork half carcasses, butter, honey and raw sheep wool. Due to the limited financial resources, the Agency's activities are relatively restrained and the typical price intervention is designed to prevent price increases rather than price decline.

The last observation may be supported by examples related to cereals. The AMA buying operations in the cereals market are normally based on predetermined prices established as a result of supply and demand projections. The actual production costs in the grains sector are not considered for the purpose of establishing such benchmarks. Consequently, the intervention prices are not designed to secure a specific level of profitability or even any profitability at all. In fact one of their major functions is to stabilize the underlying price trends in the market and to serve as another instrument of anti-inflationary policies. This point may be highlighted by the fact that in all major operations of this type conducted in the 1990/91 and 1991/92 seasons, intervention prices accepted by the AMA for grains ranged from 80.4 per cent to 94.8 per cent of the average free-market prices paid to producers. In only one case (wheat purchases in the 1991/92 season) intervention prices reached 103.4 per cent of the market level.

The President of the Agency is nominated by the Prime Minister, and assisted by a consultative and advisory body, composed of representatives of farmers' organizations, producers engaged in agriculture and food processing, trade and consumer organizations, and principally interested government ministries.

The AMA has seven regional agencies for agricultural marketing. It is partially funded from the State budget, with annual appropriations determined in the budget law. The remaining financing comes from commercial operations conducted by the Agency.

In 1991, the disbursements of the AMA for market intervention totalled 1,900 billion zlote (about $165 million at the average exchange rate of mid-1991). Additionally, 400 billion zlote ($35 million) was used for the replenishment of the national food reserves.

The activities of the AMA may be usefully exemplified by reference to its major operations conducted in the fourth quarter of 1991. The Agency purchased almost 800,000 tons of wheat and nearly 9,000 tons of bovine meat under its price-stabilization programmes. It imported 4,000 tons of butter and released 5,000 tons of butter from its stocks for the domestic market. Advance payments had been made to the sugar industry for 135,000 tons of sugar to be delivered under options extending into late 1992. The AMA purchased 10,000 tons of potato starch for exports. It also extended credit guarantees to several potato-processing plants and sugar mills to assist them in contracting domestic supplies of potatoes and sugar beets to be used as production inputs.

For 1992 the AMA applied to the government for budget allocation of 3,100 billion zlote ($270 million) to be used for its statutory activities as described above.

A new form of market intervention, authorized by the Government since the second quarter of 1992, are the minimum reference prices for wheat, rye and milk. The reference benchmark, negotiated between the AMA and producers' organizations, is to be based on several criteria, including domestic costs of production, import prices and forecasts of domestic price developments. The intervention will consist of purchases of the respective product by the AMA, whenever the domestic price tends to fall below the minimum reference level. Therefore the criteria for establishing the trigger price include also the availability of financial resources which may be committed to such operations.

For the year 1992, the total amount of government-authorized budgetary allocations to the programme was initially set at 2,000 billion zlote (about $150 million) but this figure may be revised as appropriate, depending on the state of the budget and the projected trends in free-market prices.

Pricing

All price controls with regard to agricultural commodities and processed food have been lifted, both in the domestic market and in the foreign trade sector. In fact, the liberalization of food prices was one of the essential starting points of the economic reform and a major contributor to the establishment of market equilibrium. After a strong, initial inflationary impact of the free-pricing policy in the years 1989-1990, food prices have stabilized and are no longer a major pace-setter of whatever inflationary pressures still remain in the economy.

Public support

Another major systemic development in Poland has been a radical departure from what used to be a widespread State support to agriculture and food processing, granted in the form of producer and price subsidies and export aids.

According to some unofficial estimates, in the years 1986-1989, immediately preceding the reform, food subsidies ranged between 3.4 to 4.8 per cent of the GDP, depending on the year, while the total domestic public support to agriculture had reached 5 to 6 per cent of the GDP. Consequently, during the late 1980s producer prices for wheat exceeded equivalent border prices by 10 to 30 per cent. For milk, the relevant figures ranged from 24 to 50 per cent. The support through output prices was supplemented by input subsidies for fertilizers, pesticides and animal feed. In addition, subsidized credit and export subsidies were granted, the latter sometimes up to half the value of the goods exported. The speed with which these practices were subsequently curtailed by the reform is perhaps best illustrated by the fact that between 1989 and 1990 food subsidies fell from almost 4 per cent of GDP to less than 0.2 per cent, while input subsidies decreased from 1.3 to 0.3 per cent of GDP (cf. Agricultural Strategy for Poland, op.cit.).

The few remaining support programmes include: subsidies to finance research and development of new varieties of potato (70 to 100 per cent of

material costs); partial funding of potato disease and pest control; concessionary credits for agricultural extension services and for seeds, breeding material and agricultural chemicals (the subsidy element may equal up to 0.7 per cent of the discount rate). Another type of public support measure involves preferential loans and credits granted to farmers who enlarge their land holdings, set up new farms or undertake the production of healthy food in ecologically disadvantaged regions of the country. Such programmes engaged in 1991 public funding valued at about 3,000 billion zlote (approximately $272 million at the mid-year exchange rate).

External trade

In 1991, Poland's agro-food exports accounted for 17 per cent of total exports and continued to grow in relative importance as one of the major segments of foreign trade, although their share in the total agriculture production is rather small: about 10 per cent in recent years. Trade dislocations caused by the collapse of the CMEA trading system and the continuing restraints in access to some of the other major markets are the two essential factors which negatively influence the short and medium-term prospects of external sales.

Trade figures for 1991 were approximately $2.5 billion in exports and $2 billion in imports. In both flows of trade the EEC partners have a clearly dominant position, with approximately 65 per cent of the total turnover in agricultural commodities and processed food.

Under conditions of a liberal trade régime, imports recorded in 1991 a dramatic increase, their current value nearly twice as high as in 1990. The main product categories are fruits, vegetable oils, meat and tobacco products. Among themselves, they constitute over 40 per cent of the total purchases abroad, in roughly equal proportions. The expansion of imports was spearheaded by processed food, which accounted for 77 per cent of the total. In contrast, exports virtually stagnated, with only 4.4 per cent growth of their current value, while the commodity structure continued to shift towards unprocessed goods. This fact again reflects the relative weakness of the processing chain, to which a reference was made when describing the general situation of Polish agriculture.

It is particularly in international agricultural commerce that the expansion of private traders has been remarkably swift. In 1991 private firms claimed about 45 per cent of exports and as much as 76 per cent of total imports. Their dominant position has thus been clearly established in all major agricultural commodity markets. The only exception to this pattern are cereals, where a State-owned company is still the main operator, but where the volume of business is declining rapidly, as Poland moves to the position of virtual self-sufficiency, except hard-winter wheat and high-protein feed grains. The speed and significance of this process can be fully appreciated if one remembers that as late as in 1989 the State-owned trading organizations handled about 77 per cent of all foreign trade in agricultural primary commodities and processed food.

SPECIFIC COMMODITY SECTORS

CEREALS

Production

During the last three years the arable land under cereals (about 8.5 million hectares, i.e. about 60 per cent of the total arable land) yielded about 27.5 million tons of cereals on average annually. The commodity structure of the output was dominated by wheat (32 per cent) and rye (22 per cent), followed by barley (15 per cent), mixed grains (13 per cent), rapeseed (9.2 per cent), oats (7.5 per cent) and maize (1.1 per cent). Cereals for fodder (rye included) occupy about 73 per cent of the arable land used for cereals and constitute about 68 per cent of the total output.

The area designated for production of cereals is increasing, as a result of producers' reaction to the inadequate demand for agricultural produce and to the deteriorating profitability of animal breeding (except pigs).

TABLE 1

Commodity Structure of Cereals Production in 1989-1991

('000 tons)

Cereals	1989	1990	1991	Structure (percentage)
Wheat	8.462	9.026	9.270	32.4
Rye	6.216	6.044	5.899	22.0
Barley	3.909	4.217	4.257	15.0
Oats	2.185	2.119	1.873	7.5
Mixed grains	3.466	3.554	3.684	13.0
Rapeseed	2.404	2.721	2.449	9.0
Maize	244	290	340	1.0
Total:	26.886	27.971	27.772	

The bulk of the domestic output of cereals originates from private farms. The share of this sector in the total domestic output of cereals in 1989-1991 amounted to 75 per cent (66.5 per cent of wheat and nearly 80 per cent of feed grains). The relative importance of the co-operative and State sectors in the production of cereals is characterized by the following data (per cent):

	Co-operatives	State farms
Land ownership	4	18
Total production of cereals	5	20
of which:		
wheat	5.3	28
feed grains	4.8	16

TABLE 2

Structure of Cereals Production by Producers

('000 tons)

Producer	1989	1990	1991	Structure (percentage)
State sector:				
All cereals	5.138	5.794	5.753	20.2
of which: wheat	2.333	2.656	2.654	28.2
Co-operatives:				
All cereals	1.185	1.328	1.340	4.7
of which: wheat	410	460	493	5.3
Private farms:				
All cereals	20.467	20.756	20.586	75.1
of which: wheat	5.702	5.983	6.103	66.5
TOTAL:	26.886	27.971	27.772	
of which: wheat	8.462	9.026	9.270	

Trade

Traditionally, up to 6 million tons of domestically-grown cereals enter the market each year, representing about 30 per cent of the total domestic output. During the last three seasons both the volume and the relative share of such sales decreased somewhat, with some 60 per cent of the total marketed domestic supplies coming from the private farms.

The total capacity of modern grain storage facilities is estimated at about 10 million tons. About 45 per cent of the storage space belongs to the State Cereals Enterprise (PZZ), which, therefore, is the leading organization in purchases of grains from producers. In the season 1991/1992, PZZ purchased about 2.8 million metric tons.

The principal competitor of PZZ is the co-operative organization "Samopomoc Chlopska" (GSSCh). Similarly to PZZ, it possesses grain silos, mills, bakeries, etc. There are also a number of private firms, but they act mainly as intermediaries in the grain business, although there are no legal impediments to private wholesaling operations. As of 1990, there were 1,064 private grain mills and 182 windmills. They specialize in offering local services, but usually are not engaged in the purchase of cereals.

Out of an annual average of nearly 6 million tons of cereals on the market in the 1989/90-1991/92 seasons, some 854,000 tons (about 14.6 per cent) were imported, or received as foreign food assistance. Ninety-three per cent of the marketed domestic output was used for current consumption and for exports.

In foreign trade in cereals, the leading rôle is played by "Rolimpex" Foreign Trade Company. Until 1990/91 it enjoyed a monopolistic position. With time, however, its share of the market had weakened considerably. It is estimated that, during the present season (1991/1992), such share will be about 75 per cent in imports and 80 per cent in exports.

TABLE 3

Production, Purchases and Exports of Cereals in 1991

('000 tons)

	1989/1990	1990/1991	1991/1992	Structure 1991/1992 (percentage)
Total crops:	26.886	27.971	27.772	
Purchases	5.440	5.435	4.092	14.7
of which:				
PZZ	5.440		2.768	67.6
other buyers			1.324	32.4
Imports:	2.127	356	88	
of which:				
"Rolimpex"	2.127	328	60	75.0
other importers		28	28	25.0
Exports	65	457	750	
of which:				
"Rolimpex"	65	408	600	80.0
other exporters		49	150	20.0

DAIRY PRODUCTS

Milk production

In 1990 1.9 million private farms, about 500 co-operatives and 1.1 thousand State farms were engaged in production of milk. Recently, these figures decreased by about 10 per cent as regards private producers and by about 15 per cent in the co-operative and State farms sector. The herd numbers dropped from 4.9 million head in 1990 to 4.3 million in March 1992. A similar decrease occurred in the private sector (from 4.4 million to 3.9 million head) and in the public sector (from 0.5 million to 0.4 million head). The average annual yield of milk per cow amounts to about 3,000 litres in private farms, and about 4.0-4.5 thousand litres in the public sector.

The average milk output per cow decreased during the last two years from 3,260 litres to about 3,050 litres because of more extensive feeding methods and the decreasing number of higher yield cows in the public sector.

The total milk output dropped from 15.4 billion litres in 1990 to 14.2 billion in 1991. It is expected that the output will decrease further to some 13.4 billion litres in the course of 1992.

Sales of milk and dairy products

In 1991, agricultural producers sold about 10.5 billion litres of milk out of which about 7.8 billion were purchased by dairy co-operatives and the remaining 2.7 billion were sold directly to consumers in the form of milk, cream and cottage cheese. Some of the State farms have their own processing facilities.

Dairy products processed by co-operative, as well as private and State-owned dairies are sold by various dealers in the domestic market. These are mainly private firms, while co-operatives fall far behind.

Exports and imports

Exports of dairy products in 1991 were as follows ('000 metric tons):

Milk powders	106
Casein	12
Butter	7
Cheeses	5

Certain small quantities of other products (cottage cheese, standard and condensed milk, milk drinks, etc.) were also exported. Exports are the domain of co-operatives and private firms, while private firms dominate in importing.

Imports of dairy products in 1990 were as follows ('000 metric tonnes):

Butter	40
Standard milk	34
Cheeses	13
Milk drinks	11

Moreover, there were certain imports of whole and skimmed milk powders, cottage cheese, casein, etc.

MEAT AND MEAT PRODUCTS

Organization and structure of meat production

Breeding of pigs, cattle, poultry and sheep constitutes the base of meat production in Poland. Of these, pigs and cattle breeding is the most important. The dominance of private producers in all types of animal husbandry is overwhelming and continues to grow.

TABLE 4

Farm Animals (end of March, 1992)

(million)

Animals	Total	Sectors	
		Public	Private
Cattle	8.1	1.0	7.1
of which:			
cows	4.3	0.4	3.9
other animals	3.8	0.6	3.2
pigs	21.2	3.9	17.3

According to the March 1992 census the total cattle number in Poland decreased by 19 per cent in general, and in the public sector by more than 30 per cent in comparison with March 1990.

Pork dominates traditionally in meat production. Its share in the total output changes, but nevertheless remains at a very high level, reaching 60 per cent. Bovine meat is another important item on this list with a 20 per cent share. Poultry constitutes about 10 per cent of the output. The remaining kinds of meat, like veal, mutton or horsemeat play a relatively minor rôle.

TABLE 5

Production of Meat in 1980-1992

('000 metric tons)

Year	Total including fats and offals	Meat and fat	Of which:			Per capita (kg.)
total			Beef	Pork	Poultry	
1980	3.148	2.962	698	1.711	419	88.5
1984	2.535	2.371	674	1.288	256	68.7
1985	2.803	2.624	719	1.475	276	75.3
1986	3.134	2.939	748	1.728	315	83.7
1989	3.172	2.979	675	1.819	362	83.6
1990	3.325	3.113	793	1.841	332	87.2
1991[1]	3.466	3.251	720	2.062	322	90.5
1992[2]	3.324	3.112	612	2.050		

[1]Provisional
[2]Forecast

There has been a dramatic shift in the pattern of meat distribution from producers to the market. A strongly dominant position of the State-controlled marketing channels has been replaced by the dominance of private wholesale buyers. Between 1988 and 1992 the volume of livestock and fresh meat delivered by farmers to the State-owned livestock purchasing points decreased from 73 per cent to 39 per cent of the total output, while the share of free market sales went up from 9 per cent to 45 per cent, with the balance taken up by the producers' own consumption.

Foreign trade in meat and meat products

TABLE 6

Imports and Exports of Meat and Meat Products in 1989-1990

('000 metric tons)

Product	1989	1990
Animals (carcass weight)		
Imports	35	14
Exports	105	148
Net exports:	70	134
Meat and meat products (carcass weight)		
Imports	113	39
Exports	151	129
Net exports:	108	224

FRUITS AND VEGETABLES

Production

The horticultural production is traditionally the domain of private operators, who provide over 90 per cent of open-air orchard fruits and over 80 per cent of hothouse products. Private producers are also dominating in the remaining sectors of horticulture, such as flowers and beekeeping.

About 1 million tons of fruits and 200,000 tons of vegetables were industrially processed in 1991.

TABLE 7

Fruit Crops in 1990 and 1991 in Poland

('000 metric tons)

Fruits	1990	1991	1990/1991	Structure (%%) 1990	Structure (%%) 1991
Total	1,415.9	1,874.3	128.0	100.0	100.0
Orchard fruits	979.3	1,364.8	139.4	69.2	72.8
of which:					
apples	812.3	1,145.5	141.0	57.4	61.1
pears	34.9	52.7	151.0	2.5	2.8
plums	42.7	66.9	156.7	3.0	3.6
cherries	77.5	79.8	103.0	5.5	4.2
Soft fruits	436.7	508.6	116.5	100.0	100.0
of which:					
strawberries	241.3	243.6	101.0	17.0	13.0
raspberries	28.5	31.7	11.2	2.0	1.7
currants	130.4	169.2	129.8	9.2	9.0
gooseberries	34.8	41.6	120.2	2.5	2.2

Source: Central Statistical Office (GUS)

TABLE 8

Vegetable Crops in 1990 and 1991 in Poland

('000 metric tons)

Vegetables	1990	1991
Open air plantations	5,372.0	5,734.0
Hothouse plantations	301.0	282.0

Source: Central Statistical Office (GUS)

Trade

The primary distribution of output is effected predominantly through co-operatives and private channels, which account at present for some three quarters of the total marketed output. The marketing structure is dominated by about 200 horticultural co-operatives. They are active in purchasing, processing, as well as in domestic and foreign trade. They are also shareholders of Hortex Company Limited, a major marketing organization, now in the process of being privatized. In 1991, all horticultural co-operatives (including Hortex and its subsidiaries) purchased 47 per cent of all fruits and vegetables. Other major wholesale buyers were State-controlled companies such as Fructopol Limited (23 per cent), and Polish Cold Storage Company (5 per cent). Privately owned wholesale buyers had a 20 per cent share in the market.

At the retail level, 90 per cent of all outlets are private. The remaining belong to horticultural co-operatives.

About one third of the total processing of fruits and vegetables is carried out by units belonging to horticultural co-operatives, which produced about 400,000 tons of processed products (processed potatoes included) in 1991. Another 15 per cent of output comes from State-controlled processors.

Exports engage several hundred independent, and mostly private, traders, and account for about 13 per cent of fruit crops and 8 per cent of vegetables (data for 1990). Private traders are also by far the dominant players on the import side. Imports of fresh and processed fruits and vegetables declined by approximately one-fourth in 1991 from 1990 to slightly over 72,000 metric tons.

POLAND'S TRADE REGIME IN ALCOHOLIC BEVERAGES AND TOBACCO PRODUCTS

This information is provided by Poland at the request of members of the Working Party on the Renegotiation of the Terms of Accession of Poland.

ALCOHOLIC BEVERAGES

The Alcohol Abuse Prevention Act on 26 October 1982, and the Economic Activities Act of 23 December 1988, provide for franchising of domestic trade in alcoholic beverages (spirits, wine, beer). The franchises are granted for wholesale and retail trade.

The main goal of this legislation is to discourage excessive consumption of alcohol in the country. One of its objectives is to change the structure of such consumption in favour of low-strength beverages. The adopted regulatory mechanism is designed with a view to meeting these objectives.

Wholesale domestic trade in alcoholic beverages

The general framework of the rules on franchising is as follows:

1. Wholesale trade is categorized into:

   - wholesale trade in beer;
   - wholesale trade in wines, and other beverages of an alcoholic strength by volume not exceeding 18 per cent;
   - wholesale trade in beverages of alcoholic strength by volume over 18 per cent.

2. Franchises are issued to natural and legal persons upon presentation of the following documents:

   - a valid description of the applicant's legal status and the scope of his commercial activities;
   - a certificate confirming his rights to use storage facility of at least 200 square meters of storage space;
   - the affidavit issued by the State Regional Sanitary Inspector to the effect that the storage facility meets the standards established on storing food products;
   - a certificate of the Tax and Revenue Service that the applicant has no outstanding tax obligations.

3. Each franchise for wholesale trade in high-strength alcoholic beverages provides for a maximum allowable annual volume of sales, subject to a discretionary decision of the licensor. At the same time a minimum volume of annual sales per each wholesale outlet is established for each year. For 1992, franchises for wholesaling spirits were issued only to operators declaring annual turnover of at least 500 thousand litres calculated in terms of pure alcohol.

4. Franchising of wholesale trade in beer and wine is free of any quantitative restraints, as long as the licensee meets the remaining legal criteria described above.

5. Stamp fees are collected in the following amounts:

- franchise fee for wholesale trade in beer and other beverages of an alcoholic strength not to exceed 18 per cent - zlote 10,000,000 (equal to about $US850);

- franchise fee for wholesale trade in alcohol over 18 per cent - 0.1 per cent of the value of the upper limit of the authorized annual sales, estimated at current official price for bulk product.

Retail domestic trade in alcoholic beverages

Pursuant to the Alcohol Abuse Prevention Act, as amended, the franchising of retail trade in alcoholic beverages is entrusted to the appropriate regional and municipal authorities, subject to limitations with regards to the total number of retail outlets for each province (voivodship). The maximum number of retail outlets for sale of beverages with alcoholic strength over 4.5 per cent is determined by the Minister of Industry and Trade, in proportion to the number of inhabitants in each voivodship. The actual distribution of points of sale is decided by local administration.

Franchises for wholesale and retail trade in alcoholic beverages are issued without discrimination to all eligible applicants satisfying the criteria described above.

All wholesale and retail sales are subject to a turnover tax of 1 per cent.

Official ceiling prices are established by the Ministry of Finance for all Polish-made, high-strength alcoholic beverages. Prices of imported wines, beers and spirits are unrestricted.

TOBACCO PRODUCTS

Production and domestic trade

The Decree of 24 June 1953, on tobacco cultivation and manufacturing of tobacco products (Dziennik Ustaw (Journal of Law) No. 34 item 144 and the Economic Activities Act of 23 December 1988 (Dziennik Ustaw No. 41 item 324) stipulate that the planting and processing of tobacco may be undertaken by authorised entities only.

Such authorizations (permits) for cultivation and trade in unprocessed tobacco are automatically granted to any legal or natural person upon presentation of a contract concluded with the manufacturing or trading entities designated by the Minister of Agriculture and Food Industry for this purpose.

Pursuant to the Economic Activities Act, the manufacturing of tobacco products may be undertaken by any person, legal or private, subject to licensing by the Minister of Agriculture and Food Industry.

The application for the licence should contain:

(a) name and domicile of the applicant;

(b) description of the type and quantity of the product;

(c) general specification of production inputs (including indication of the expected share of the domestically-grown tobacco);

(d) anticipated geographical distribution of sales inside the country;

(e) starting date.

The stamp fee is zlote 1,000,000 (about US$85).

Domestic trade in tobacco products is not licensed and need only be entered into the register of commercial activities conducted by business entities. (Commercial Register)

All retail and wholesale trade is subject to a uniformly applied turnover tax. In accordance with the Ordinance of the Minister of Finance of 6 April 1992 (Dziennik Ustaw No. 32), the turnover-tax rate is 60 per cent for cigarettes and 40 per cent for other tobacco products.

ACCESS TO THE POLISH MARKET FOR ALCOHOLIC BEVERAGES AND TOBACCO PRODUCTS

Non-tariff measures

I. Beverages containing over 18 per cent of alcohol by volume

Imports of alcohols of an alcoholic strength over 18 per cent by volume are subject to import quotas and licensing and can be performed only by authorized dealers. The respective regulations are published in Dziennik Ustaw No. 27 of 31 March 1992.

Imports of pure spirits and unflavoured vodkas are prohibited.

Import quotas have been established for the following tariff lines in the CN tariff nomenclature:

- 2208.20.10 spirits obtained by distilling grape wine;
- 2208.30.11 whiskies;
- 2208.40.10 rum;
- 2208.50.11 gin;
- 2208.90.55 liqueurs and aperitifs.

The quotas are allocated among interested importers on a semi-annual basis by the commission composed of representatives of the Ministry of External Economic Relations, Ministry of Industry and Trade, Ministry of Agriculture and Food Industry, Ministry of Finance, National Economic Board and National Chamber of Commerce.

The applicant must present:

- the franchise for wholesaling beverages over 18 per cent of alcohol strength by volume, issued by the Minister of Industry and Trade;

- the decision issued by the Ministry of Industry and Trade, establishing the maximum volume of spirits allowed to be marketed by the applicant within the six months covered by such decision. For the first half of 1992 this was usually 250,000 litres in terms of pure alcohol;

- the certificate of the Tax and Revenue Service stating that the applicant is not exempted from income tax obligations. Entities exempted from such obligations cannot apply for the quota;

- foreign trade permit for alcoholic beverages (since 1 April 1992), issued by the Ministry of Foreign Economic Relations upon presentation of the following documents:

(a) extract from the applicant's entry into the Commercial Register, confirming his conduct of foreign trade operations;

(b) the applicant's statistical identification code (REGON);

(c) names and addresses of principal executive officers, owners and major shareholders;

(d) an affidavit of compliance with tax obligations issued by the Tax and Revenue Service;

(e) summary of the firm's balance sheet for the last 2 years;

(f) description of storage and transportation facilities of the firm;

(g) a written statement on the collateral which the firm may offer against its financial obligations;

(h) a statement that the firm undertakes to respect the mandatory quality standards in force in Poland.

Each firm which has satisfied the formal requirements described above and has concluded a commercial contract may apply for an import licence which is issued by the Ministry of Foreign Economic Relations. As a rule, the licence is granted automatically within 2-3 days. The administrative fee is zlote 500,000, payable to the account of the Central Board of Customs.

II. Wines, beers and other beverages of low-alcoholic strength

The requirements concerning the importation of wine and beer are much less demanding. There are no sales quotas, and all trade-related procedures are greatly simplified. This stems out from the policy aimed at changing the pattern of consumption by increasing the relative share of low-strength beverages, principally wines and beers.

The only formal requirement is the need to obtain the import licence. This measure is not intended to be trade restrictive in nature and had been designed primarily for statistical monitoring.

The firm, requesting an import licence, has to submit the following documents:

- franchise for wholesale trade in beers and wines, issued by the Ministry of Industry and Trade;

- statistical identification code (REGON);

- the statement of non-exemption from income tax and the affidavit of compliance with tax obligations;

- a copy of the contract.

The administrative fee is zlote 500,000 (about $40).

Customs tariffs

Beverages containing over 18 per cent of alcohol by volume:

2208.20.10	spirits obtained by distilling grape wine: 75 per cent but minimum 25 US$/hl. + 2.5 US$ per cent/hl.;
2208.30.11	whiskies: 85 per cent but minimum 25 US$/hl. + 2.5 US$ per cent/hl.;
2208.40.10	rum: 80 per cent but minimum 15 US$/hl. + 1.5 US$ per cent/hl.;
2208.50.11	gin: 85 per cent but minimum 15 US$/hl. + 1.5 US$ per cent/hl.;
2208.90.55	liqueurs: 105 per cent + 3 US$ per cent/hl.

Moreover, turnover tax is collected at the border, in the amount equal to the customs value plus the triple value of customs duty.

Alcoholic beverages not over 18 per cent of alcohol by volume:

2203.00.90	bottled beer: 30 per cent;
2203.00.10	other beers: 30 per cent;
2204.10.19	wine of fresh grapes: 30 per cent;
2204.21.23	wine of fresh grapes: 30 per cent;
2205.10.10	wine of fresh grapes: 30 per cent.

Taxation

In the absence of excise taxes in the present Polish fiscal system, domestic and imported alcoholic beverages are subject to a turnover tax, which represents essentially the same effective levy when applied to comparable domestic and imported goods. The method of calculating this tax is similar to that followed in most of Western Europe prior to the introduction of the VAT system. The tax on domestic product is included in the price charged by the producer to the first buyer. In other words, the producer price of the product entering the domestic market includes producer costs and the amount of the tax. Similarly, the turnover tax levied on imported products is added to the border price of the product (customs value plus customs duty) and is collected jointly with the customs duty. Thus, the price of the imported product entering the market

includes: c.i.f. price of the product at the border, customs duty and the turnover tax. Unlike domestic goods, imported alcoholic beverages (or tobacco products) are not subjected to any additional turnover tax down the commercial chain, except a 1 per cent levy charged on all retail sales, irrespective of the origin of the merchandise.

The essential comparative features of the system are the following:

A different tax base: for domestic products - producer price, composed of producer costs, overhead and profit, plus the tax margin calculated in such a way as to accommodate an amount corresponding to the flat-tax rate, which may be different for different products; for imported goods: customs border value plus customs duty.

Consequently, the different tax rates are basically equal ratios between the actual amount of tax and the actual nominal price at which the product enters the market. A domestic producer has to calculate his actual selling price so as to accommodate the flat-tax rate and recover all his costs plus profit. For an importer, a different tax is levied on the pre-tax border price (customs value plus customs duty), so as to arrive at a similar result in terms of the actual ratio of the tax paid on the selling price of the product.

This general outline may be exemplified by reference to a practical case of turnover tax on bottled beer. The figures shown below (in Polish zlotys) roughly correspond to the actual values, under assumption, that the pre-tax border price (customs value plus customs duty) of imported beer equals producer cost, overhead and profit of a Polish producer of like product. Tax rates are official.

	Domestic beer	Imported beer
A. Domestic producer ex-factory price (including all costs and profit, before taxes)	3,900	
B. Foreign supplier's price at the border		3,000 (US$0.22)
C. Customs duty	0	900
D. Producer/importer pre-tax price	3,900	3,900
E. Turnover tax (for domestic products 60% of F; for imported products 150% of D	5,850	5,850
F. Producer/importer selling price	9,750	9,750

A strong market showing of foreign beers, wines, quality spirits and tobacco products suggests that in practice this tax system has not visibly discouraged imports.

Obviously, the performance of the system in terms of its effects on the relative competitive position of domestic and foreign suppliers of comparable products depends largely on the actual rate of customs duty. If such a rate substantially exceeds a competitive advantage of a foreign supplier over a domestic producer (in terms of their cost differentials), then the result may be prejudicial to the importer. The only remedy would be to apply a uniform-tax rate to all comparable products, both domestic and imported. This, however, is envisaged to be implemented only after a value-added (VAT) tax system, patterned after that of the European Communities, is finally introduced in Poland at the beginning of 1993, as expected.

III. Tobacco products

Regulations on market access for tobacco products are established by the Ordinance of the Minister of Foreign Economic Relations of 25 February 1992, published in Dziennik Ustaw No. 27 of 31 March 1992.

Trading permits and import licences are required for importation of tobacco products. Also, semi-annual import quotas for tobacco products have been established, their levels for the year 1992 being as follows:

2402.10.00	cigars, cheroots and cigarillos, containing tobacco: import quota 20 million pcs., tariff duty rate 55 per cent;
2402.20.00	cigarettes: import quota 6 billion pcs., tariff-duty rate 90 per cent;
2402.90.00	other cigarettes: import quota 20 million pcs., tariff-duty rate 90 per cent.

A uniform turnover tax equal to 130 per cent of customs duty is collected at the border.