MILK MARKET MANAGEMENT IN THE CONDITIONS OF POLAND

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As a result of food trade liberalization after 2015, increased competitiveness concerning milk products originating from the countries of higher production potential (New Zealand, the USA, Asian countries) will become a fact. Polish farming will face new challenges to keep pace with them without restructuring and modernization of the milk sector – mainly milk cooperatives which provide for 80% of total production. The aim of the article was the assessment of current Polish milk industry in comparison to the EU countries, as well as the proposition of direction of reforms. Analysis was conducted basing on the method descriptive and comparative analysis, inductive reasoning, and observation by the author. According to research results, until 2012 51.7% cooperatives had failed. The main cause of that situation was wrong management system in those business units. Following the example of more developed countries, strategies of consolidation and introduction of more liberal regulations regarding cooperative law, based on economy, but not on ideology, seem to be recommended direction of reforms.

Key words: business entity, consumption, Common Agricultural Policy (CAP), milk quotas, efficiency.
JEL codes: E2, E23.

Introduction

Liberalization of food trade, negotiated in Doha (2009), will bring about the situation that the countries characterizing beneficial environmental conditions will offer dairy products at competitive prices. Milk production in Asia can grow up even to 380 million tons in 2017, ensuring self-sufficiency to that region. At the same time, in the USA, milk production can increase to 100 million tons, improving indicator of self-sufficiency to 103.5%. Milk production in Oceania countries can significantly increase from 25 to 42 million tons, which can provide for the increase in self-sufficiency indicator up to 490%. The latter data mean that, e.g., New Zealand will be going to sell 80% of produced milk, in the form of dairy products, to foreign recipients. In March 2008, for the first time in the history of New Zealand, farmers were paid more for their milk than in the USA. That fact has significantly changed competitiveness of New Zealand dairy industry which, so far, has been world prices indicator for that market (Seremak-Bulge, 2008).

Diagnosis for 27 EU countries forecasts increased milk production to 158 million liters in 2017. The countries of former 15 will not be self-sufficient, while excessive dairy products destined for export will be at disposal of EU adjacent countries after 2004. Milk production in Ukraine will be able to grow faster than that of EU member states, as the latter ones are restricted by milk quotas. The main recipient will be Russia, one of not numerous European countries to feature milk deficit. In Po-
land it will be difficult to maintain competitiveness of dairy products after abolition of milk quotas in 2015.

The author of this article aimed at analysis of current status of dairy industry in Poland compared to the EU member states. On the basis of threats connected with the development of competition stimulated by globalization, there was evaluated existing management system of business entities in this sector of economy and there were also proposed appropriate alterations. Analysis was done on the basis of the following methods: descriptive, comparative, inductive reasoning and observation by the author.

Stimulating milk production

Milk market in the EU characterizes high range of intervention and its causes can be found in specific traits of this sector. Activities undertaken within the frames of Common Agricultural Policy (CAP\(^1\)) are targeted at the development of the same competitiveness conditions for agricultural producers in all EU countries. To realize CAP purposes there is applied a number of various instruments, among others, the system of maintaining the process of agricultural products, regulations connected with foreign trade, as well as instruments reducing supply of dairy products and stimulating domestic demand. These instruments completely deny the rules of market economy. The most controversial instrument for Polish milk producers was limiting milk production (Seremak-Bulge, 2003).

In Poland, the Ministry, by regulation, determines national milk quota, as well as its national reserve. The basis of raw material production limit was the amount of milk produced and marketed in reference year (2003), as well as expected increase in demand of milk and dairy products (Fig. 1).

![Fig. 1. Yearly use of milk quota of wholesale suppliers in million kg, with respect to limits granted in Poland](source)

\(^1\) CAP (WPR) set of unified rules and arrangements regarding EU agriculture aiming at its stabilization and protection from negative effect of world markets.
In quota year 2005/2006 wholesale suppliers exceeded the granted limit by more than 5 percentage points, which was connected with the need to pay additional tax. In the subsequent years milk quota was used to a degree similar to the granted amount, possible to be produced.

According to the reform „Health Check” (Commission..., 2007), passed by the EU in 2009, granted national milk quotas increased each year by 1 percentage point. The purpose of that activity was preparation of milk sector to liberalization of milk production and complete abolition of milk limits in 2015. However, the abolition of milk quotas faced severe criticism on the side of farmers who were reluctant to the changes by the EU. According to EU Committee, the use of that instrument should be discontinued because of its faults. Milk quotas provide for farmers’ income solely due to the fees paid by consumers, while higher prices on the EU market reduce export of dairy products below the level suggested by global comparative advantage.

In many cases artificially reduced milk production leads to the losses on the part of the European exporters and it contributes to additional import of cheaper dairy products. Therefore, it is possible to state that through the use of the production quota system, additional income, paid by consumer, does not go domestic farmers but to foreign suppliers. The countries like Italy and Austria could produce higher quantities of milk and dairy products than the limit granted to them, while other countries are not able to make use of it in full, e.g. Romania, Lithuania, Malta. This way individual quotas for farmers disturb competitiveness between member states – those who possess the quota law produce higher amounts of milk, while more efficient producers are restricted.

The basic disadvantage of this system are also high costs of its administration by the government, which has to register granted quotas and to compare the production by each farmer. Fees from producers, to make up for potential fines connected with excessive production, are executed by the authorities in considerable advance, then paid back and diminished by individual fines for particular farmers. Milk producers are engaged in contracts involving borrowing and transferring quota laws (in member states where such procedures are permitted), estimating the risk of being fined in their decisions regarding production. It is worth noticing that this process is not only expensive, but also fairly complicated and time-consuming. Inefficiency of milk quotas has been understood by the governments of the EU member countries for a long time. The aim of the changes to be introduced in 2015 will be increase in competitiveness of the countries featuring higher production potential, as well as providing milk producers and milk processing plants with more advantageous conditions for functioning on global free market.

**Characteristics of milk industry in Poland**

Milk industry is one of the most important sectors of food industry in Poland, both on the level of production and milk processing. The share of this sector in agri–food sale ranges 17 %, while the employment amounts more than 16 % of total number of the employed in food market (Sych-Winiarek, 2012). Due to its favourable
soil – environmental conditions and long tradition of cattle breeding, Poland is particularly predisposed to developing this branch of production. Our country ranks sixth in quantity of milk production in Europe, with only Germany, France, great Britain, Russia and Ukraine before us, which provides, approximately, for 2 % share in the world production. After 2004 national production of milk and dairy products tends to increase and it is maintained at about 12 m liters a year (Fig. 2).

![Graph showing milk production in Poland from 2005 to 2012](image)

Source. Elaboration by the author on the basis of Statistical Yearbooks by Central Statistical Office

Fig. 2. Milk production in Poland in the years 2005–2012

It should be stressed, however, that consumption of dairy products among native consumer is still lower than mean value for the European Union. This situation can result from the difference in dynamics of conducting general promotion policy for dairy industry by member states. Milk producers and milk processing plants strictly cooperate with one another, forming pressure groups, which, in turn, efficiently effect on the system of government and run a number of mechanisms of support for the whole sector (Sznajder, 1999). These behaviors cause that consumers in most of the EU states have been aware of valuable nutrients contained in dairy products and therefore, have been consuming considerable amounts of them for many years. In 2011, average inhabitant of Poland consumed 153 l of milk and dairy products, while yearly consumption per one person in the whole European Union ranges, approximately, 350 liters.

In the analyzed period from 2006 to 2012, cow population in Poland decreased by 12,6 % (with 2637 on 2425 thousands of heads), despite increased purchase prices. The mentioned decrease varied according to voivodships. Similar phenomenon can be observed in the EU states, as, at the same time, milk yield per cow has increased (Fig. 3).
In Poland, milk yield per cow was continuously increasing. In 2010 it amounted 4914 kg/head. In comparison to the EU states that indicator was still of quite low value. Poland ranks fourth from the bottom of the list, before such states like Lithuania, Romania and Bulgaria.

**Management of dairy cooperatives in a globalizing markets**

Globalization of markets has resulted in concentration of competitors, suppliers and customers of dairy cooperatives. Since 80% of total milk purchase belong to dairy cooperatives, these business entities were made to adjust to new conditions. Globalization, as a form of cooperation, also proposes good practice patterns in manage-
ment. Recently, Polish agriculture has been integrating with the European structures and it has to meet new qualitative challenges, which makes the persons responsible for the management of these structures face extremely difficult tasks. It occurs that in the same conditions some cooperatives feature high dynamics of development, while the others show stagnation or even regress (Krajewski, 2011). After 1989 it can be noticed significant quantitative decrease in the number of these entities, by about 51.7 percentage points (Fig 4.).

![Figure 4. Number of dairy cooperatives in the years 1989–2011](source: Data by KRS Warszawa 2012)

Economic success of some dairy cooperatives is connected with accepted new strategies of management (Safin, 2008). This can be exemplified by: SM Mlekovita, SM Mleko and OSM Łowicz, which, applying strategies through fusions, reached total share in sale market of their products ranging approximately 40 % in 2010. Unfortunately, there are some regions with dominant role of small producers, whose chances for development in global markets equal zero. The choice of particular management option is relatively difficult. It involves the agreement between rules and tradition of cooperative movement with efficiency, rational and professional operation of market players. According to many economists, management has never been the strongest side of dairy cooperatives, not only the Polish ones (Duczkowska-Piasecka, 2000). In Polish cooperatives, based on over a century and a half – lasting traditional methods and management techniques, there can be noticed inefficiency of decision – making system (Dyka, 1997; Noga, 1996). If cooperatives are to survive, it is necessary to change mentality, as well as introduction of some legal solutions applied successfully in highly developed countries. In the latter ones, introduced reforms Ahmed at opening Access to financial markets and loosening restrictions connected with establishment of cooperatives (Daishais, 1986; Roessl, 2010). Those reforms covered, among others:

- reduction in minimum number of persons necessary to establish a cooperative,
- provision allowing some members to have more than one vote,
- widening the range of activities and operating capital with business entities outside cooperatives,
- allow issuing own bounds which constitute high – risk capital or debt instruments,
- allowing third parties, who are not members of cooperatives, to participation in the share fund,
- enable transformation of cooperatives into capital companies. It is possible to state that a cooperative form is of a voluntary character and, therefore if it becomes inconvenient, cooperatives should simply consider the alteration of legal form into the one which will meet their needs.

**Conclusions**

The methods of operations accepted by dairy cooperatives need not to be assumed as ever – lasting. They have to be made up to date and continuously improved. A dairy cooperative and its managers have to become aware of the fact that as the time goes by the possibilities and advantages of the potential possessed become exhausted and that solutions once accepted become out of date under the influence of the changing environment. Therefore, temporal restructuring seems to be indispensable and the patterns to be followed can be found in the experience of highly developed countries.

1. There should take place the improvement in position of cooperative organizations based on economy and good commercial practice. The rules of cooperative activity should be more liberal and economically healthy, thus less restrictive and ideologically or historically oriented.
2. Legislation should rather provide possibilities than reduce them and, therefore, enable cooperatives transformation into capital companies, allow third parties, who are not the members of cooperatives, to participate in the share fund, abolish the distinction between the latest members, providing the possibility for some members to have more than one vote.

**Literature**


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Santrauka


Raktiniai žodžiai: verslo subjektas, vartojimas, Bendroji Žemės Ūkio Politika (BŽŪP), pieno kvotos, efektingumas.
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