POLISH INFORMATION AND FOREIGN INVESTMENT AGENCY

Food Sector in Poland

Sector profile

Polish Information and Foreign Investment Agency 2013

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Food sector in Poland

- The sold production of food sector constitutes 18% of total industry sales.
- Poland is the eight exporter of food in the EU.
- The sector has successfully weathered economic crises and boasts optimistic development forecasts.
- Poland offers a large potential for bioproducts.
- The further development of the sector is possible, among others, owing to the creation of the brand of Polish food on foreign markets.

Within the last 20 years, the Polish food sector underwent considerable transformation. It was one of the sectors quickest to rebound after the crisis related to the systemic transformation (after the fall of communism) becoming a major stimulator of economic growth. Owing to constant technical, technological and organizational development of the sector, Poland became one of the leading modern and innovative European food manufacturers. This, among others, contributed to the spectacular export success of Polish companies.

The factor considerably accelerating the growth of the sector was Polish accession to the European Union in 2004. This entailed a broad stream of subsidies, both before and after the accession, allowing for the adaptation of manufacturing plants to EU standards. The opening of European markets prompted an over three-fold (from EUR 5 billion in 1994 to EUR 17.5 billion in 2012) growth of the export of agricultural and food products. Economic integration also meant the inflow of numerous foreign investments to Poland; these are a significant source of innovation, among others, for the food sector.

Sector overview

The term "food sector" concerns manufacturers of food products (for people and animals) and manufacturers of beverages, including alcoholic beverages.[1] The food sector does not include manufacturers of agricultural produce, animal breeders or companies dealing in fishery and fishing.[2] It also does not include food distributors.[3]

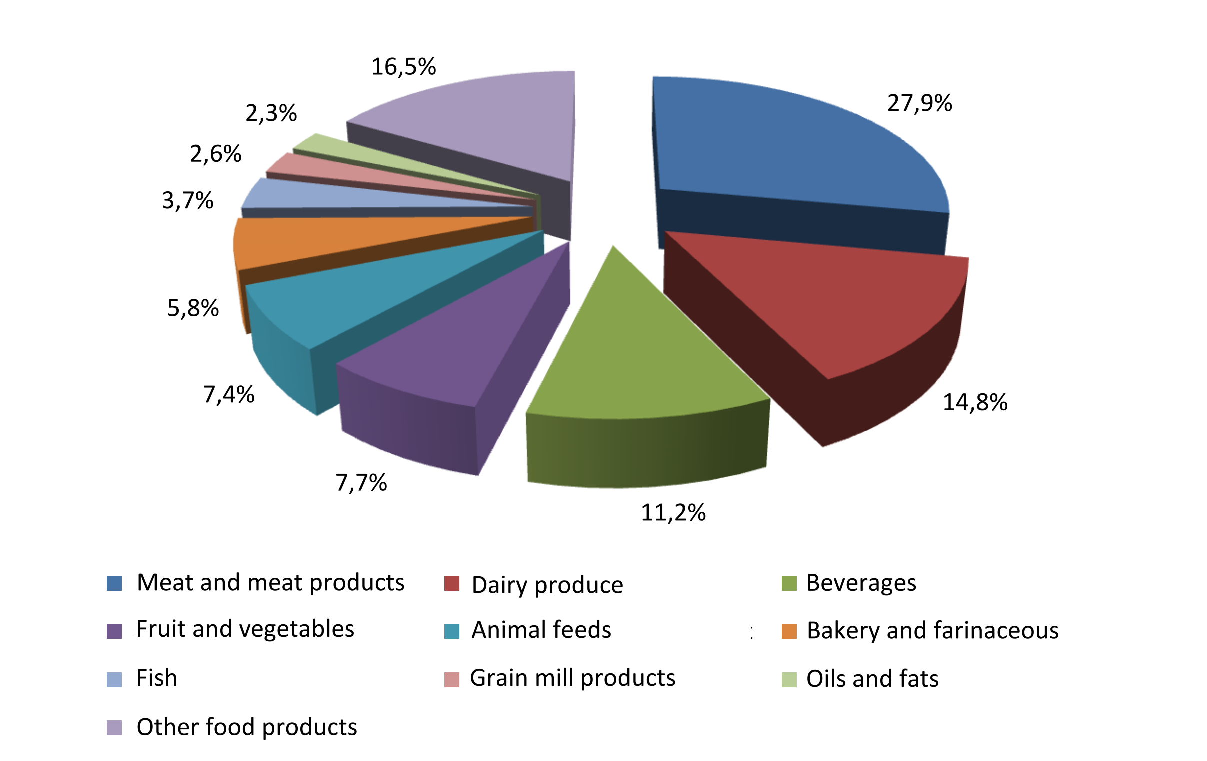
- The sector spans a **very broad range of activities**. It comprises companies dealing in processing of animal products (e.g. meat and dairy industry), processing of plant products (e.g. grain and pasta industry, fruit and vegetable industry), secondary processing (baking, animal feed, confectionary, food concentrate, non-alcoholic beverage industries) and the manufacture of stimulants (alcohol). The products of the sector may be **low-processed** (as in the case of the slaughter of animals and cutting of meat), as well as may be the result of **advanced technological processes**.
- Due to the impact on human health, food processing is subject to numerous **legal regulations** defining **food quality standards**. Observance of these regulations is particularly important in the case of exporters. While the production of food products (excluding alcohols) does not require a concession or license, the necessity of complying with sanitary standards and concerning environment protection entails incurring considerable investment outlays. This creates major **barriers to entry to the food processing market**. Moreover, the competitiveness of existing companies in the sector largely depends on their capability to adapt to the standards required under the provisions of the European Union,
- Due to the above barriers to entry and investment requirements, a majority of **food companies focuses on one type of activity**.

Value and structure of sales

In 2012, the value of sold production of the sector (without VAT and excise tax) in Poland amounted to PLN 204.6 billion. This represented 21.4% of sold production of the processing industry (which is one of the top results in the European Union) and 18% of total industry sales. The sector employed 386 thousand persons which represents 18.9% employed in the processing industry and 15.6% employed in the industry.[4]

[1] Section C of Polish Classification of Activity (MANUFACTURING), divisions 10 and 11. Manufacturers of tobacco products (section C of The Polish Classification of Activity, division 12) are often included in the food. They were not included in this study.
[2] Section A of Polish Classification of Activity.
[3] Section G of Polish Classification of Activity, division 46: wholesale trade.
[4] Central Statistical Office, Outlays and results of industry in 2012. Concerns companies employing above 9 persons.

Diagram 1. Structure of the food sector sales in 2012



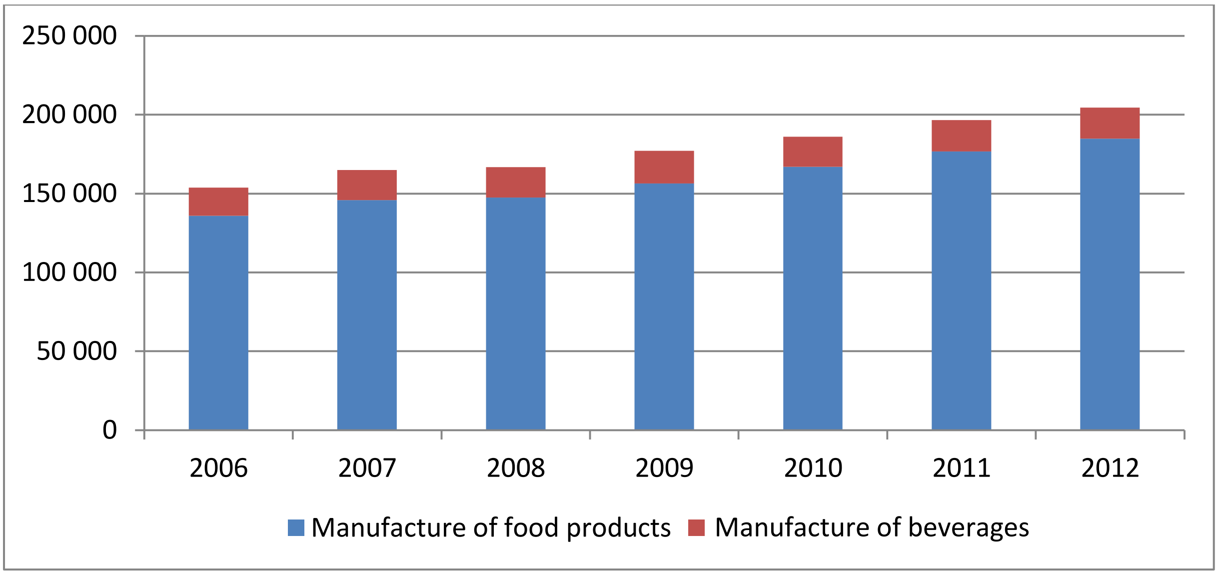
Source: PAIiIZ calculations based on: Central Statistical Office, Outlays and results of industry in 2012 (taking into account excise tax), for companies employing above 49 persons

The food sector is fairly insensitive to business fluctuations. The crisis of 2008 caused a slowdown in the growth of sold production to just 1%, however, since then an annual growth ranging between 4 and 6% has been recorded[5]. The noticeable volatility in sales in the manufacture of beverages, covering alcoholic beverages, bottled water and beverages excluding juices from vegetables and fruit and milk-based drinks.[6] This division saw a nearly 8% decline in 2010 and a slight decrease (by 0.3%) in 2012.

[5] As compared to the previous year, in fixed prices.

[6] Manufacture of beverages (division 11 of Polish Classification of Activity) does not include the production of fruit and vegetable juices, and manufacture of milk-based drinks, classified as food products (division 10 of Polish Classification of Activity).

Diagram 2. Value of sold production of the Polish food sector throughout 2006-2012 (fixed prices from 2012, in PLN millions)



Source: own calculations based on: Central Statistical Office, Outlays and results of industry in 2012. Concerns companies employing above 9 persons

Beverages were the only group where in 2012 a drop in sold production was recorded. As compared to the previous year, the highest growth was recorded in the group of bakery and farinaceous products (by 18%), oils and fats (12%) and meat and meat products (by 11%).[7] The structure of sales of the sector in 2012 is presented in diagram 2.

Export

In 2012, **Poland was the eight exporter of food in the European Union**.[8] According to preliminary data, the total export of agricultural and food products (along with agricultural products, tobacco and tobacco products) in 2012 amounted to EUR 17.5 billion, which, as compared to the preceding year, represents a growth of nearly 17.5%. Around two thirds of this amount is the export of the products of the food sector. The main export products of this sector included: meat and meat preparations (2.4% of the value of Polish goods export), dairy products (1.1%), cereal and dairy preparations (0.7%), vegetable and fruit preparations (0.6%), confectionary products (cocoa and its preparations, 0.6%) and other food preparations (0.6%).[9]

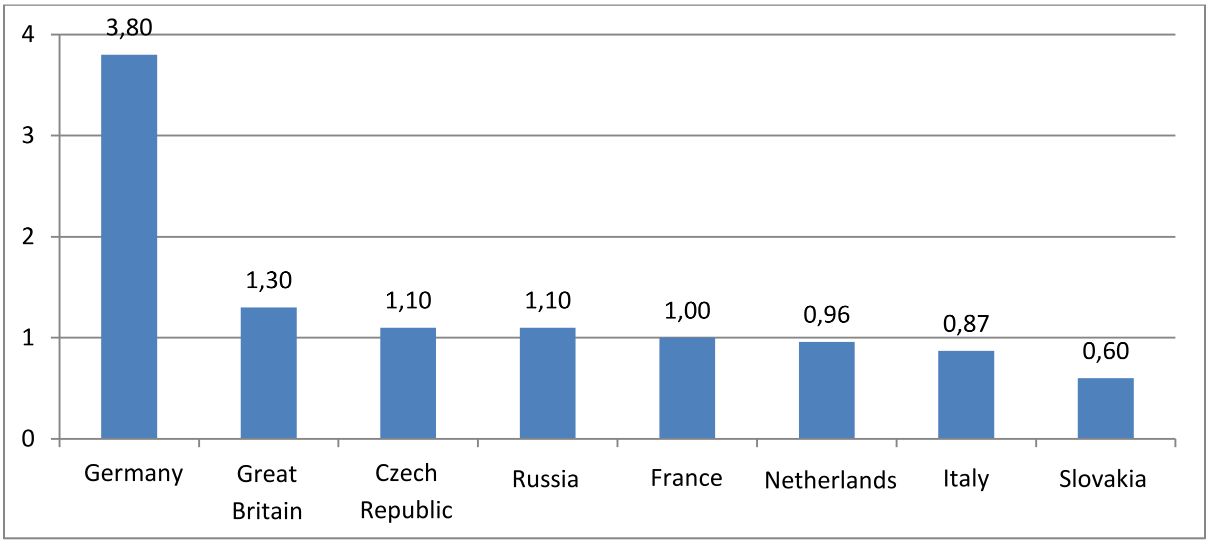
Export sales represented 19.7% of the revenues from sales of the products of the food sector. This share was higher in the division of food products: 22.3%, while in the manufacture of beverages it amounted to only 4.5%. Of that, 77% was exported to EU markets. The largest recipient of Polish food among EU countries was Germany (export worth – EUR 3.8 billion), with Great Britain in second place (EUR 1.3 billion), followed by the

[7] Central Statistical Office, Outlays and results of industry in 2012. Concerns companies employing above 49 persons.
[8] After the Netherlands, German, France, Spain, Belgium, Italy and Great Britain. Source: Eurostat, value of the export of food, beverages and tobacco products.
[9] Central Statistical Office, Foreign, Foreign Trade Statistical Yearbook 2012.

Czech Republic (EUR 1.1 billion), France (EUR 1 billion), the Netherlands (EUR 958 million), Italy (EUR 868 million) and Slovakia (EUR 566 million).

Polish manufacturers and exporters of food consistently diversify their delivery destinations. The last couple of years saw a slow decline in the share of EU markets in Polish food exports, in favour of Eastern markets: the Near East, Far East and Asian markets. The value of export to countries from the Commonwealth of Independent States in 2012 amounted to EUR 2 billion, of which EUR 1.1 billion went to Russia.[10] Poland is active not only on the European or North American market but also in Asia, on the Middle and Far East. During last four years we noted agreed conditions of Polish food products' access to the markets of, inter alia, Japan, China, Vietnam and Singapore. In 2012 Poland experienced a triple growth of farm products sale to China[11],particularly due to pork trade. Poland also experienced significant growth of food export to Vietnam, Japan, Arabia Saudi or United Arab Emirates.

Diagram 3. Main recipients of Polish agricultural and food products (value of export in EUR billions, 2012)



Source: Ministry Agriculture and Rural Development, after: www.rp.pl

Companies and labor market

2 559 companies employing above 9 persons operate in the food sector. 95% of them deal with the production of food products (the remaining in the production of beverages). Nearly a half of companies employed up to 49 person, in the next 40% employment amounted to between 50 and 249 employed, and 11% companies have at least 250 employees. Companies from this last group account for 63% of revenues from sales of the entire grocery sector. The share of large enterprises (250 and more employees) is higher among beverage manufacturers (14.1% of total enterprises, achieving over 81% of revenues from sales of the entire division) than among manufacturers of food products (10.9% of total enterprises, 60% of revenues from sales of the entire division).[12]

[10] http://www.ekonomia.rp.pl/artykul/983034.html
[11] http://forbes.pl/polska-rolniczym-potentantemeksport-zywnosci-siega-19-mld-euro,artykuly,165397,1,1.html
[12] Polish Classification of Activity, Financial Performance of Business Entities in 2012.

Table 1. Larges food companies in Poland

No.	Name	Revenue in 2012 (PLN thousand)	Employ ment	Main scope of production	Website
1	GK Kompania Piwowarska SA, Poznań	4 402 673	3 200	alcoholic beverages	www.kp.pl
2	Grupa Cargill w Polsce, Warszawa	4 279 882	1 646	products for the food industry	www.cargill.com.pl
3	Grupa Animex, Warszawa	3 805 000	7 300	meat and meat products	www.animex.com.pl
4	GK Grupy Żywiec SA, Żywiec	3 565 676	5 158	alcoholic beverages	www.grupazywiec.pl
5	SM Mlekpol, Grajewo	3 209 584	2 222	dairy produce	www.mlekpol.com.pl
6	Grupa Mlekovita, Wysokie Mazowieckie	3 028 146	2 582	dairy produce	www.mlekovita.com.pl
7	Grupa Maspex Wadowice, Wadowice	2 912 963	4 832	different food products and beverages	www.maspex.pl
8	GK Sokołów SA, Sokołów Podlaski	2 877 412	6 314	meat and meat products	sokolow.pl
9	Ferrero Polska Sp. z o.o., Warszawa	2 842 195	1 322	sweets, chocolate products	www.ferrero.pl
10	Nestle Polska SA, Warszawa	2 797 129	3 210	miscellaneous food products and beverages	www.nestle.pl
11	Zakłady Tłuszczowe Kruszwica SA, Kruszwica	2 694 361	1 000	plant oils and fats	www.ztkruszwica.pl
12	Krajowa Spółka Cukrowa SA, Toruń	2 330 881	1 540	sugar	www.polski-cukier.pl
13	GK Polski Koncern Mięsny Duda SA, Warszawa	2 104 145	1 650	meat and meat products	www.pkmduda.pl
14	Grupa Firm Farmutil, Śmiłowo	1 886 765	5 674	meat and meat products	http://farmutil-hs.pl
15	Sobieski Sp. z o.o., Warszawa	1 735 248	ND	spirits	www.belvedere.pl
16	Kraft Food Polska S.A. / Mondelez Polska SA.	1 625 000 (2011)	ND	coffee, sweets	www.mondelezinternational.eu/
17	Mars Polska Sp. z o.o., Sochaczew	1 548 939	1 389	animals feeds, milk beverages, sweets	www.mars.com/poland
18	Danone Sp. z o.o., Warszawa	1 529 097	1 313	dairy produce	www.danone.pl
19	CEDROB S.A.	1 377 000 (2011 r.)	ND	meat and meat products	www.cedrob.com.pl
20	Okręgowa Spółdzielnia Mleczarska w Łowiczu, Łowicz	1 371 429	1 178	dairy produce	www.mleczarnia.lowicz.pl
21	Wipasz SA, Wadąg	1 369 946	941	animal feeds	www.wipasz.pl
22	Pini Polonia Sp. z o.o.	1 274 000 (2011)	ND	meat and meat products	www.pinipolonia.com/
23	Grupa Kofola SA, Kutno	1 022 663	2 192	beverages	www.kofola.pl

Source: PAIiIZ study based on Rynek spożywczy issue 29, November 2012 and Polityka 500 List, www.lista500.polityka.pl, accessed: August 2013

List of the largest companies in Poland, including 23 companies from the food sector with 2012 revenues in excess of PLN 1 billion.

On the list of the largest companies, three groups of enterprises are most prominent. These are **manufactures of alcohol** (lead by Kompania Piwowarska)**, manufactures of meat and meat products** and representatives of the **dairy sector**. Neither of these groups can boast a significant advantage over the others, and neither is a definitive leader of the Polish food sector. Despite the strong position of Poland on the European food markets, no Polish sector can be considered the development engine of the sector in Europe or in the region.[13] Nevertheless, Polish dairy products, meat products and fruits/vegetables products are recognised on the European market.

For nearly 20 years, a progressing **concentration and consolidation** of production activity is observable. This stems from the ambitions of groups of companies and leaders of respective industries to reduce costs and increase competitiveness on international markets. As compared to European economies, the degree of consolidations of the Polish food sector is still low. In the coming years, we may expect that this process will be continued through further mergers and takeovers. Concentration and consolidation will be facilitated by the ownership structure of the sector which is characterized by a low share of public ownership. Due to the specific characteristics of food processing (high labor intensity, strong ties to the local market, considerable product range variety, short production series) consolidation processes do not apply to all types of activities. The market will always feature numerous small and medium enterprises.[14]

The competitiveness of the Polish food sector is also growing owing to cooperation in the form or **clusters of cluster initiatives**. Clusters group companies operating in the same region, with similar scopes of activity which, despite being competitors, establish cooperation to leverage synergy effects: they prepare a joint offering, conduct joint promotional activities, develop joint distribution channels etc. Food clusters are the third most numerous groups of clusters in Poland (20 out of a total of 212), surpassed only by ICT and tourism sector clusters. These clusters are located in 12 voivodeships, including three in each of the Lubelskie, Lódzkie, Podlaskie and Warmińsko-Mazurskie[15] voivodeships. The most developed clusters is located in Lubelskie voivodenship Cluster Valley of Bio Food and Food Cluster of Southern Wielkopolska with seat in Kalisz.

Recently**, employment** in the food sector has been similar to the maximum level (400 thousand persons) achieved in 2011. The total volatility of employment throughout 2006-2012 did not exceed 4.5%. One concerning occurrence was the drop in employment in 2012 amounting to 3.6%. The division most prone to employment volatility was the manufacture of beverages which in the recent years has been on a clear decline (drop of employment by over 15% throughout 2009-2012). In the same time employment in the manufacture of food products grew by 2%.

[13] After: BAA Polska, Food sector in time and space. Evaluation of the Standing of Adaptability of the Sector.
[14] After: BAA Polska, Food sector in time and space. Evaluation of the Standing of Adaptability of the Sector.

[15] After: Clusters in Poland. Catalogue. PARP, Warszawa 2012.

The average monthly gross **wage and salary** in 2012 in the food sector amounted to PLN 3 150. In the recent years it ranged from 92-94% of the average wage and salary in the processing industry. This proportion was distorted in 2012 when, due to a clear decline in employment, wages dropped to 90% of the average for the processing industry. Wages in the sector vary greatly between respective divisions: the average wage and salary in the manufacture of beverages is equivalent to 167% of the level in the manufacture of food products.

Every year the resources of the labor market are reinforced by approx. 13 thousand graduates of universities majoring in manufacturing and processing. Over 60 thousand students are enrolled in these fields of study.[16] Faculty of food technology is available on universities in 19 academic centers in the country, agriculture – in 22, and fishing – in 3 academic centers (Olsztyn, Szczecin, Krakow). Wroclaw University of Environmental and Life Sciences executes studies ‘Human nutrition’ and ‘Food safety’. 36 universities in Poland offer studies on dietary.

Perspectives of the sector

The most important factors impacting the future of the Polish food sector in the perspective up to 2020 were listed in the “Seeking fair wind. Strategic analysis of the macro-environment of the food sector in Poland" report.[17] Apart from obvious issues, such as prices of agricultural products or economic growth perspectives, the growing degree of globalization is increasingly important to the future of the sector. Globalization not only impacts the flow of information or intensity of commercial exchange, but also the standardization of consumption models in countries involved in the exchange.

The largest growth of population in absolute terms is expected in Asia and Africa. This will entail **changes in the direction of Polish export**. Currently approximately a half of the export of Polish agricultural and food products is directed to Poland's neighbors. Throughout 2010-2020 a 1.9 % decrease in the population of these countries is forecasted. At the same time Polish manufacturers of low-processed goods, which already are considered competitive (for example, poultrymeat or powdered milk), will stand a chance to increase their export to developing countries with low per capita income.

Apart from the challenges resulting from global trends, the Polish food sector will face challenges specific to the local environment. Currently, **Polish food primarily competes on foreign markets with pricing** and **the investment attractiveness of the Polish food sector stems from, among others, low labor costs**. Economic development and growth of the affluence of the society mean that the importance of cost factors will gradually diminish. Due to growing production costs and intensifying health trends, according to industry experts**, the chance to maintain the current markets and acquire new ones lies in focusing**

[16] Central Statistical Office, Institutions of Higher Education and Their Finance in 2011. Numbers concern all directions related to manufacture and processing, not only food.
[17] BGŻ Bank 2012.

on bio-food[18]. It is also important to **shape the image of Poland as a supplier of tasty and safe products**: produced from the highest-quality products in compliance with the strictest sanitary standards.

Foreign investment

The opening of the Polish economy in 2004 prompted the entry of international food companies to the domestic market. Currently only three of the largest ten Polish food companies (see Table 1) have exclusively Polish capital (these are Mlekpol, Mlekovita and Maspex). A similar ratio of domestic companies applies to the rest of the list. The main regions of operations of foreign investors in the food sector are the following voivodeships: Mazowieckie, Wielkopolskie, Łódzkie, Opolskie and Dolnośląskie. These voivodeships host manufacturing plans of over 30 leading international food manufacturers.

Image 1. Leading regions and food sector companies with foreign capital in Poland

Source: PAIiIZ, 2013

[18] Quote from: BAA Polska, Food sector in time and space. Evaluation of the Standing of Adaptability of the Sector.

Available forms of public assistance

Entrepreneurs carrying out new investment projects in Poland may take advantage of various forms of investment incentives granted as part of public assistance, in particular:

- tax exemptions in Special Economic Zones (SEZ),
- exemptions from local taxes, including property tax,
- government grants for strategic investments,
- support from EU funds,
- tax incentives for the acquisition of new technologies, and research and development,
- technology and industrial parks.

The primary tax incentive is exemption from income tax in one of 14 special economic zones that will remain active until 2026. Each zone has numerous sub-zones in various parts of Poland. In the special economic zones investors may count on the availability of attractive investment lands equipped with the necessary utility infrastructure and comprehensive assistance in legal and administrative procedures related to their project.

Communes also incentives have at their disposal – they are authorized to grant exemptions from local taxes and levies, including property tax.

Cash subsidies for the support of new investments come from the State budget (government grants) and EU funds.

Government grants (for the creation of new jobs and investments) are granted under the Program for supporting investments of major importance to the Polish economy for the years 2011–2020 for investments in the following sectors:

- automotive,
- electronic,
- aviation,
- biotechnology,
- modern services,
- research and development activity.

Moreover, considerable investments from other sectors (creating at least 200 new jobs with qualified costs of at least PLN 750 million or creating at least 500 new jobs with qualified costs of at least PLN 500 million) may also be eligible for support under the Program.

As a member of the EU, Poland is the largest beneficiary of support from EU funds. The funds are allocated to, among others, innovative investments, research and development, infrastructural projects, environment protection, renewable sources of energy, employee trainings.

Throughout 2007-2013 Poland had at its disposal approx. EUR 67 billion and in the new 2014-2020 budget this will be approx. EUR 73 billion. The priority in the new budget will be to support the research and development activity of enterprises.

As the investment incentives are available under various programs, and vary in terms of conditions and availability in time, we suggest contacting the Polish Information and Foreign Investment Agency to obtain current information about available incentive packages.

Testimonial

The meat industry is the largest sector of the food industry in Poland. It employs over 100 thousand persons. Poland is one of the European leaders in the production of pork and the second producers of poultrymeat.

In the recent years, Polish export of poultrymeat has grown significantly. While the export of pork, due to the dramatic drop of headage and strong competition from Germany and Denmark records a deficit in foreign trade, poultrymeat has a positive balance and export is showing a consistent upwards trend. As compared to the previous year, this growth amounts to over 20%.

Animex is the largest group of meat plants operating in Poland. It is also the largest exporter, sending approx. 30% of its meat to 40 countries in the world. Apart from the export of Polish Krakus ham to the American market started over 60 years ago, Polish manufacturers also deliver their meat and products to over 40 countries in the world, among others, such as: many EU countries, Russia, Japan, Korea and lately even China.

Polish meat and meat products are widely renowned among consumers all over the world for their quality and excellent taste.

Andrzej Pawelczak, PR Director, Animex

Main institutions and industry organizations

- Polish Federation of Food Industry Union of Employers

  http://www.pfpz.pl

- Agricultural and Food Quality Inspection

  www.ijhar-s.gov.pl

- National Sanitary Inspection

  www.gis.gov.pl

- Inspection for Environment Protection

  www.gios.gov.pl

Press and web portals

- *Rynek spożywczy* – food sector magazine
  http://www.portalspozywczy.pl/rynekspozywczy/
- *Food-lex* – magazine devote to issues of food law
  https://www.facebook.com/KwartalnikFoodLex
- PortalSpożywczy.pl
- Przeglad-Spozywczy.pl

Main industry events

- Mleczna Rewia – Dairy Fair, Gdańsk
- POLFISH - Fair of Fish Processing and Seafood Products, Gdańsk
- BALTPIEK - Fair of Bakery, Confectionery and Ice Cream Products, Gdańsk
- POLAGRA FOOD – International Trade Fair for Food, Poznań
- POLAGRA-TECH - International Fair of Food Technologies, Poznań
- NATURA FOOD – Natural Food Fair, Łódź
- GASTROFOOD - Food and Drinks for Catering Trade Fair, Kraków
- ENOEXPO – International Wine Trade Fair, Kraków
- Mleko-Expo – Dairy Fair, Warszawa

A full list of events in the agricultural and food sector is available in the publication of the Agricultural Market Agency: Agricultural and food fairs in Poland in 2013.

http://www.arr.gov.pl/data/00321/broszura_targi_rolnsp_2013.pdf

Table 2. Food sector - basic statistical data

Food sector: divisions and groups	Sold production in PLN millions	Average employment in thousands	Average gross wage and salary in PLN
Manufacture of food products	**141 001.6**	**268.3**	**3 162.83**
including:			
processing and preserving of meat and production of meat products	44 317.9	90.1	2 520.16
processing and preserving of fish, crustaceans and molluscs	5 908.3	12.3	2 807.54
processing and preserving of fruit and vegetables	12 192.7	24.9	3 210.02
manufacture of vegetable and animal oils and fats	3 684.4	4.5	4 652.81
manufacture of dairy products	23 564.0	35.5	3 551.54
manufacture of grain mill products, starches and starch products	4 179.7	6.3	3 743.65
manufacture of bakery and farinaceous products	9 253.5	45.0	2 536.81
manufacture of other food products	26 212.6	42.3	4 235.14
manufacture of prepared animal feeds	11 688.6	7.4	5 820.56
Manufacture of beverages	**17 833.0**	**21.8**	**5 214.91**
Total manufacture of food products and beverages	**158 834.6**	**290.1**	**3 317.04**

Source: Central Statistical Office, Outlays and results of industry in 2012. Concerns companies employing above 49 persons

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