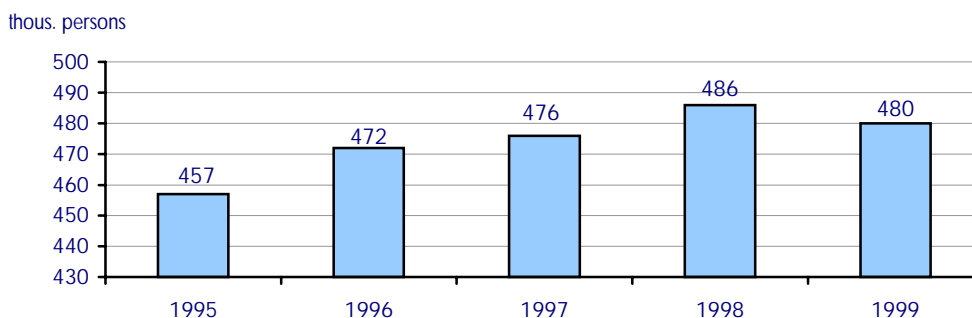


# The Polish Food Industry

## Key benefits for food sector investors in Poland

The largest consumer market in Central Europe, which offers up to 40 million potential consumers, an accelerating pace of development of competitiveness related to limiting the potential of food monopolies and an integration of the companies with the market surrounding - these are just a few reasons why foreign investors have already put more than USD 38.9 bln (according to PAIZ) into the Polish economy, which not only has a share of 21% in creating Poland's Gross Industry Product but also, comparing to other industry sectors, determines the largest labour market, which has exceeded 480 thousands in 1999.

**Fig. 1. Employment in the food - processing industry in 1995-1999, yearly close (thous. persons)**



Source: Central Statistical Office – Statistical Bulletin 1996-2000

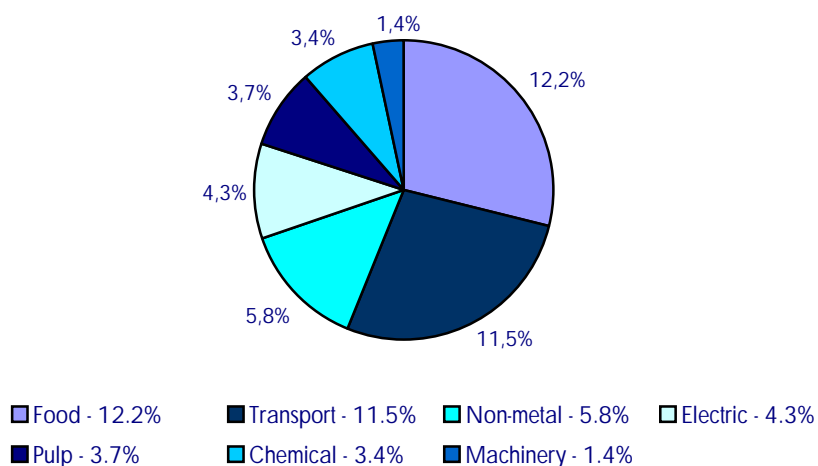
More than 498 foreign-owned food companies appear to have an important influence on the results achieved by the whole food industry sector. It has been registered that the largest foreign investments outlays in the manufacturing sector are those in the production of food products, beverages and tobacco. The total value of the investments, which have reached USD 4.6 bln in 1999, constitutes 12.8% of all the investments made in the industry branches.

## Constant expansion

Production of processed food exceeded USD 11 bln in 1999 (with a total of USD 25 bln from 1990 to 1999), 18.7% of which was directed straight to foreign markets (EU - 48% of total foreign turnover, Eastern Europe - 25% and CEFTA - 11%). With a surplus in foreign trade, which amounted to USD 38.5 mln in 1998 and a deficit of just USD 14.4 mln in 1999, the Polish food industry remains one of the sectors with the smallest intake of the Polish negative foreign trade balance.

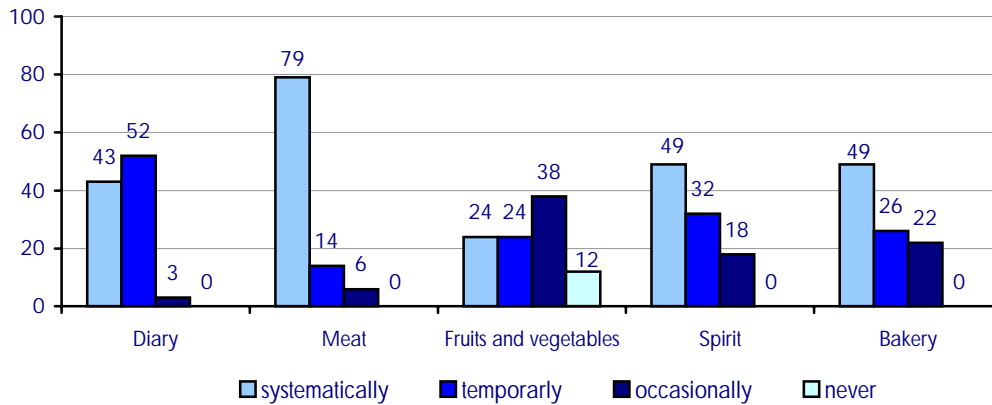
Work efficiency (gross added value per employee) in the production of foodstuffs has risen by some 19% on 1998, which signifies a progress in the branch's restructuring and development undertakings.

**Fig. 2. Foreign direct investment in Poland (by sectors), June 2000**



Source: PAIZ Statistics 1999

**Fig. 3. Frequency of creating new products in individual food industry branches (1999)**



Source: Przemysł Spożywczy 3/2000, p.4

The well-educated Polish workforce has a reputation of being flexible and able to absorb knowledge and experience. Productivity and cost - effectiveness, which it offers, appear to be prior factors in companies' employment strategies.

"Reemtsma currently operates 3 manufacturing plants in Poland employing almost 2,500 people. From our experience we feel that Poland offers well-educated workforce and a flexible labour environment. The technical skills and training are of a high standard and we were able to establish a very constructive relationship with the unions."

Detlef Mide - Chief Financial Officer

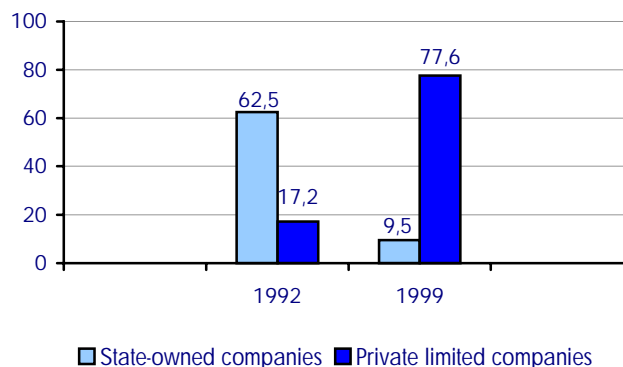
With a growing number of Agriculture Technical High Schools graduates, which reached more than 12 thousands last year, Polish food industry is prepared to compete with demands of the EU market, as well as to give an incentive to foreign investors in terms of their investment decisions on the national and regional level.

## Facing global challenges

Poland's access to the European Union stimulates the process of adapting to the standards that a common market requires from its participants. With a financial support from such funds as SAPARD, small companies acquire measures to venture business initiatives and to make their products more competitive.

An inevitable process of privatisation revitalises the structure of Polish food sector. Domination of private capital in most food production niches enforces horizontal integration within the management structures.

**Fig. 4. Ownership structure in food processing sector (%)**



Source: J. Urban, Polski Przemysł Spożywczy - analiza makroekonomiczna, 2000, p.42

## Companies which has already put trust in the Polish food industry

Having detected the opportunities the food sector offers to its participants, more than 131 foreign-owned companies have launched their undertakings in Poland last year. In 1999, according to PAIZ statistics, they have invested over USD 4.6 bln in food processing industry, which constitutes 12.8 % of the overall 1999 investment track record. Additionally, these enterprises have declared further investment plans, the total sum of which exceeds USD 1.14 bln. The yearly list of 100 biggest foreign investors, published by PAIZ, includes 11 companies that currently expand their activities in the food sector. Having set up 198 manufacturing plants, foreign enterprises contribute largely to a stable growth of the whole branch. The list below includes companies with the largest investment share.

Tab. 1.

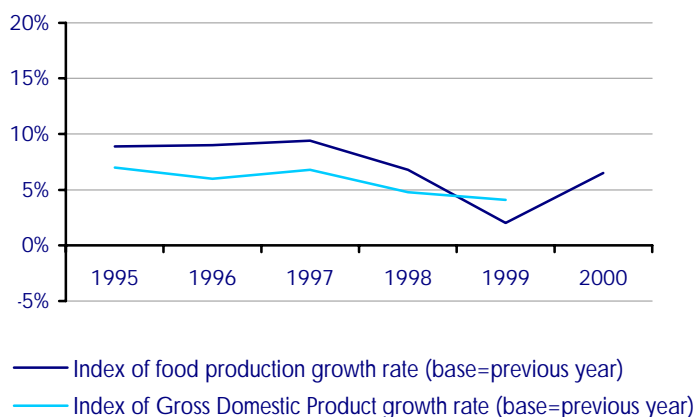
Investor	Branch represented	Capital invested (USD mln)	Origin
1. Reemtsma	Tobacco processing	417,1 + 150,0 plans	Germany
2. Coca Cola Beverages	Beverages	400,0	United Kingdom
3. Philip Morris	Tobacco processing	372,0 + 80,0 plans	United States
4. Nestlé	Sugar confectionery, food processing	334,0	Switzerland
5. Harbin	Brewery	325,9	Netherlands
6. Heineken	Breweries	220,8	Netherlands
7. Pepsico	Beverages	203,0	United States
8. Epstein	Meat processing	200,0	Netherlands
9. Mars Inc.	Sugar confectionery, food processing, animal feeds	160,0 + 160,0 plans	United States
10. Unilever	Sugar confectionery, oils and fats, fish	140,0	International

Source: PAIZ Statistics, June 2000

## Production capabilities

With the 24.7% of the added value share in the EKD section ("production activities"), Polish food industry exceeds the results achieved by the EU food sector (15.8%) and by any other Polish industry branch. Between 1995 and 1999, an average rate of food production growth amounted to 7.1%, outpacing an Index of Gross Domestic Product growth rate.

Fig. 5.

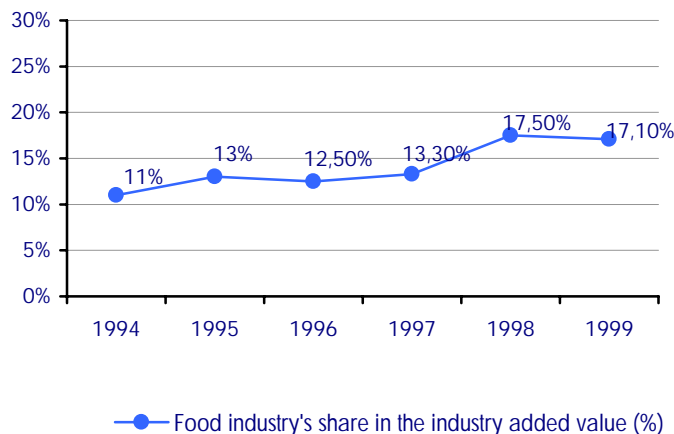


Source: Institute of Agriculture and Food Economics, 2000; CSO - Statistical Bulletin 1996-2000

Poland shows a considerable interest in developing its corporate R&D capacity. According to the CSO records, in 1999, the level of usage of research apparatus was estimated on 70.6% (comparing to 69.4% in 1998), which confirms a sustained increase in this area.

Food industry's noticeable influence on the growth of the global production's added value emphasises an upgrading condition of this particular branch. Economic transformation, which took place in the early 90's, was a reason for rapid growth in a food processing niche, essential in terms of withstanding more diversified and increasing consumers' demands. Along with restructuring and privatisation, this process significantly strengthened the structure of Polish food sector.

**Fig. 6.**



Source: CSO - Statistical Bulletin 1995-1999

## Tendencies in the Polish food sector

### 1. An evolution of consumers' preferences

A constant change of lifestyle, observed in the Polish society, influences the purchasing decisions of potential consumers. Replacing animal fat by vegetable fat, increasing a consumption of dairy products and their preserves in a daily diet, as well as consuming more juices and fruit & vegetable beverages - these are just three trends recorded by the Institute of Agricultural and Food Economics, which mark a process of more "healthy approach" towards daily consumption.

### 2. Rising level of income in Polish households

Regarding data recorded by Central Statistical Office, the gross average disposable income per household increased by 9.2% on 1999 base. This, however, was accompanied by only a small rise in the field of food expenditures, amounting to some 0.1%.

### 3. Strengthening relations with foreign investors

An increasing inflow of foreign capital assures both, wider access to *know-how* and an integration of an inner organisation of the companies. Foreign subsidiaries, as well as joint ventures and capital-shared companies are the leaders in particular sections of the food industry, stimulating the process of restructuring and modernising the branch.

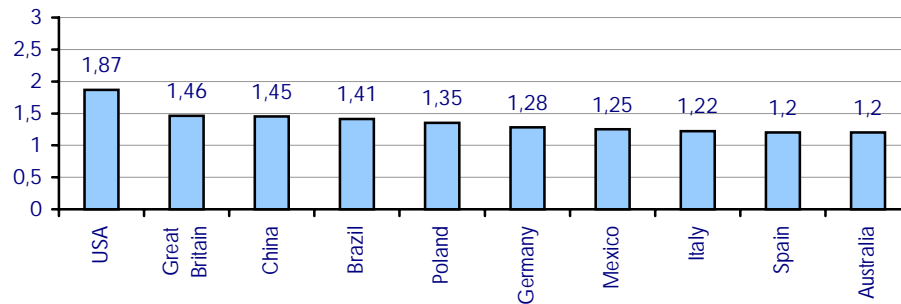
### 4. Entering the stock exchange

Privatisation of the state-owned companies accelerated the process of share issues, which for 20 companies originated from the food sector became an opportunity to accumulate financial measures to expand their internal and external ventures. An intake of the total turnover of joint-stock companies, which oscillated between 8%-8.6% in '96-'98 period, confirms their stable position.

## 5. Trade relations with the Eastern Europe market

An increasing number of Polish companies originated from the food – processing sector are currently entering the Eastern Europe market. This strategy corresponds with a perspective of EU accession, which will lead to establishing new economic borders in this part of the continent. In 1999, an export of foodstuffs directed to former USSR countries constituted 27.5% of an overall export registered in this branch. Although the volume of Polish exports will hardly achieve a level recorded before the Russian crises, several branches, including chocolate confectionery, sugar confectionery, tea and coffee extracts as well as sauce and seasonings production recorded a significant growth in supplying mainly Russian and Ukrainian markets.

Fig. 7. Index of investors' confidence (0-3 scale)



Source: A.T. Kearney

## How the Polish food industry is supported

### 1. Development of Agriculture

**The Agency of Restructuring and Modernising Agriculture** concentrates its activities on securing financial support for farms and small firms operating on the food market. Measures are devoted to development of technical infrastructure and retraining farmers in order to expand agriculture-based services. The Agency launched a credit programme, which makes a charge account more accessible and, thanks to numerous preferences, easier to pay off.

**The Agriculture Market Agency** implements the state agricultural interventionist policies mainly through purchasing and selling of raw and processed agricultural commodities on national and international markets as well as creating and managing stockpiles of agricultural goods along with processed and semi – processed foodstuffs. It also focuses its undertakings on analysing market conditions for agricultural commodities and food products.

**The Agricultural Property Agency of the State Treasury** is authorised by the State Treasury to perform ownership rights towards the state property in agriculture. In addition, it is obliged to take over all the property of liquidated state – owned farms and other real estate belonging to the State Treasury as well as the property of National Land Fund. Having taken over the assets of liquidated state enterprises, the elaboration of restructuring programmes, determining the use of assets once being on their disposal, is undergone.

Devoting its undertakings mainly to upgrading the condition of Polish agriculture sector, **Foundation of Assistance Programmes for Agriculture** also focuses on implementing programmes, which in a long run will facilitate the process of structural integration with EU requirements of both Polish agriculture and rural areas. In order to strengthen the pace of its activities, it is divided into 6 main sections, each operating in a particular field, ranging from Regional Projects to Economic Analysis of Agricultural Policy.

### 2. Occasional trade fairs and activity - encouraging actions

International food processing trade fair - **POLAGRA-FOOD 2000** (originated from a division of a trade fair POLAGRA into POLAGRA-FOOD and POLAGRA-FARM) offers an opportunity to present both, products and production facilities attached to food sector. This year, more than 1,200 exhibitors from 37 countries (Poland, Germany, Czech Republic, Italy, Greece and many more) declared their access in the trade fair. Apart from exhibitions, the visitors are given a chance to talk to consultants and attend many conferences and seminars. The programme also includes Gold Medal of the Poznań International Fair Competition.

**“Polish Good Food”** is a programme issued by Minister of Agriculture and Rural Development, the main purpose of which is to promote processed food offered on Polish market. Taste and health virtues as well as natural conditions in which they are grown, make Polish food products competitive to foreign ones. This fact is particularly underlined by the organisers, who applied the EU role models of promoting foodstuffs.

Financial support directed from **SAPARD** fund aims at implementing EU law regulations in the range of Common Agriculture Policy and related areas. Additionally, it is focused on solving prior and specific issues in order to adapt Polish agriculture sector to EU market reality. More than ECU 56.09 mln per year will be invested in the expansion of processed food sector as well as in promoting Polish food products abroad.

## National and local incentives

The government undertook a number of initiatives the prior aim of which is to favour foreign investors' activities in Polish market. A range of regulations states the criteria that need to be fulfilled by foreign companies in order to benefit from declared grants. This includes a total amount of the investments, their time span and several obligations concerning employment, relations with trade unions and development plans.

For the time being, this incentive layout consists of following points:

- Local property tax relief, which strategic investors may negotiate with local authorities;
- Exemption from customs duties on machinery and equipment on condition that this is registered as a contribution in-kind to the company's capital assets;
- Carrying forward and deducting losses, incurred in given tax year, in equal instalments within next five years;
- Subsidising job creation for the unemployed;
- Full tax exemption in Special Economic Zones, established through the Polish parliamentary legislation;
- Linear corporate tax, which by 2004 will have been brought down to 22% (currently amounts to 30%), becoming one of the lowest corporate taxes in OECD countries;
- Project of an act, which comprises conditions of regulations in terms of public support for entrepreneurs, aiming at adjusting Polish regulations to EU standards.

## How can PAIZ help you

The Polish Agency for Foreign Investments was established to promote Poland's investment opportunities and to encourage foreign companies to choose Poland as their investments' location. Through maintaining an on-going dialogue with the Polish authorities, it constantly strives to improve the local environment for foreign investment as well as ensures them an access to key players in Polish market. The quality of service it offers, guaranteed PAIZ a significant position on the international market and promoted the image of Poland as a country, where foreign investment undertakings are favoured by public opinion.

PAIZ supports foreign businesses, which aim at expanding ventures on Polish market, with:

- ✓ **Providing information, advice and guidance to foreign investors.** Details of business – settlement conditions useful for companies which make country selection appraisals, are published in a series of sector studies and reports, accessible at [www.paiz.gov.pl](http://www.paiz.gov.pl);
- ✓ **Facilitating the initial stages of investment process;**
- ✓ **Delivering legal, technical and financial information;**
- ✓ **Assisting foreign investors in identifying potential business partners.** An updated List of Major Foreign Investors in Poland published by PAIZ contains 840 companies;
- ✓ **Maintaining relations between foreign investors and appropriate government and local authorities.**

## Nine features which signify Polish food industry

- The largest share in **creating Polish Gross Industry Production**, reaching **21%**;
- An intake of **over 12.2%** in absorbing foreign direct investment;
- Accelerating pace of the average **food production growth rate, exceeding 10% yearly**;
- **USD 11 bln invested** in restructuring and development of the food processing industry since 1990;
- **No negative influence** upon overall results of **Polish foreign trade**;
- **31.5% share of food, beverages and tobacco** products in **total households consumption** in 1999;
- Constituting **over 17.5%** of the **1999 global sold production** of the industrial sector;

- Creating the **largest labour niche for over 480 thous.** potential employees;
- Having an **important background in agriculture**, which through comprising **18.7 mln ha of land** puts Poland at the **3<sup>rd</sup> place in Europe in the field of an area of agricultural production land.**

## What makes Poland attractive to foreign investors

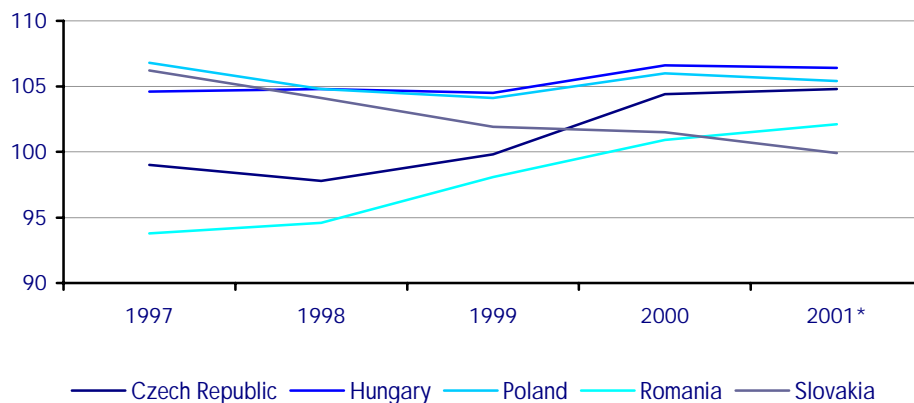
### 1. EU accession process

The process of harmonising Polish structures with those of EU is developing directly to total integration. Before the actual enlargement takes place, the transformation of Polish domestic law and economics will prepare Poland to be an equivalent partner for EU members. During a recent EU summit in Nice it has been stated that Poland will have entered EU structures by 2004. Moreover, favourable outcomes of the negotiations undergone signify Poland's important position among future EU members.

### 2. Resistance to global crises

Stability of Gross Domestic Product growth rate proves that despite being perceived as an emerging market, Poland can successfully cope with global economy slumps. Strong economic condition (confirmed by an access to OECD in 1996) is supported by political stability, which after an overthrow of communism in 1989 has been marked by maintaining a democratic picture of the country.

**Fig. 8. Indice of Gross Domestic Product growth rate (previous year=100)**



\* Forecast - estimated value

Source: CESTAT - Statistical Bulletin 2000