

PD-ABG-002
82641



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

~~PD-ABG-002~~

MAR 31 1992

Mr. Jack Shelton
President
American Breeders Service Division
W.R. Grace Company
6908 River Road
DeForest, WI 53532

Subject: Grant No. EUR-0024-G-00-2021-00

Dear Mr. Shelton:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, and the Federal Grant and Cooperative Agreement Act of 1977, the Agency for International Development (hereinafter referred to as "A.I.D.") hereby grants to the American Breeders Service (hereinafter referred to as "ABS" or "Grantee") the sum of Five Hundred Thousand Dollars (\$500,000) to provide support to ABS's program to Modernize and Privatize the Artificial Insemination and Breeding Program in Poland as described in the Program Description of this Grant.

This Grant is effective March 26, 1992 and obligation of \$500,000 is made as of the date of this letter and shall apply to commitments made by the Grantee in furtherance of program objectives from March 26, 1992 through March 31, 1994. Subject to the Availability of Funds, an additional \$264,144 may be provided to the Grantee to fully fund the total estimated program cost of \$764,144. Under no circumstances shall the Grantee expend funds over the amount obligated in this document. Funds disbursed by AID but uncommitted by the Grantee at the completion of this period shall be refunded to AID.

This Grant is made to ABS on condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1, "Schedule", Attachment 2, "Program Description", and Attachment 3, "Standard Provisions", and Attachment 4, "FAR Part 31", all of which have been agreed to by your organization.

Please acknowledge receipt of this Grant by signing the original and all copies in the space provided below, retaining one copy for your files, and returning the original and remaining copies to the Office of Procurement.

Sincerely,

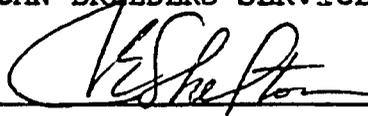


Stephen A. Dean
Grant Officer
Chief, Division A —
Office of Procurement

ACKNOWLEDGED

BY: AMERICAN BREEDERS SERVICE DIVISION/W.R. GRACE COMPANY

NAME: _____



TITLE: _____

PRESIDENT CEO

DATE: _____

5-6-92

FISCAL DATA

SOURCE OF FUNDS:

PROJECT NO.:

PIO/T NO.:

APPROPRIATION SYMBOL:

BUDGET PLAN CODE:

ALLOTMENT NO.:

AMOUNT:

EUR/DR

180-0024

180-0024-3-262-2240

72-11X1010

QAIX-92-32180-KG12

184-62-180-00-69-21

\$ 500,000

DUNS NO.:

TIN:

00-136-7846

13-5114230

ATTACHMENT 1 - SCHEDULE

A. Purpose

The purpose of this Grant is to support the American Breeders Service program to Modernize and Privatize the Artificial Insemination and Breeding Program in Poland as described in the Program Description of this Grant.

B. Period of Grant

1. This Grant is effective as of March 26, 1992 and shall apply to commitments made by the Grantee in furtherance of program objectives from the effective date through the estimated completion date March 31, 1994.

2. Funds obligated hereunder are available for program expenditures for the estimated period March 26, 1992 through March 31, 1993.

C. Amount of Grant and Payment

1. The total estimated amount of this Grant for the period shown in Section B.1 above is \$764,144.

2. AID hereby obligates the amount of \$500,000 for program expenditures during the period set forth in Section B.2 above.

3. Payment shall be made to the Grantee in accordance with procedures set forth in Attachment 3 - Additional Standard Provision 3, entitled "Payment - Cost Reimbursement."

4. Original copies of requests for payment should be sent to:

Agency for International Development
Office of Financial Management
Cash Management & Payment Division
FM/CMP, Room 700, SA-2
Washington, D.C. 20523-0209

D. Budget

The following reflects the budget for this Grant. The Grantee may not exceed the total estimated amount or the obligated amount, whichever is less.

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ESTIMATED BUDGET

COST ELEMENT	TOTAL
Administrative Expenses	\$ 71,994
Training Expenses	510,106
Overhead (Provisional 31.2736%)	182,044
Total	\$ 764,144

E. Program Reports

The Grantee will submit for review and comment an implementation plan outlining benchmarks to be used for measuring progress. This report will be submitted sixty (60) days after the award of this Grant.

In addition, the Grantee will provide five (5) copies of a quarterly status report to the AID Project Officer and one (1) copy to the AID Representative in Warsaw. These reports will include information related to number of persons trained, duration and type of training, and summaries of trainees' evaluations. In addition, the reports should include 1) data on progress towards the operation's fiscal independence from government subsidies; 2) data on the economic and social implications of Olecko's restructuring on the local community; and any other information agreed to by the Grantee and the Project Officer.

At the completion of the Grant, the Grantee will submit a final report on Grant Activities. In addition to the items contained in the quarterly reports, the Final report will include an evaluation of each activity, conclusions, recommendations, and lessons learned.

The Grantee will also conduct an annual debriefing with AID/Washington staff and ABS Domestic/In-Country Staff.

F. Financial Reporting

1. Financial reporting requirements shall be in accordance with the Additional Standard Provision of this Grant entitled "Payment - Cost Reimbursement".

2. The original and two copies of all financial reports shall be submitted to AID, Office of Financial Management, Program Accounting and Finance Division, Washington, D.C. 20523. In addition, three copies of all financial reports shall be submitted to the Project Officer.

G. Indirect Cost Rates

Pursuant to the Standard Provision of this Grant Agreement entitled "Negotiated Indirect Cost Rates - Provisional," an indirect cost rate or rates shall be established for each of the Recipient's accounting periods which apply to this Cooperative Agreement. Pending establishment of final or revised provisional indirect cost rates, provisional payments on account of allowable indirect costs shall be made on the basis of the following negotiated provisional rate(s) applied to the base(s) which is (are) set forth below:

Type	Rate	Base
Overhead	31.27%	1/

1/ Base of Application: Subtotal Costs

H. Limitation on Use of Funds

The Grantee shall not utilize funds provided by A.I.D. for any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference or training in connection with the growth or production in countries other than the United States of an agricultural commodity for export which would compete with a similar commodity grown or produced in the United States.

The reports described above shall contain a statement indicating the projects or activities to which United States funds have been attributed, together with a brief description of the activities adequate to show that United States funds have not been used for the purpose stated above.

The Grantee agrees to refund to A.I.D. upon request an amount equal to any United States funds used for the purposes prohibited by Section 1I.6.(a) above.

I. Special Provisions

1. For the purposes of this Grant, references to "OMB Circular A-122" in the Standard Provisions of this Grant shall be replaced with "FAR Part 31, Contract Cost Principles and Procedures" and subpart 731.7 of the AID Acquisition Regulations (AIDAR) (41 CFR Chapter 7). As a Commercial Entity, ABS/W.R. Grace Company are bound to these cost principles and procedures when receiving assistance.

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2. Inclusion of costs in the budget of this Grant for the purchase of nonexpendable equipment does not obviate the requirement that Grant Officer approval be obtained for any purchases of non-expendable equipment with a unit cost over \$500. No non-expendable equipment purchases are approved at this time. Requests for approval shall be sent to:

AGENCY FOR INTERNATIONAL DEVELOPMENT
FA/OP/A/EE, MS. DIANE MILLER
ROOM 1522. SA-14
WASHINGTON, D.C. 20523-1427

3. The following Additional Standard Provisions, marked with an (X), shall be applicable to this Grant:

Additional Standard Provisions For U.S., Nongovernmental Grantees

- () Payment - Letter of Credit (November 1985)
- () Payment - Periodic Advance (January 1988)
- (X) Payment - Cost Reimbursement (November 1985)
- (X) Air Travel and Transportation (November 1985)
- (X) Ocean Shipment of Goods (May 1986)
- (X) Procurement of Goods and Services (November 1985)
- (X) AID Eligibility Rules for Goods and Services (November 1985)
- (X) Subagreements (November 1985)
- (X) Local Cost Financing (November 1988)
- () Patent Rights (November 1985)
- () Publications (November 1985)
- () Negotiated Indirect Cost Rates - Predetermined (May 1986)
- (X) Negotiated Indirect Cost Rates - Provisional (May 1986)
- (X) Regulations Governing Employees (November 1985)
- (X) Participant Training (May 1986)
- () Voluntary Population Planning (August 1986)
- () Protection of the Individual as a Research Subject (November 1985)
- () Care of Laboratory Animals (November 1985)
- () Government Furnished Excess Personal Property (November 1985)
- (X) Title To and Use of Property (Grantee Title) (November 1985)
- () Title To and Care of Property (U.S. Government Title) (November 1985)
- () Title To and Care of Property (Cooperating Country Title) (November 1985)
- () Cost Sharing (Matching) (November 1985)
- (X) Use of Pouch Facilities (November 1985)
- (X) Conversion of United States Dollars to Local Currency (November 1985)

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ATTACHMENT 2 - PROGRAM DESCRIPTION

**PROPOSAL TO MODERNIZE AND PRIVATIZE
THE ARTIFICIAL INSEMINATION
AND BREEDING INDUSTRY IN POLAND**

**Submitted by
American Breeders Service/W. R. Grace & Co.
and
The Government of Poland/Ministry of Agriculture**

The Government of Poland has requested that the American Breeders Service provide assistance in its efforts to modernize and privatize its breeding industry. This request stems from the government's appreciation of the uniquely "American Model" of a fully private, non-subsidized breeding industry in which farmers ultimately get to make their own choices. This project proposal has been developed jointly by and with the full participation of the Polish government.

GRACE

Priscilla N Myerson, Associate Director
Government Marketing

W. R. Grace & Co.
919 18th Street, N.W.
Washington, D.C. 20006

1991 NOV 23 P 1:42

(202) 628-6424

November 18, 1991

**Dr. Carol C. Adelman
Assistant Administrator
Agency for International Development
320 21st Street NW
Washington, D.C. 20523**

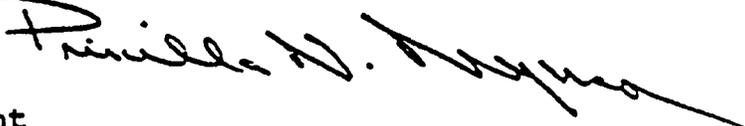
Dear Dr. Adelman,

Enclosed is the revised version of the unsolicited proposal submitted by American Breeders Service on behalf of the Government of Poland to Modernize and Privatize the Artificial Insemination and Breeding Industry in Poland.

We appreciate Dr. James Snell's assistance in revising this proposal to meet the funding and legislative requirements of A.I.D. We believe that we can provide the Polish government technical advice and assistance to restructure and privatize their artificial insemination industry and make the difficult move to a market based economy. We look forward to being able to work directly with the Poles to help them develop an efficient entrepreneurial distribution network.

We will be pleased to provide your office whatever additional assistance is needed to facilitate the approval of this project. As no doubt Dr. Snell has informed you, the Poles would like to begin the project in January 1992 so that they may make the optimum breeding decisions for the year, and while he has explained that this will not be feasible, the Poles would appreciate a decision as soon as possible.

Sincerely,



cc: John Becker w/attachment

I. SUMMARY PROJECT DESCRIPTION

The goal of the proposed project is:

- 1. To transform Poland's government employed inseminators into private entrepreneurs who will provide bovine genetics and genetic management to farmers in Poland.**
- 2. To help the Polish government move toward a market economy by modernizing and privatizing the operation of the Artificial Insemination and Breeding Station at Olecko as a demonstration project for the privatization of the industry.**

Specific project objectives are:

- A. To train the inseminators as independent business people. Since the inseminator is the primary link between the Artificial Insemination and Breeding Station (bull stud) and the farmer, he or she is in the best position to explain the benefits of good husbandry practices and to sell quality genetics and management systems to the farmer. Hence the inseminator not only gains personally, but also provides valuable extension services to the nation. Of the five hundred (500) inseminators operating out of the Olecko A.I. Station, it is estimated that 250 of these individuals will be trained to become independent business people by this project.**
- B. To work with the Ministry of Agriculture (MOA) to devise and implement a plan to privatize the Olecko A.I. and Breeding Station.**

This is a training and privatization project in which major emphasis will be placed on developing entrepreneurial skills that will: a) allow today's government-employed inseminators to become tomorrow's private business people, and b) allow the A.I. and breeding industry to operate as a business and thus allow the government to employ elsewhere the fifteen million dollar subsidy currently supporting the industry. The project will provide training in financial analysis, business accounting, recording keeping systems, marketing, sales, bull handling and management, animal nutrition and genetic evaluation. Acquisition of these skills and the privatization of the bull stud will allow inseminators to function as private business people.

The project will take advantage of the present desire of the Government of Poland to privatize currently subsidized government A.I. and breeding operations to create a model that can be replicated throughout the industry. Primary beneficiaries will be:

1. Inseminators who will become business people in the A.I. and breeding industry. They will be able to increase their income by selling their products in an efficient and profitable manner in a free and competitive marketplace. These entrepreneurs and enterprises can serve as a distribution and extension network for other agricultural commodities thus becoming an economy segment of the rural economy.
2. The Polish government and the Polish people, by no longer having to fully subsidize the A.I. and breeding industry. This will allow scarce financial resources to be used in other more critical sectors of the Polish economy.
3. The Polish consumer, who will ultimately benefit from the lower prices, better quality and more efficient production that will emerge from a competitive privately owned A.I. and breeding industry.
4. The Polish dairy farmer, who will be able to reduce costs while increasing production and efficiency by having access to highly reliable genetics.
5. Polish breeders, inseminators and agri-business people who will gain access to more research data, more advance technology and more diverse genetics as a result of the development of a Polish market in which world class genetics can more fully compete.

Executing agencies:

- A. Ministry of Agriculture (MOA) and the Olecko A.I. and Breeding Station.
- B. American Breeders Service (ABS) in conjunction with the U.S. Agency for International Development (USAID).

II. BACKGROUND

Poland has 38 million people, one of the larger populations among the European countries. With approximately 4.6 million dairy cows, Poland ranks third in Europe in terms of cow numbers, following the USSR and France. Unfortunately, however, Poland ranked fourteenth (14th) out of sixteen (16) European countries in terms of milk production per cow.

In July 1990, a task force composed of representatives of the Government of Poland, the European Economic Community and the World Bank examined the Polish dairy industry. Their report, An Agricultural Strategy for Poland concluded:

" The Polish dairy sector is of major economic and social importance. With an annual production of 15 billion liters, dairy represents 19% of agricultural GDP. It is a major source of income for 2 million farmers—two thirds of the farming community. Besides direct on-farm employment, the dairy industry, with 712 plants spread throughout the country-side, provides over 110,000 jobs and is a major source of rural employment. Finally, milk and milk products are an important part of the diet of the Polish population. With 270 liters per year, per capita consumption is among the highest in Europe, and over 10% of the average household income is spent on dairy and dairy products, giving the dairy sector an important sociopolitical dimension."

" Trends over the last two decades show a gradually declining cow population (25% since 1970) compensated for by a proportional increase in production per cow which now stands at about 3,250 liters per cow per year. Over the last 20 years, the amount of milk processed has almost doubled, from 37% of total production in 1970 to 73% in 1988, with a much greater supply from private farms."

Non-state owned farms in Poland predominate. They are small (5.2 ha) with an average herd size of 2.4 cows per farm. (1.1 million farmers have one to three cows, 300,000 farmers have 4 to 10 cows and 7,500 farmers have more than 11 cows.) In 1990, these cows produced an average of about 3,250 liters of milk. This is only about half the average annual per cow production in other European countries.

Artificial insemination via state controlled A.I. centers is the major form of breeding and is practiced throughout the country (sixty-five percent of the cattle

population is bred by artificial insemination). There are approximately 8,500 inseminators who carry out an average of 718 inseminations per year. (In the U.S., for twice as many cows, there are approximately 2,500 inseminators who carry out an average of 3,000 inseminations per year.)

At present, the Polish dairy industry is experiencing difficulty. There are too many low-producing cows being raised on too many small farms. (Until recently, there were 51 A.I. stations in Poland, which has a cattle population of 10.5 million cattle, of which 4.5 million are dairy cows, as opposed to 9 major bull semen production centers for the entire United States, which has a cattle population of 100 million, of which over 10 million are dairy cows.)

Last year, the Government of Poland removed the subsidy on the price of milk. As a result, the retail price of milk climbed, causing a decline in the consumption of milk and dairy products. The net result has been a decrease in the income of the average dairy farmer. Consequently, the use of A.I. has decreased and the number of cows is also declining.

The high cost of gasoline has also caused feed and insemination costs to rise, even though these costs are still subsidized by the government.

Today, the cost of production is far greater than the price that the farmer receives for his milk. Farmers are to receive \$.06 to \$.07 per liter for their milk, while cost of production is sometimes 3 to 4 times this amount. It is estimated that it takes from 25 to 40 liters of milk to pay the real cost of insemination.

Semen and insemination costs are currently subsidized by the government at approximately \$3.42 per cow. As a result of this subsidy, A.I. centers have little incentive to maximize efficiency of their operation. For example, centers often carry inventories of 2 to 4 million units of semen, when only a few hundred thousand would be adequate for their needs, with a subsequent savings in the actual cost of production and storage.

In terms of real costs, savings in semen production costs would also be a savings to the farmer, who would be able to purchase better genetics at a cost equal to or lower than the subsidized rate.

At the end of 1990, there were approximately 106 million units of semen in stock, mainly from young bulls. Most of this semen is from the dual purpose Black and White breed. This breed has served Poland needs, but is less popular in Western Europe and other countries where the trend is toward specialized single purpose breeds. While continuing to use dual purpose animals, especially for beef production, Poland will need to develop specialized dairy animals such as the Holstein-Friesian if she expects to be competitive with the rest of the

industrialized world. Such a cow would be capable of producing more milk and better quality milk, while converting feed at a more efficient rate.

The Future

Despite these difficulties, Poland has moved forward in its efforts to transform the A.I. and breeding industry. The number of A.I. and breeding stations are being reduced from 51 to 10. While still small, the market for selling imported semen directly to the farmer is growing. Both the Germans, Italians, Dutch and French have been selling small amounts of higher quality semen to farmers. Despite the desire of the Poles to "buy American", there is no American presence in the Polish marketplace. This is ironical given the United States leading position world wide in the field of bovine genetics and given the fact that the semen being sold by the Germans, Italians, Dutch and French can be traced back to bulls of U.S. pedigree.

Further, the government no longer has an exclusive monopoly on selling semen, thus the field is open for private business people. The reduction in the number of A.I. and breeding stations has also expanded the territory in which inseminators are allowed to sell. As competition increases and the industry becomes private, territorial designations will disappear.

Poland has some well educated and highly skilled technicians. The cost of labor is also low. Recently a tariff was imposed to prevent dumping of dairy products from nearby countries. This should allow some breathing and growing space for local farmers. Poland is relatively free of disease and has good health conditions. This will prove advantageous to Poland in the future when it tries to enter the European market. New dairy processing and marketing units are also being formed by Polish farmers in order to directly service the consumer and to gain more control over the marketing process. Finally, Poland's decision to move rapidly to a market economy rather than to pursue a more painful evolutionary path means that its transformation period, while difficult, will be shorter than that of other countries in the former Eastern European bloc.

III. RATIONALE FOR THE PROJECT

As state subsidies to the bull studs and to the inseminators are eliminated, Poland will need efficient, production, marketing and distribution mechanisms to meet the needs of farmers and the demands of consumers. Such a mechanism will also be needed in order for the Poles to be competitive within Western Europe. The Poles believe that the key to developing such a mechanism is privatization. A large pool of inseminators and of persons familiar with bull stud operations exist who could potentially serve as the backbone of this business, provided that they are properly trained and have access to the necessary resources.

Inseminators are generally the best and often the only link between the dairy farmer and the A.I. stud. This project will not only be train them in semen handling, but more importantly, the project will also be train them to be business people who sell quality genetics to the farmer. The inseminator also acts as an extension agent as he or she explains to the farmer how to use the product and provides instruction on associated husbandry practices such as health care, nutrition and general management.

Rapid modernization and privatization of the dairy industry will not take place without a lot of hard work and pain. It cannot be done by fiat or executive order. Poland will need outside support and assistance in order to make this change. The United States is the world's leader in the field of bovine genetics, and American Breeders Service (ABS) is the largest bovine genetics and artificial insemination organization in the world. Fifty years of experience as a profitable business organization and as a technological innovator make ABS uniquely suited for working in partnership with the Polish A.I. and breeding industry in their effort to privatize.

Further, ABS has worked successfully in Hungary for the last ten years. Our genetics and computerized mating and management systems have helped Hungary to become the fourth leading milk producer per cow in all of Europe today. Ten years ago Hungary ranked near the bottom in milk production per cow in Europe. Today we have a private distributor in Hungary. Thus we have a proven record of working with centrally controlled economies interested in reorienting themselves toward the market.

ABS has also provided a small amount of assistance to Poland in the past in supporting the Food and Agriculture (FAO) sponsored study of the Holstein-Friesian population done by Dr. Maria Stolzman. This project proposes to continue the ABS tradition of support. In the process of doing this, ABS also proposes to assist Poland in her efforts to move toward a market economy by training the staff at the A.I. station in accounting, record keeping, financial

management, operations and organization, and most important, marketing.

The project will work with the staff of an A.I. and Breeding Station to help them conduct an in-depth analysis of the market and to prepare for transformation of the A.I. station from a government-controlled and subsidized burden on the taxpayer to a free and independent private business that contributes resources to the public treasury through taxes and jobs. There is no historical precedent in Poland for privatization of its centrally controlled economy. Both the Poles and ABS believe that our fifty year record of success as a private business puts us in the best position to assist Poland in her effort to privatize and that this project can serve as a model in a field where historical precedence is sorely lacking.

Finally, this project is consistent with AID's Democracy Initiative and Partnership for Business and Development Initiative. Freedom and competition in the market place serve as the pillars for freedom and democracy in the political sphere. As her bovine genetics and A.I. industries advance and reach world class standards, Poland, like the rest of the world, will seek the best genetics available regardless of national boundaries. These genetics exist in the United States. Hence the project serves the mutual interest of both countries while at the same time providing Poland with the basis for becoming more self-reliant in food production.

IV. CONCERNS

1. Recent currency (Polish zloty) devaluation, and economic and political fluctuations may cause difficult or unstable conditions in which to try and effect change.
2. As the breeding industry is privatized, one of the major concerns will be getting people to understand the realities of a market economy and its impact on operations and management decisions. Workers at the government stations lack practice operating and marketing in a free economy.
3. Government-subsidized breeding centers are notably overstaffed and inefficient. Changes necessary to streamline operations and make the industry competitive will cause problems of displacement of individual workers.
4. At present, the banking system is being restructured, with the creation of new laws for banks and private ownership. Such laws may have an effect on the structure or operation of the project.

Although we are concerned about the issues listed above, experience over the last year has shown Poland to be quite capable of overcoming obstacles and moving forward to a market economy. We expect this development to be uneven, with some setbacks, but no signs of returning to the old system are indicated.

V. PROJECT IMPLEMENTATION

Project Elements:

1. Training

- a) **A Chief Trainer and Technical expert who will coordinate the project on-site in Poland and will also serve as trainer. It is essential that this individual stay on-site in Poland during the first year of the project. In year two, this individual will pay regular visits to the project rather than live permanently in Poland.**
- b) **Finance, management, marketing, sales and artificial insemination trainers who will train the inseminators and work as partners with the Poles to develop and implement the privatization plan.**
- c) **Translation of the ABS training manual into Polish. This manual, which is the text of the training program, is a valuable and practical take home guide which provides training in genetics, breeding, a.i. techniques, management, nutrition and bull handling etc.**
- d) **A Project Coordinator at ABS who will supervise, monitor and coordinate all aspects of the project, especially the relationship between ABS and USAID.**

2. Evaluation

- a) **The team leader will provide to the implementing agencies a brief monthly report on the overall progress as well as specific progress being made toward meeting the project objectives. This will provide ongoing project evaluation.**
- b) **A mid-term participatory evaluation which will actively involve all the project's participants. This evaluation will review the past year's work and help set the agenda for the second phase of the project. The evaluator will be an independent non-ABS consultant.**
- c) **At the end of the project, an overall project evaluation will be prepared describing project activities and achievements, problems encountered during project implementation, and recommendations for actions which should follow the project.**

ECONOMIC ANALYSIS and BENEFITS:

This project is of direct benefit to the government and people of Poland. In the short and medium term, the project will:

1. **Reduce, if not eliminate the government subsidy now being paid to the State owned A.I. industry. The average subsidy per cow per insemination is now U.S. \$3.42. In 1991, four million and five hundred thousand (4,500,000) units of semen will be used at a cost to the government of fifteen million, three hundred and ninety thousand dollars (U.S. \$15,390,000). This amount only includes the cost of housing, feeding and maintaining bulls, progeny testing, collecting and processing semen, distribution and insemination. It does not include the additional expenses incurred by government for staff housing, social programs (i.e. daycare, health care, recreational centers etc.) and the additional staff needed to operate these programs. Exact figures detailing these expenses are not available, but officials at the Ministry of Agriculture estimate that the cost run into the tens of millions of dollars.**
2. **Possibly provide funds to the Polish treasury if the A.I. center is sold. Aside from the alternative of giving shares cost-free to the workers at the A.I. facility, some of the other alternatives for privatization could involve the Polish treasury receiving the proceeds from the sale of the center.**
3. **Reduce the overhead and administration cost now incurred by the government for operating the A.I. center. If successful, the Polish Ministry of Agriculture would like to see its role substantially reduced to that of enforcing health standard, maintaining and ensuring the integrity of milking records and progeny testing programs and research. This is a role similar to that which is played by the U.S. Department of Agriculture.**

4. Provide a source of tax revenue to the government. As the government of Poland moves to revise its system of taxation, the successful privatization of the A.I. station will provide new revenue to the government on an institutional as well as on an individual employee basis. The cadre of inseminators who would become self-employed entrepreneurs would serve as a new and added source of revenue.
5. Provide profits for the owners and increase income for the employees. Currently, state owned A.I. stations are confined to serving certain geographical areas. A private A.I. station would ultimately compete on a country-wide basis. Hence the possibility exist for substantially expanding market share. The additional revenues and income realized from this expanded market share would hopefully have a multiplier effect upon the rural economy.
6. Reduce the breeding cost portion of the dairy farming process. In the medium to long term, superior genetics and a sales force that can competently market and sell this genetics will help farmers increase their efficiency, reduce their non-return rate, and have access to the most appropriate cost saving technology.

The government of Poland has requested that the American Breeders Service provide major assistance in its efforts to modernize and privatize its breeding industry. This request stems from the government's appreciation of the uniquely "American Model" of a fully private, non-subsidized breeding industry in which farmers ultimately get to make their own choices. This project proposal has been developed jointly by and with the full participation of the Polish government.

As stated earlier, the economic and financial situation in Poland is very fluid at the present time. Poland's efforts and the efforts of other Eastern European countries to move from a communist, centrally controlled political economy to a democratic and free market economy are without historical precedent. A great deal of information needed to do financial modeling and medium to long-term profits projection is not known. This project proposes to train and jointly work with the Poles to acquire this information. This information will then be used to develop and implement a viable plan for

privatizing the Olecko A.I. station as a model for the entire A.I. industry.

Further in this regard, the proximity of the Olecko A.I. station to the Baltic Republics, the Ukraine and Byelorussia can provide additional economic benefits. The Olecko center has bought its liquid nitrogen in the past from Kaliningrad because of its geographical proximity and because of the favorable price. Thus, the management at the Olecko station has developed a good relationship with the Soviet Republics in the area. Discussions are also underway at Olecko with the Lithuanians about the possibility of trading genetics for equipment. Lithuania under a license from Casul in France has produced very good equipment for freezing semen, outfitting processing laboratories and using straws as oppose to obsolete pellets. The Olecko station needs such equipment while the Lithuanians in turn need good genetics. Whether these discussions are successful or not, the Olecko station once again, because of its history and proximity is in an potentially advantageous position to do business with the its neighbors.

Finally, we believe that the number of dairy cows and dairy farmers will continue to decline, that the farmer with 8 to 15 cow will ultimately become the backbone of the commercial dairy industry, that milk quality and milk processing will improve and that milk prices which are currently low, will ultimately rise again. Transportation cost will still remain relatively high, hence a well designed distribution, market and sales network selling quality semen and services is the key to success. Much is still unknown, new law is being made daily, new taxing policy is being devised, prices are changing, inaccurate information is too common and new information must be sought.

Despite such fundamental problems, however we have attached to this "Economic Analysis and Benefits" section of the project an income statement and an operating expense statement that we believe conservatively reflects the earning potential of a privately owned, efficiently operated A.I. facility in Poland.

**AMERICAN BREEDERS SERVICE
INCOME STATEMENT FOR THE OLECKO, POLAND
ARTIFICIAL INSEMINATION AND BREEDING STATION
(Whole Dollars Unless Otherwise Stated)**

	(1)	(2)	(3)	(4)
	<u>Current Operations</u>		<u>First Year of Private Operation</u>	
	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>% of Net Sales</u>
Sales Volume (Units)	<u>450,000</u>	<u>N.A.</u>	<u>800,000</u>	<u>N.A.</u>
Net Sales and Revenues	<u>\$3,078,000</u>	<u>100.0 %</u>	<u>\$3,600,000</u>	<u>100.0 %</u>
Cost of Production	<u>985,000</u>	<u>32.0</u>	<u>1,152,000</u>	<u>32.0</u>
Gross Profit	<u>2,093,000</u>	<u>68.0</u>	<u>2,448,000</u>	<u>68.0</u>
Operating Expenses	<u>2,093,000</u>	<u>68.0</u>	<u>2,160,000</u>	<u>60.0</u>
Operating Profit Before Taxes	<u><u>\$0</u></u>	<u><u>0.0 %</u></u>	<u><u>\$288,000</u></u>	<u><u>8.0 %</u></u>
<u>Memo: Dollar Per Unit</u>				
Net Sales and Revenues	<u>\$6.84 (a)</u>		<u>\$4.50</u>	
Cost of Production	<u>2.19</u>		<u>1.44</u>	
Gross Profit	<u>4.65</u>		<u>3.06</u>	
Operating Expenses	<u>4.65</u>		<u>2.70</u>	
Operating Profit Before Taxes	<u><u>\$0.00</u></u>		<u><u>\$0.36</u></u>	

(a) \$3.42 (50%) of this price is paid by the farmer and \$3.42 is covered by state subsidy.
Total state subsidy to the A.I. industry is over \$15.4 mil a year.

**AMERICAN BREEDERS SERVICE
 BREAKDOWN OF OPERATING EXPENSES FOR THE OLECKO, POLAND
 ARTIFICIAL INSEMINATION AND BREEDING STATION
 IN THE FIRST YEAR OF PRIVATE OPERATION**

(Whole Dollars Unless Otherwise Stated)

Line No.	(1) <u>Amount</u>	(2) <u>% of Net Sales</u>
(1) Selling Costs	\$648,000	18.0 %
(2) Sales Commissions	288,000	8.0
(3) Advertising/Promotion	398,000	11.0
(4) Distribution	<u>324,000</u>	9.0
(5) Total Selling/Marketing Costs	<u>1,656,000</u>	46.0
(6) General and Administrative Costs	216,000	6.0
(7) Financial Services	108,000	3.0
(8) Other Expense	<u>180,000</u>	5.0
(9) Total Other Expenses	<u>504,000</u>	14.0
(10) Total Operating Expenses	<u><u>\$2,160,000</u></u>	60.0 %

ANNEX 3 - OLECKO ARTIFICIAL INSEMINATION AND BREEDING STATION

Olecko, which is situated in the northeast of Poland, was one of the several sites suggested by the Ministry of Agriculture as a suitable location for the project. After visiting these sites, the ABS team along with officials from the Ministry decided upon Olecko.

The area served by the station at Olecko was recommended and chosen for several reasons. It has a high concentration of cattle with a population of 875,000 head. Of this number, 319,000 head were inseminated last year, 70,000 head are under milk recording and 15,000 farms in the area have more than 10 cows.

The station consists of the following units: 1) Semen production facility with a laboratory and semen storage area. 2) Bull holding areas containing stands for 170 head with a 13 head isolation unit, a 6 head sick unit and a 40 head unit for receiving and holding new bulls. 3) Garage and maintenance facilities. 4) Workers cafeteria and lounge. 5) Administration and visitor receiving building. In addition, the station has a 150 hectare farm for feed production. It produces all of its own feed.

A key factor to the success of this project is the attitude of the Director and staff of the center. Though always difficult to gauge, we found both the attitude and the practice of the Director and the staff at Olecko to be in line with the objectives of the project. They see the need for changing the system and have initiated several measures on their own in the last year to reduce cost and advance toward privatization. Subsidies to inseminators for transportation have been reduced and inseminators have been encouraged to develop their own customer base. They have also been placed on half salary. The Director of the center has met with his staff and discussed the difficulties of moving from a State owned entity to becoming a private business. His staff has given their unanimous approval to moving forward in the privatization efforts, though some of them may be adversely affected by a possible reduction in force and loss of benefits. The staff believes that if they redouble their effort to privatize that they will improve their lot and serve as a model for the A.I. and breeding industry.

Finally as was stated earlier, Olecko's proximity to the Baltic States, the Ukraine and Byelorussia put it in a very advantageous position to conduct business with its neighbors. It already has a history of purchasing liquid nitrogen from Kaliningrad and is conducting discussions with the Lithuanians about bartering laboratory equipment for semen.

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