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Poland

Retail Food Sector

Annual

2004

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Report Highlights:
Poland's food retailing sector continues to undergo radical transformation as consumer incomes grow in this modernizing country of 38.6 million people. Hypermarkets increased from 27 in 1996 to 293 in 2003. They are projected to expand to over 300 by 2005 and will account for about 50 percent of retail food sales within the next five years. Prospects for U.S. sales are hampered by stiff Polish and EU competition, stringent food ingredient regulations, and costly terms of business to get product onto large retailers' shelves. Nevertheless, there are select opportunities outlined in Section V, "Best Prospects".

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Warsaw [PL1]
[PL]

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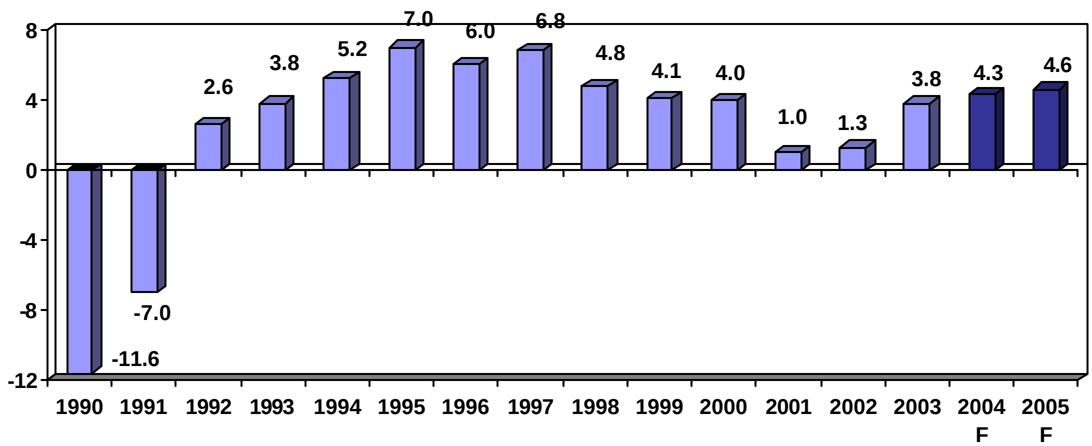
I. MARKET SUMMARY

General Information

In the mid to late 1990s the Polish economy grew rapidly. After a slowdown, due mainly to the global economic conditions, Poland has regained the pace of growth that it achieved in the second half of the 1990s. In 2003, GDP grew by 3.8%. Economists forecast that GDP should grow by at least 4.3% in 2004 and 4.6% in 2005.

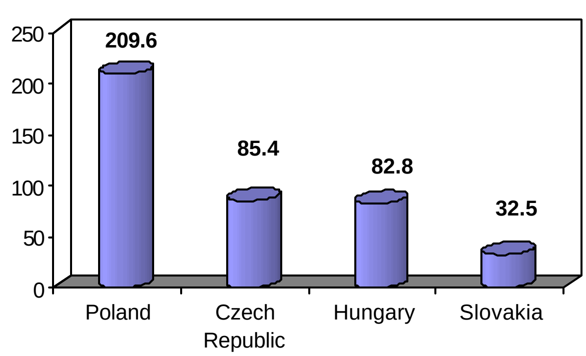
Chart 1. GDP growth in 1993-2005 (%)



Source: Main Statistical Service (GUS)

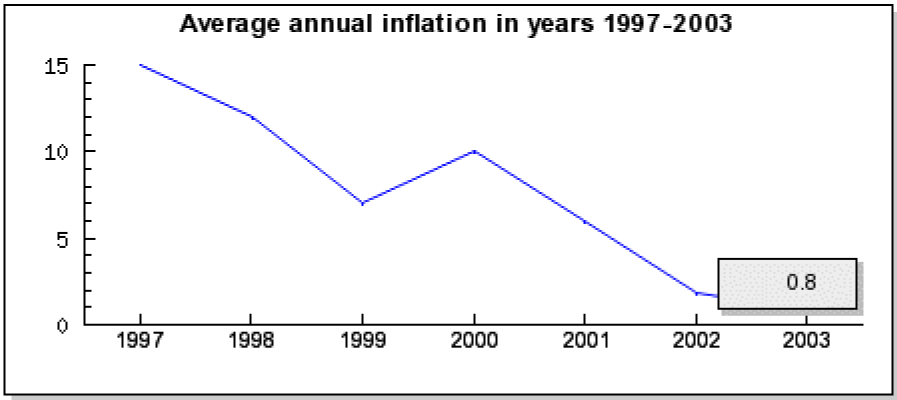
Poland's GDP at current market prices was estimated at $209.6 billion in 2003, (or $5,400 per capita). In terms of Purchasing Power Parity, this equates to $10,900 per capita, having grown from $4,400 in 1990.

Chart 2. GDP level in Poland in 2003 compared to other countries in bln of $



Consumer price inflation has been dropping since the beginning of the transformation. Average annual inflation in 2003 was 0.8% (1.9% in 2002). According to the GUS forecast, in 2004 CPI will be 2.0%.

Chart 3. Average annual inflation in 1997-2003



Source: GUS

Unemployment had fallen steadily from 1993 to 1998. However, according to the national census, the unemployment rate exceeded 20% in 2003, while the GUS statistics estimate is 18% (roughly three million people are registered as jobless). Unemployment is expected to decrease further in the coming years and drop below 19% at the end of 2004 as the effects of the economic recovery continue to be felt.

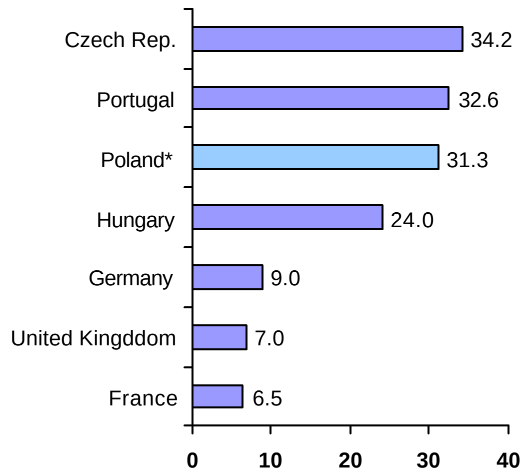
The transformation of the Polish economy into a market economy has resulted in significant development of retail trade since the late 1990s. Dynamic changes in the domestic market have occurred, resulting in increased competition in both the production and trade sectors; companies trading in food products have been under particularly strong pressure, as this segment of the market has become an area of significant interest to foreign competitors.

Foreign capital and new standards of distribution and trade have not only shown Polish retailers new ways of operating their businesses but also challenged them to create their own methods to attract and retain customers.

Polish retail trade companies also realize that they cannot ignore globalization. They have begun concentrating and consolidating processes to strengthen their market position.

All of these new phenomena and retail market changes resulted in conversion of a producer market into a consumer market, as a result there are continuous efforts to increase revenues. However, compared to western Europe, the Polish retail trade is still very much fragmented due to the nature of Poland's demographic structure, where 38 % (15 million people) of the Polish population live in over 50,000 villages.

Chart 4. Number of shops per 10 000 inhabitants



* excluding open markets

In 2003 the number of retail outlets in Poland decreased slightly to 448,000 from almost 450,000. However, it is still twice as many as in Spain and six times more than in the United Kingdom. In addition, there were about 400,000 other retail outlets such as small kiosks, stands, stalls, etc. The total number of retail outlets is about 840,000.

Retail Trade

Retail trade represented 18.5% of Poland's GDP in 2003 and its share in terms of gross of gross added value was 21.2%. In 2000 it was estimated that on average, not more than 35 customers shopped in a traditional shop, where they spent less than PLN 100 ($ 25.00). The situation was even worse in rural areas where the number of customers was three times lower. In 2002 the average daily number of shoppers in traditional shops decreased by another 10-15%, regardless of their location and the unit transaction value was also lower. This demand trend continued in 2003.

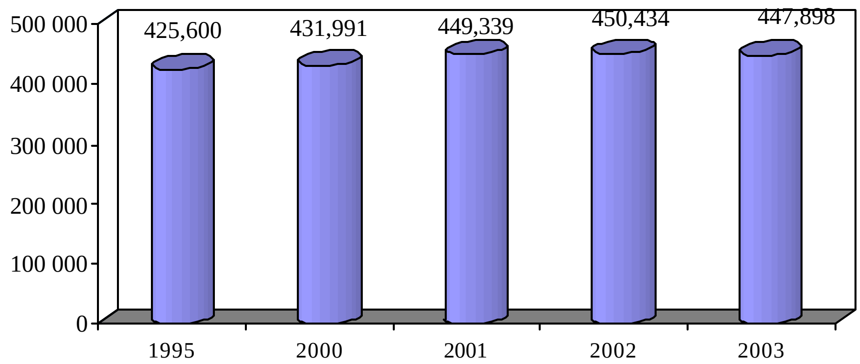
The growing popularity of hypermarkets is reflected in their increasing number of customers. They are becoming more and more the main source of household supplies. In 2001 the number of people who shopped at hypermarkets more than once a week increased by over 100% compared to 1999 (from 18 % to 39 %). A further but not as spectacular increase occurred in 2002 and 2003.

The average purchase at a hypermarket, is estimated at PLN 172 = $41.00 (PLN 203 in Warsaw and PLN 260 in Gdansk). On the other hand, the average value of the transaction in traditional shops has dropped 10-15%. This decrease has mainly affected shops located in places inhabited by fewer than 10,000 people.

The increase in the total number of entities dealing with the retail trade was solely due to efforts of private shop owners. The retail trade was the first sector of the Polish economy to be almost entirely privatized at the beginning of the transformation period. At present there are only a few cooperative companies and an insignificant number of state-owned retail units. The number of state owned retail units continues to decrease (from 2,330 in 2000 to

1,792 in 2002, and 1,519 in 2003), and they represent only about 0.3% of the total number of shops.

Chart 5. Number of shops



Source: Polish Statistical Yearbook 2003, 2004

About 77% of shops are located in urban areas, which has been the case for the last three years.

During the last decade a rapid increase in the market share of super/hypermarket chains, in most cases with foreign capital, has been noted.

Table 1. Number of shops with foreign capital

Description	**1995**	**2000**	**2001**	**2002**	**2003**
Shops with foreign capital	748	2,975	3,250	3,321	3,852
The % of shops with foreign capital of all shops	0.18	0.69	0.72	0.74	0.86

Source: Polish Statistical Yearbook 2003, 2004

Due to the lack of capital, weak financial situation, and low profitability, Polish companies have lost the first battle for access to the food retail market. However, over the last two years there has been a more active approach towards regaining lost positions. Nonetheless, given their greater access to capital, foreign companies are expected to play a particularly significant role in trade development during the coming years.

Over the past three years, three main trends characterized the Polish retail trade. Traditional retail business (shops with an area smaller than 300 m^2) have been gradually losing their importance, the fast moving consumer goods market has been stabilizing, and strong competition has surfaced within modern distribution channels. The latter is taking place at the expense of traditional distribution channels whose financial situation is systematically becoming worse.

The fact that 98.6% of retail companies have no more than two shops is further evidence of the dispersed structure of the trade. Organizations owning more than 20 shops represent less than 0.1% of the total number of companies active in this sector.

In 2003 privately owned businesses represented as much as 82.7% of the total number of business entities involved in retail trade, which was 0.2% more than in 2002.

Table 2. Companies and number of shops owned

Specification	**2001**	**2002**	**2003**
Total	**408,481**	**409,721**	**404,286**
up to 2 shops	402,788	404,335	398,681
3-10 shops	4,665	4,350	4,551
11-20 shops	770	756	740
21-50 shops	225	239	264
51-100 shops	26	30	35
101-200 shops	5	9	10
over 200 shops	2	2	5

Source: Polish Statistical Yearbook 2003, 2004

Despite the fact that the number of small shops (below 50 m^2) decreased 3-5% in 1999, 1% in 2000, and by a further 3.6% in 2001, they still continue to form a major group of retail units. In 2003 the number stabilized at a level similar to that in 2001 and 2002.

In 2002 for the first time since the beginning of the 1990s, the rate of growth of shops with floor space exceeding 400m^2 slowed (only 4% compared to 13% the previous year). In 2003 the pace of expansion (11%) was slower than in 2001, but much higher compared to 2002. It is expected that it will be much lower in coming years and that the average sales area will also be smaller compared to hypermarkets built in the second half of the 1990s.

Table 3. Shops by operating area in 1996-2003

			below 50m²	50-100	101-200	201-300	301-400	over 401m²
1996	405,563	Q-ty	369,926	20,661	8,929	2,377	1,110	2,560
		%	91.2	5.1	2.2	0.6	0.3	0.6
1997	424,362	Q-ty	390,311	18,193	9,175	2,570	1,255	2,858
		%	91.9	4.3	2.2	0.6	0.3	0.7
1998	451,785	Q-ty	414,684	20,795	9,371	2,655	1,182	3,098
		%	91.8	4.6	2.1	0.5	0.3	0.7
1999	450,232	Q-ty	417,772	16,925	8,014	2,529	1,479	3,513
		%	92.8	3.8	1.8	0.5	0.3	0.8
2000	431,991	Q-ty	399,767	16,297	7,872	2,567	1,551	3,937
		%	92.5	3.8	1.8	0.6	0.4	0.9
2001	449,339	Q-ty	415,017	16,871	8,500	2,817	1,680	4,454
		%	92.4	3.7	1.9	0.6	0.4	1
2002	450,434	Q-ty	417,391	15,933	8,089	2,780	1,616	4,625
		%	92.7	3.5	1.8	0.6	0.4	1
2003	447,898	Q-ty	412,446	16,761	8,686	3,071	1,793	5,141
		%	92.1	3.7	1.9	0.7	0.4	1.1
*2003 2002	99.4		98.8	105.2	107.4	110.5	111	111.2
*2002 2001	100.2		100.6	94.4	95.2	98.7	96.2	103.8
*2001 2000	104		103.8	103.5	108	91.1	108.3	113.1
*2000 1999	95.9		95.7	96.3	98.2	101.5	104.9	112.1

** Represents year-by-year percentage change.*
Source: Polish Statistical Yearbook, 2003, 2004

Table 4. Selling space of shops with foreign capital

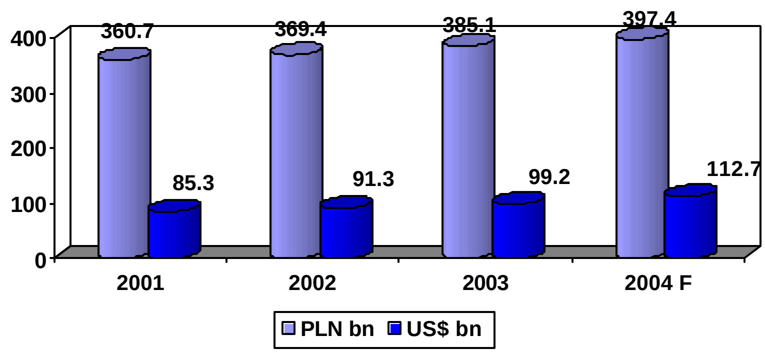
2000		**72001**		**2002**		**2003**	
m^2	**% of total sale space**	**m^2**	**% of total sale space**	**m^2**	**% of total sale space**	**m^2**	**% of total sale space**
1,763,974	6.5	2,609,039	8.5	2,756,453	8.5	3,563,957	10.5

Source: Polish Statistical Yearbook, 2003, 2004

The rapid growth in a number of super and hypermarkets seen in the 1990s (95 outlets at the end of 1999 represented an increase of 67% compared to 1998) has slowed down. There were 293 hypermarkets in 2003 (35% more than in 2002). The number of supermarkets increased from 1,863 in 2002 to 2,043 in 2003 (up 9%). On the other hand, traditional trade and department stores decreased from 605 to 591 (down 2 %).

Total sales reported by retail outlets in Poland in 2003 reached PLN 385.1 billion ($99.2 billion).

Chart 6. Sales through retail outlets in Poland



Non-food products sales are dominant and represent almost 63% of total retail sales.

Table 5. Structure of retail sales in Poland in 1996-2003 by % (current prices)

Description	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**
Fruits and vegetables	1.7	2.4	2.1	2.1	2.2	2.2
Meat and processed meats	5.1	4.8	5.9	5.4	5.7	5.6
Fish and fish products	0.9	1.0	1.1	1.1	1.1	1.1
Alcoholic beverages	9.1	8.7	6.5	6.0	6.9	7.0
Non-alcoholic beverages	1.5	1.6	2.1	2.3	2.4	2.4
Milk, cheese, and eggs	2.8	3.4	2.9	2.8	2.9	3.1
Bread and processed cereals	2.1	3.0	3.3	3.1	3.2	3.2
Sugar and confectionery	5.8	5.4	5	4.9	4.9	4.9
Coffee, tea, and cocoa	1.6	1.9	1.4	1.3	1.4	1.5
Other food products	11.1	8.9	8.5	8.5	6.9	6.4
Non-food products	65.7	58.9	61.2	62.5	62.4	62.6

Source: Polish Statistical Yearbook 2003, 2004

2003 retail sales grew 3.4% (in constant prices) compared to 2001. A much higher than average increase in sales was noted for alcoholic beverages and tobacco (7.4%); the rate of growth for food and alcoholic drinks was lower at 2.7%. Companies with foreign capital involved in retail trade represented 14.5% of total retail sales.

Structure of retail stores in 2003

In 2003 the retail network in Poland included about 440,000 shops, 0.6% less than in 2002. A further reduction of cooperative retail outlets was the main reason for this decrease. However, the total number of shops selling different types of food (including gas stations) increased by 0.4% or 183, 965 units, which is 41% of the total number of retail outlets.

Table 6. Points of retail trade[1)] and gas stations in Poland in 1997-2003

Item	1997	1998	1999	2000	2001	2002	2003
Shops	**424,362**	**451,785**	**450,232**	**431,991**	**449,339**	**450,434**	**447,898**
Including:							
Food stores	140,811	147,207	147,366	142,257	145,934	145,238	145,021
Fruit and vegetable shop	6,470	6,935	6,974	6,678	5,251	5,308	5,382
Meat shops	14,315	15,056	14,879	14,045	14,714	15,041	15,357
Fish shops	1,508	1,619	1,574	1,506	1,572	1,570	1,560
Confectionery shops	3,520	3,773	3,630	3,681	4,101	4,374	4,289
Alcoholic beverage shops	2,830	2,731	2,539	2,350	2,335	2,294	2,483
Gas stations	**6,548**	**7,253**	**7,607**	**7,744**	**8,901**	**9,311**	**9,873**
Non-food shops	248,360	267,211	265,663	253,730	266,531	267,298	263,933
Number of people per one shop	91	86	86	88	86	85	85

The statistical data covers: shops, open market stores, stores, market stalls, and movable points of sale.

Source: Polish Statistical Yearbook 2003, 2004

Both the total number of shops and the number of different types of shops have remained stable for the last two years.
In 2003 there were 447,898 shops including:

- 174,092 retail food shops which represent about 38.9 % of the total number of stores (38.6% in 2002 and 2001);
- 84,526 non-food stores (18.9% in 2003 compared to 18.5% in 2002, and 18.4% in 2001);
- 14,754 automotive stores (3.3% in 2003 compared to 3.2 in 2002 and in 2001);
- 174,526 other stores (38.9% in 2003 compared to 39.6% in 2002, and 39.7% in 2001).

This confirms the growing trend to offer a wide range of food and non-food products at one location (supermarket and other shops). The continuous concentration in the Polish food trade has resulted in the following trends:

- A decreasing number of specialized shops which represent 5% of the total number of shops (a decrease from 24,000 in 2001 to 23,000 in 2003). These are either closed, or enlarging their product profile with new items.
- A growing trend to offer a wide range of food and non-food products in one shopping center (a super or hypermarket and other shops).
- Shops located in large cities are being closed because of increasing competition from super and hypermarkets.
- An increasing number of small shops are being opened in areas of high unemployment and in rural areas.
- An increasing share by large trade organizations in total revenue.

The structure of food shops has not changed much compared to previous years; small shops still dominate Polish trade.

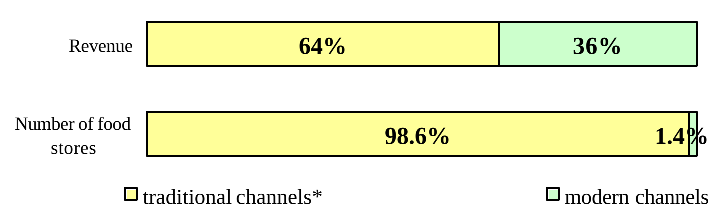
Table 7. Number of shops by forms of organization

Item	2002		2003	
	Number of shops	% in a total number of food stores	Number of shops	% in a total number of food stores
Department stores	106	0.1	102	0.1
Trade stores	499	0.3	517	0.3
Hypermarkets	216	0.1	293	0.2
Supermarkets and discounts	1,947	1.0	2,200	1.2
Other shops	171,057	93.4	170,980	92.9
Gas stations	9,311	5.1	9,873	5.3
Total	183,136	100	183,965	100

Source: Polish Statistical Yearbook 2003, 2004

The increasing popularity of modern distribution channels is evident. In 2003 supermarkets, hypermarkets, and discount shops represented 36% of the total revenue from sales of those products (compared to 29% in 2001 and 35% in 2002) despite the fact that these constitute only 1.4% of the total number of stores involved in retail food trade. More than half of this revenue is generated by hypermarkets. Traditional distribution channels: large, medium, and small grocery shops, as well as specialized outlets constitute 92.9% of the total number of food shops and 64% of the revenue of food products, cigarettes, and alcoholic beverages sales.

Chart 7. Structure of sales in 2003



The first hypermarkets in Poland opened 10 years ago. Today this is a normal way of shopping for most of the population living in big towns. Hypermarkets in Poland have undergone very dynamic development. The first 27 hypermarkets were opened between

1993-1996. These were individual outlets with an average area of 2,500 to 5,000 m^2 During the period 1997-98, thirty new hypermarkets were opened. It became a common market practice for part of a shopping center to be designated for small boutiques, restaurants, and other shops during this period. The average selling floor of hypermarkets ranged between 6,000 and 14,000 m^2 with the area of the neighboring outlets of 2,000 – 8,000 m^2. However, one-third of the Polish population reportedly has never shopped in shopping centers and has no intention to do so. This suggests that traditional channels will remain viable in the future.

Open-air markets continue to play a significant role in the Polish retail sector. In 2003 there were 2,328 permanent markets where about 131,000 regular points of sale were registered. This indicates that a considerable portion of domestic revenue is generated in these markets. The scope of activities has not changed for many years. Over 85% of the markets are retail, the remainder are wholesale traders. The majority of goods sold in the markets is supplied by local producers. In central Poland 40 % of shops are owned by the producers. In western Poland the percentage is lower.

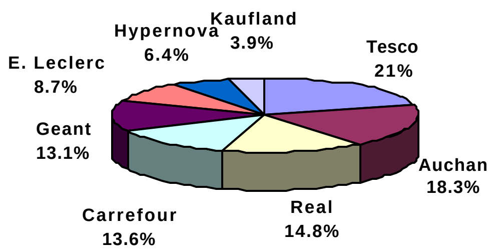
Retail Market Situation

The number of shops with an area below 50 m^2 remained at the same level as in 2001 and 2002, and their percentage remained unchanged whereas the number of shops with an area exceeding 400 m^2 grew by 7.3% which was also an increase in the total selling floor space by 7.5%. In 2003 there were 888 m^2 of floor space area per 1,000 inhabitants compared to 865 m^2 in 2002.

Over the last few years the Polish retail trade sector witnessed tough competition among foreign chain owners who want to be the market leader. Currently, building a new shopping center has become quite difficult due to new legal restrictions; therefore, mergers and acquisitions are the main method for achieving this. The number of hypermarkets involved in the food trade increased in 2003 by almost 19% reaching 202 shops, while in 2002 170 new shops opened in Poland, a 25% increase.

In the last two years most of the stores opened in this sector were compact hypermarkets and the majority of these were under the Kaufland banner. This retail chain is owned by the German company Lidl&Schwartz which started its activities in Poland in 2001 and has since opened 36 hypermarkets. The trend towards opening hypermarkets with smaller formats is also clearly visible and this refers not only to discounters and convenience stores but also to the large hypermarket operators who have recently focused on developing smaller format chains (Ahols's Albert chain, Geant's Leader Price chain, E.Leclerc's supermarket operations, as well as Tesco's mini-hypermarkets and supermarkets).

Chart 8. Market share in the hypermarket segment in 2003 by sales revenues



Source: PMR, Retail Poland 2004

In fact, these are not hypermarkets, but discount shops that have experienced significant growth. At the end of 2002 there were 1,200 outlets (150 more than in 2001 and in 2003 the number increased by another 10%). Currently, these shops operate in large cities (as super and hypermarkets) as well as in small towns. Many discount chains continue to develop their activities. Biedronka for instance, plans to open another 70 shops during the next three years, Plus Discount is planning to open 1,000 outlets in Poland. Leader Price has already opened 133 shops (25 opened in 2003). In April 2002 Lidl&Schwarz opened in a chain of about 36 Lidl outlets and by 2003 there were 75 shops.

Among shops with foreign capital investment, supermarkets are developing least rapidly. Compared to 2002, there was only a slight increase of 3%.

Alongside the rapid expansion of discount stores, convenience-type grocery outlets are becoming widespread. These are often developed as franchises or by wholesale companies which create retail networks around their own distribution centres.

The slower rate of growth of foreign retail chains since 2002 is due to the following factors:

- increasing level of market saturation,
- difficulties in finding an appropriate location (distant from competitors),
- buy-outs of existing companies instead of building new shops,
- legal restrictions

In 2002 there were two spectacular buy-outs in this sector. Ahold bought Jumbo hypermarkets from Jeronimo Martins and Tesco acquired the HIT chain. In 2002-2003 grocery retailers Dohle and Reitan and Rema went out of business. Edeka was bought out in 2003 by the Royal Markets Company.

It is predicted that in the coming years the average selling space of hypermarkets will increase to 8,000 – 18,000 m^2, and the area of the shopping centers will be 10,000 – 35,000 m^2. There are a total of 3,852 shops with an area of 3,563,957 m^2 owned by foreign chains (hypermarkets, supermarkets, and discount shops).

For many years Polish traders have made significant efforts to compete with foreign chains and build their market position. For instance, the Polomarket chain opened 19 shops in 2003 and by end of the year they operated 118 supermarkets. They are ranked 22nd on the TOP 50 list of top Polish companies. Polish company, Royal Markets bought the German chain Edeka. Royal Markets now owns 44 discount shops and intends to open another six in the near future. The Eko company owns 112 shops, the Groszek chain has 314 shops run on a franchise basis, and the Lewiatan chain operates nation-wide and consists of about 1,000 shops. There are also several chains operating on a local scale. Polish traders have begun joining forces to compete with western "giants". In February 2000, eleven Polish organizations established the Union of Polish Retail Chains. Currently, this organization represents thirteen companies operating locally, regionally, or nationwide (Polka, Rabat Katowice, Nasze Sklepy, Berti, Rydz, 6 chains operated by the Lewiatan Group, and Unia Detal).

The total income in 2003 for the 50 largest companies (comprising both wholesale and retail trade units) was $16.5 billion, which is 26% more than in 2002. The German concern Metro, comprised of Makro Cash & Carry, Real, Praktiker, and Media Mart is the unquestioned leader thanks to Macro Cash & Carry activity with revenues totaling about $ 3.0 billion.

Another important phenomenon on the Polish retail market is the sale of products under private labels. Makro Cash&Carry (Aro brand), Robert Discount (Robert brand), and Tengelmas's chain Plus (Plus brand) were the first retail chains to introduce private labels in Poland in 1997/1998. Currently, most foreign retail chains operating on the Polish market and some Polish retail chains have their own private labels. According to Polska Organizacja Handlu i Dystrybucji, private labels account on average for 60% of revenue in discount stores and 20% in hyper- and supermarkets. Their share in the total product volume varies depending on the type retailer and can vary from 5 to nearly 100%. In the case of chains like Real or Tesco, private label sales accounts for 6 to 20%, Biedronka chain sells 60% of products under private label, and Leader Price more than 90%. It is estimated that over 5,000 chain store branded products are now available from retail chains and two-thirds of these are foodstuffs. The same private label is offered in various stores of the same retailer (e.g. Casino's Leader Price being sold in the Leader Price stores as well as in Geant hypermarkets) or different labels can be created for each of the store chains of the same retailer (as in the case of Dutch Ahold which introduced a "DiT"- "Dobre i Tanie" label in the Hypernova chain, and "Albert Q-line" in Albert supermarkets).

Polish retailers started their private label by offering customers low prices and relatively low quality. A typical private label price level is about 30-60% lower than their brand equivalent prices, mainly due to savings on advertising, promotion and selling comparatively large quantities of such products. Falling disposable incomes in the last couple of years has had a predictable impact on consumers' interest in lower priced products. These private label goods are a dominant feature in retail shops on the Polish market. The rivalry with brand names now includes both lower prices and high quality. Examples of the new trend are the private label products from Makro Quality (80 products) and Tesco Brand (270 products).

According to retailers operating on the Polish market, most of the goods sold under private label are produced by Polish companies. These are mainly small and medium firms, who do not have their own brands. Overall about 500 companies in Poland manufacture products sold by large stores under their own brands. For instance, more than 90% of private label products are produced by about 160 small and medium sized Polish companies.

Table 8. The most popular private labels in Poland are:

Private label	**Store chain**	**Retailer (country)**	**Popularity %**
Biedronka	Biedronka	Jeronimo Martins (Portugal)	54
TiP Tanie i Pewne	Real	Metro AG (Germany)	17

Leader Price	Leader Price, Geant	Casino Group (France)	15
DiT Dobre i Tanie	Hypernova	Ahold (Holland)	12
Aro	Makro Cash&Carry	Metro AG (Germany)	8
Tesco Korzystny Zakup	Tesco, Hit	Tesco (Great Britain)	4

Source GfK Polonia research, February 2003

About 40% of shoppers care about the brand and more than one third of them buy private label products “often” or “very often”. The majority of customers in favor of private labels buy them in discount stores (76.4%) or in hypermarkets (13.5%). Polish retailers purchase goods mainly from local producers and wholesalers. Companies with foreign capital purchase from local producers as well as direct import.

Chart 9. Sources of supply

Polish retailers **Retailers with foreign capital**

Expected Changes

The next five years will see very dynamic structural changes in retail trade.

The following changes are expected in the retail trade:

- increased importance of large-area trade outlets in the structure and revenue of the retail trade;
- increased importance of companies owning chains of stores;
- decreased number of small retail outlets;
- integration process among small and medium companies;
- mergers and buy-outs among large chains;
- further consolidation of retail companies will strengthen the best of these, and increase the gap between them and weaker traders;
- increasing importance of private label goods;
- the considerable importance of traditional retail trade in small cities and rural areas

Supermarkets and discount shops are predicted to develop quicker than other shops. In five years hypermarket, supermarket, and discount chains will become the leaders in food products retail. Given the limited investment possibilities for local companies, rapid growth in market share by foreign companies seems to be inevitable.

According to a report prepared by Cushman & Wakefield Healey & Baker, during the next two years the trade area in Europe will increase by 9,000,000 m^2, and Poland is estimated to be a leader, achieving an area increase of 1,685,000 m^2. On the other hand, this development will be limited to a certain extent by new regulations which are either already in force or planned to be implemented. Amongst these are:

- restrictions concerning location of super and hypermarkets,
- new regulations related to trade agreements,
- new regulations concerning prices, promotion, and advertising,
- restrictions concerning margin levels.

Import Conditions

According to GUS, in 2003 food articles bought from the United States, were valued at $91.5 million, which is 7.6% less than in 2002. Imports also decreased from 3% to 2.3% for all agricultural products imported by Poland. Key products imported from the USA included red meat and tripe, fresh fruit (grapefruit) and fish.

Table 9. Structure of Polish agro-food imports by groups of countries

Group	2002		2003		02/01 (% chg)
	$	structure	$	structure	
EU	1,902.900	53%	2,090,400	52%	9.9
FSU	97,200	3%	114,100	3%	17.4
CEFTA	345,200	10%	399,600	10%	15.8
EFTA	147,900	4%	169,700	4%	14.7
USA	99,100	3%	91,600	2%	-7.6
Remaining	983,400	28%	1,147,500	29%	16.7

Total	**3,575,600**	**100%**	**4,012,900**	**100%**	**12.2**

Table 10. Import of some food products in 2003

Description	**Total imports of agri-food products by Poland ($)**	**Imports from the USA ($)**	**Share of US imports in total imports (%)**	**Main Foreign Competitors**
Red meat and tripe	86,455,000	17,698,000	20.5	Denmark, Holland, Belgium, -
Poultry meat and tripe	19,459,000	798,000	4.1	Denmark, Holland, Belgium
Fresh fruit	551,838,000	9,776,000	1.8	Spain, Ecuador, Italy, Greece, Turkey
Fish and crustaceans	322,947,000	6,913,000	2.1	France, Germany, Norway, Denmark, Russia
Sugar confectionery, excluding those containing cocoa	56,165,000	2,490,000	4.4	Germany, Italy, Holland, Spain
Alcoholic beverages	129,590,00	5,474,000	4.2	France, Italy, Bulgaria, Germany, Hungary
Total import	4,012,900,000	91,600,000	2.3	

US exports are not growing significantly due to the rapid development of local production and huge foreign investments in food processing and the food production sector.
For the following reasons there is significant interest in this sector:

- Poland is a big market, open to new goods,
- considerable opportunities for export to eastern European countries,
- lower level costs than western Europe,
- opportunities to take over privatized companies with relatively low capital investment,
- permanent pressure on the government by farmers to limit food imports.

The latter factor as well as the cancellation of customs fees upon accession to the European Union have crucial significance for American export opportunities.

In addition, the need for different certificates is another factor making exports difficult. The procedure for getting such certificates is very complicated, time consuming, and expensive.

Foreign direct investment in Poland in 2003 was $ 6.42 billion and the accumulated value of foreign investment exceeded $ 72.7 billion. France is the most active investor in Poland (almost 20% of all investments), Holland is the second largest investor (14%), followed by the United States (13%). The most attractive sectors for foreign investments have remained unchanged for several years; manufacturing (40%) and financial services (23%) remain dominant. The trade sector is the third most active sector with inflows of $8.1 billion (11.7%).

A list of companies that have invested in the agri-food industry is in Table I.
It is worth highlighting that companies involved in retail trade form a strong group among the top 30 foreign investors and are leaders. This refers to Metro (11th, $1.1M), Tesco (16th, $0.8 M), Carrefour (17th, $0.8 M), Casino (18th, $0.8 M), and Auchan (25th, $0.7 M).
Please note that after Poland's EU accession imports into Poland require EU certificates. The procedure for getting such certificates can be very complicated, time consuming and expensive. Information regarding export procedures applicable in the EU can be found at: http://www.useu.be/agri/usda.html

Additional information on Poland specific regulations can be found at www.fas.usda.gov, under attaché reports link - Food and Agricultural Standards Report for Poland - PL4024

Please note that after Poland's EU accession, the EU's external custom tariffs now apply for imports by Poland. Detailed information on the current customs tariff applicable in the EU are available at **http://europa.eu.int/comm/taxation_customs/dds/cgi-bin/tarchap?Lang=EN**

Advantages and Challenges facing US products in Poland

Advantages	Challenges
Population of 38.6 million people; increasing number of those who can afford high-quality food products.	Rapid development of local production (supported by foreign, and in many cases American, investments) has significantly reduced demand for imported products.
The growing retail industry and the growing demand for more sophisticated and diversified products.	Importers, retailers, and consumers lack awareness of American brands, Polish consumers prefer to purchase products manufactured in Poland.
Experienced and increasingly reliable importers.	Imported products are more expensive due to many certificates, high tariffs, short period of payment.

Opportunity for different kinds of market promotion with retailer participation. Currently weakening U.S. $ versus Polish zloty currency (Nov. 10, 2004 rate = 3.4 zloty/$1 versus Nov 2003 rate of 4.04 zloty/$1).	Registration process is slow, expensive, and inefficient; Polish language labels are required. Alcohol tariffs and excise tax are high, and a distribution license is necessary, Third-country competition is significant, especially from western Europe countries. Poland has joined the EU, which will result in the same restrictions as those in other countries belonging to the Union including biotechnology and traceability requirements . Farmers have a significant influence on government policy concerning import regulations.

II. ROAD MAP

A. Hypermarkets, Supermarkets, Discount Shops

Entry Strategy

Success in introducing new products in this segment of the market depends to a large extent on local representation and personal contacts. The local representative may or may not also be the importer and /or distributor, however due to the very tough conditions dictated by this type of outlet, this is a key person if the product is going to be sold on the market.

Typical conditions for supplier when entering foreign retail chains:
- Entry fees (amounting to tens of thousands of Polish zlotys), which are not paid back if the agreement is canceled.
- 30-60 day period of payment.
- Considerable price discount - about 10 %.
- Obligatory participation in promotional activities, which are held 3-5 times a year and last for 1-3 weeks. This requires another price decrease (of about 5 %).
- Obligatory participation in covering the cost of advertising promoted products.
- Separate fees ($ 250-3,500) for placing each type of product on the shelf.
- Fees for the "display area".
- No opportunity to influence the price level
- Very strict delivery terms

Market structure
- Products may be imported either by an importer or a representative office, which may also be a wholesaler and / or distributor
- The representative office deals only with your product, and so pays much more attention to the promotion, advertising, and marketing activities than an importer who buys many, sometimes even competitive, products.
- Some supermarkets are direct importers.
- Importers are distinctly separated into dry goods, refrigerated items, fruits and vegetables, alcohol, etc.

- Importers or representative offices may use nation-wide logistic organizations for the storage and distribution of imported products.
- Importers also have their own distribution networks.

Company Profiles of the most important retail chains in 2003

Retailer Name and Outlet Type	Sales ($)	Ownership	No. of Outlets	Location	Purchasing Agent Type
1. METRO	2,997,000,000	*Germany*		Nationwide	Direct, importers, wholesalers
Makro Cash and Carry, wholesaler	1,726,800,000		20		
Real, hypermarket	714,400,000		27		
2. JERONIMO MARTINS	1,090,900,00	*Portugal*		Nationwide	Direct, importers, wholesalers
Biedronka, Discount	1,090,900,000		672		
3 TESCO	1,087,600,000	*Great Britain*		Nationwide	Direct, importers, wholesalers
Tesco, hypermarket	1,012,800,000		38		
Savia, supermarket	74,700,000		31		
4. AUCHAN	1,005,000,000	*France*		Nationwide	Direct, importers, wholesalers
Auchan, hypermarket	871,000,000		16		
Elea, supermarket	103,000,000		12		
Schiever/ Auchan, supermarket	30,900,000		2		
5. *CARREFOUR*	927,800,000	*France*		Warsaw and other big cities	Direct, importers, wholesalers
Carrefour, hypermarket	644,300,000		15		
Champion, supermarket	283,500,000		64		
6. GEANT	850,500,000				

Geant, hypermarket	623,700,000	France	17	Nationwide	Direct, importers, wholesalers
Leader Price, discount	226,800,000		133		
7. REWE	648,100,000	Germany		Warsaw	
Selgros, wholesaler	506,700,000		9		
Minimal, supermarket	141,700,000		27	Nationwide	
8. AHOLD	635,300,000	*Holland*			Direct, importers, wholesalers
Hypernova, hypermarket	329,800,000		25	Warsaw	
Albert supermarket	305,400,000		166	Nationwide	
9. TENGELMANN	554,100,000	*Germany*			Direct, importers, wholesalers
Plus Discount	309,200,000		153	Southern Poland	
10. ITM	373,700,000	France		Nationwide	Direct, importers, wholesalers
Intermarché, supermarket	335,500,000		89		

Source: Handel 11/04

It is important to note that "cash and carry" outlets are becoming more and more popular. Some of these operate solely as wholesale units and only serve retailers. Others sell to individuals but under the condition that a certain quantity of goods is purchased.

As a result of the economic recovery in Poland last year, most foreign retailers reported profits in 2003 (for some of these it was their first positive result since they first launched their investments in Poland). Due to the progressive concentration of retail trade, the consolidated sales revenues of the ten largest retailers increased in 2003 by as much as 8.2% compared to 2002. Despite ever stiffer competition, a number of new retailers (Aldi of Germany, Wal-Mart, VP Market of Lithuania) are considering entering the market in the near future.

Table 11. Ten leading food chains in 2003

Name of chain	Income from sales ($)	Share in the income of TOP 50 (%)
Biedronka	1,090,900,000	6.6
Tesco	1,012,800,000	6,1
Auchan	902,000,000	5.5
Real	714,400,000	4.3
Carrefour	644,300,000	3.9
Geant	623,700,000	3.8
E.Leclerc	366,700,000	2.2
Intermarché	355,000,000	2.1
Hypernova	329,800,000	2.0
Plus Discount	309,200,000	1.9

Table 12. Top chains in Central Europe (Poland compared to other Central European countries)

Company (country of origin)	Revenue in 2002 $ Million	Countries			
		Poland	Czech Republic	Slovakia	Hungary
1.Metro (Germany)	4,505.8	+	+	+	+
2.Tesco (Great Britain)	3,052.3	+	+	+	+
3.Rewe (Germany)	1,788.0	+	+	+	+
4.Tengelmann (Germany)	1,517.0	+	+	-	+
5.Ahold (Holland)	1,503.0	+	+	+	-
6.CBA Kereskedelmi Kft. (Hungary)	1,413.3	-	-	-	+
7.Auchan (France)	1,325.7	+	-	-	+
8. Delhaize Group	1,282.6	-	+	+	+
9.Carrefour (France)	1,208.3	+	+	+	-
10.Co-op Hungary	1,169.0	-	-	-	+

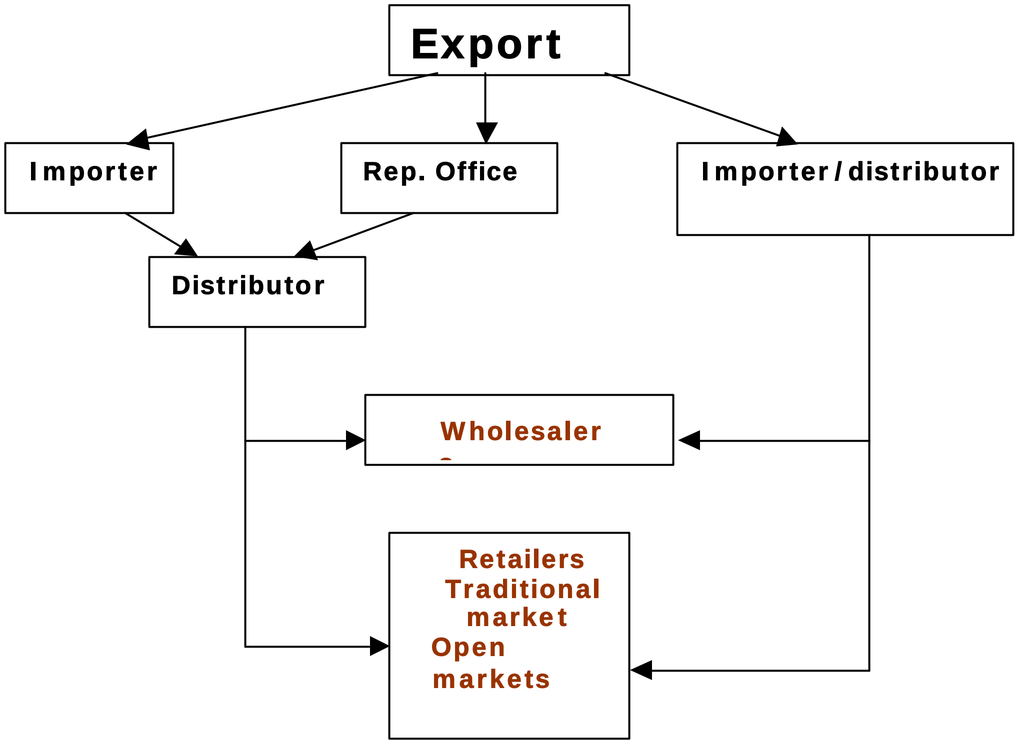
Source: Handel 14/04

B. Convenience Stores, Gas Marts, Kiosks

Entry strategy

There are two ways to place new products on shelves depending on the type of product. Either an exporter should use a representative for direct personal contact with the shops or shop managers supply themselves from the wholesalers who may import the products as well. In this case goods should be available in several regional wholesale units, where smaller wholesalers and retailers collect them. They should also be delivered to the cash and carry outlets.

Market structure



Company Profile – Convenience Stores, Gas Marts, Kiosks

There are no chains of convenience stores, gas marts, or kiosks, each retail outlet has a different owner even when in a chain of gas stations. These are usually small units employing up to 5 people. According to Polish law provisions, business entities employing fewer than 5 people are not obliged to deliver any statistical information. Unfortunately, as a result there are no data available regarding these units.

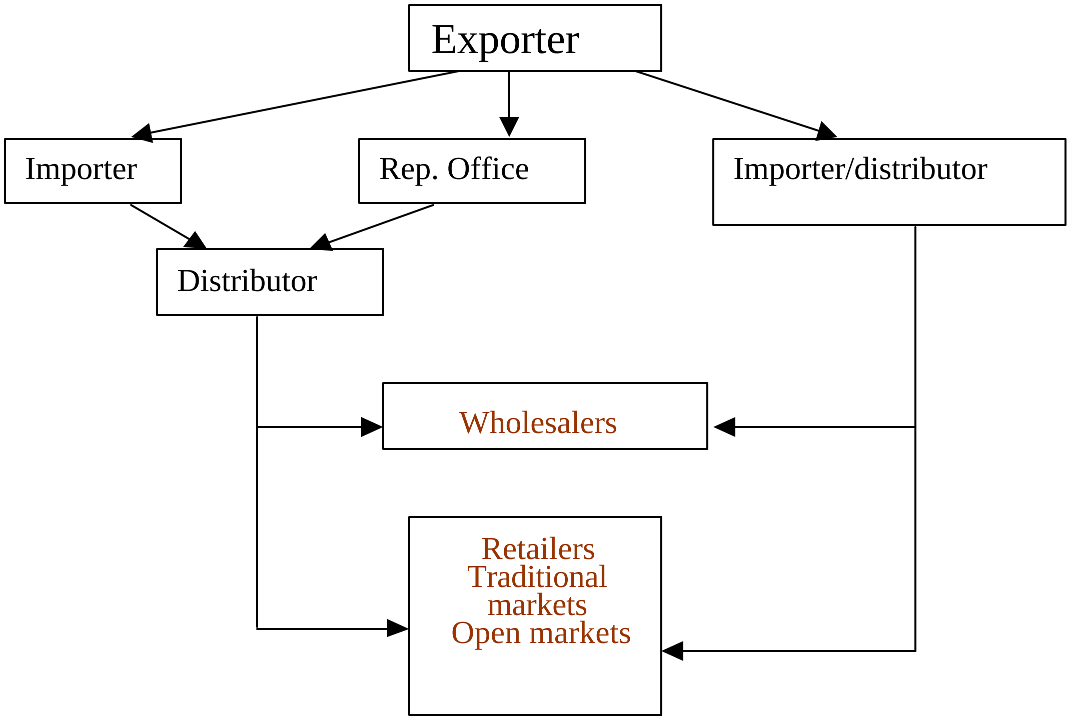
A significant percentage of gas station marts (about 70 %) are held by the Polish refinery Orlen. The remaining part of the market is controlled by a Polish Refinery in northern Poland, as well as foreign companies (e.g. Agip, Shell, Nestle, Aral, Elf, etc).

Traditional markets – "Mom and Pop" small independent grocery stores and farmer's markets

Entry strategy

Shops representing traditional markets usually purchase their supplies from wholesale units located close to the shop. Therefore it is important for the entity dealing with the import of goods to have a sufficient distribution system, and access to different wholesalers (including cash and carry) all over the country.

Market structure



Company Profiles – Traditional markets – "Mom and Pop", small independent grocery stores and farmer's markets

There are about 119,000 outlets that may be regarded as traditional markets.
Small retail outlets generally have different owners and there are no chains or franchises. Many of the retail outlets are family-run businesses. These stores are usually modest in size with an average area of 15-25 m^2.

Farmer's Markets - vary greatly in size and facilities. In most cases they consist of open air and / or kiosk facilities located in an area of 200-400 m^2.

III. Competition

Local production and exporters from European Union, mainly Germany, France, Italy, Great Britain, Spain, Finland, and the Netherlands (50 % of total Polish food imports) are the main competitors for American exporters. Even such "American" products as chewing gum, Coca-Cola or Pepsi-Cola are produced in Poland. It should also be noted that Polish consumers prefer Polish products to imported products. This obviously influences the shops to purchase products made in Poland. Many chains use the fact that they offer Polish goods as an advertising tool to increase sales. In 2003 Tesco started a "Buy Polish products" campaign and is considering a stronger promotion of Polish goods in the UK.

IV. Market Integration with the European Union

The Polish retail market has been open to foreign investors for over ten years and all major European market players have been present in Poland during this time. Because of this, Poland's EU integration will not negatively impact this sector of the economy. On the contrary, some producer products accepted by foreign chains may profit from access to the international market.

Polish authorities were obliged to adapt Polish law to EU law and to respect decisions made by the European Justice Tribunal. The amendment of Polish law mainly refers to protection of confidential information, elimination of sales at below market prices, banning of bonus sales, and promotional lotteries.

According to Eurostat, retail prices for food and tobacco products in Poland are 30% lower than in the European Union but much higher than in other new member states.

Table 14. Price level of food, beverages, and tobacco products, Poland = 100

Country	Price level
Average for the EU	*161*
Denmark	205
Ireland	194
Great Britain	191
France	164
Austria	156
Germany	152
Portugal	130
Hungary	89
The Czech Republic	84
Slovakia	80

After Poland became an EU member state food priced increased as much as 30-40%.

V. BEST PRODUCTS PROSPECTS

A. U.S. Products Present on the Market Which have Good Sales Potential.

As mentioned before, the following markets have developed and will continue to grow:

- fish, fruit (grapefruit), and spices,
- wine and distilled spirits,
- dried fruits and nuts,
- food for the HRI food service sector,

- food consisting of many ingredients, highly processed, convenient, and i.e. ready-to-cook products (on limited basis),

All of these products are known to Polish consumers. The demand for them changes in line with different phases of development. These products will be primarily produced in Poland, but imported ingredients will often be used. Development of this sector will result in greater demand for imported basic elements necessary for food production (hard wheat, processed soya, sunflower, palm oil, and juice concentrates).

Table 15. Products present in the market, which have good sales potential

Product category	2003 Market size	2003 Imports	2-Yr.Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for USA
fish (fresh, chilled, frozen dried, salted, smoked, and others including fish filets) including Atlantic salmon Pacific salmon	303,880 tons $ 477,000,000 345 tons $ 885,925 529 tons $716,391	$ 300,069,000 $ 885,925 $716,391	2002/2000 12% 2003/2002 -2.6% 2003/2002 7.2% 2003/2002 11%	0-15% 0-15%	Price competition from local producers and European countries.	Growing market.
Livestock offal	87,000 tons $139,000,000	$ 109,031,422	2002/2001 11% 2003/2002 58%	0% 6.4%	None	Insufficient local production, competitive prices.
Wine	52M L/$ 240 M	$58,188,000	8.5%	18.Eur/hl	Strong position of French, Italian and other suppliers.	Good reputation of Californian wines, growing market.
Coffee	119,373 tons $130,076,000	$130,076,000	2003/2001 -21%	7.5%	Well-established positions of present suppliers	Growing demand for more varieties of high-quality coffee.
Chocolate sweets	146,000 tons $1..3 billon	$ 79,079,000	2003/2001 20%	8.3% 9.0%	Large number of western companies who have bought out Polish producers. Price competition from local producers and European countries.	Growing market.
Grapefruit	30,362 tons $19,946,271	$19,946,271	2002/2000 19% 2003/2002 9.6%	18.4%	None	Strong position of American suppliers, growing market.

Dried fruits and nuts, including cranberries	n.a.	$836.,787	2002/.2000 10% 2003/2002 16%	2.4%	Large number of local and foreign suppliers offering much lower prices	Continuously growing demand
Dried grapes, including raisins	13,715 tons $12,846,489	$12,846,489	2002/2000 -6% 2003/2002 14%	2.4%	Price competition from other suppliers	Given still developing market for cakes and sweets, opportunities for further development of this segment
Dried prunes	n.a	$5,547,830	2002/2000 14% 2003/2002 29.6%	9.6%	Price competition from local and other foreign suppliers	High quality and strong position of Californian prunes, opportunity for further growth.
Pistachios	1,241tons $3,733,519	$3,733,519	2002/2000 35% 2003/2002 15%	10.2%	Increasing importance of other suppliers, relatively high prices compared to other nuts	Growing market.
Peanuts	31,545 tons $23,410,006	$23,410,006	2002/200 3.5% 2003/2002 15.8%	11.2%	Lower prices offered by competitors	Growing market
Almonds	2,080 tons $ 8,591,838	$ 8,591,838	2002/2000 28% 2003/2002 32%	10.2%	Lower prices offered by competitors	Growing market

B. Products Not Present in Significant Quantities But Which Have Good Sales Potential

This group mainly includes:

- ready-to-cook dishes,
- "luxury" food and drinks, produced from exotic raw materials for high income consumers, who consider consumption of such products as proof of their high social position,
- food ingredients for special use, e.g. vegetable fat for different branches of secondary processing.

C. Products Not Present Because They Face Significant Barriers

Such products mainly consist of additives which are not allowed in Poland. Also, new EU implemented biotech labeling and traceability regulations are a major new element negatively impacting sales of U.S. food and food ingredients. Polish food additive regulations are primarily based on common regulations within the European Union. Poland along with other EU countries is allowed to conduct separate procedures for approval of ingredients within its territory. Currently, there is only one such case, a new sweetener "neotame", which is allowed in Poland but not in other EU countries.

Four major EC-directives regarding the use of additives as well as labeling are implemented based upon Polish food additive regulations. These directives govern colors, sweeteners, flavors and miscellaneous food additives in addition to the labeling directive. The EC regulation also requires the identity and purity of approved food additives.

Poland uses a positive-additives list, which identifies additives that are permitted for use in foodstuffs. Poland's Ministry of Health and Social Welfare approved a new regulation (Journal of Law no. 94 dated April 30, 2004) for food additives on April 23, 2004. The above mentioned law does not include working regulations (positive additive list) which will be prepared at a later date. This particular regulation has been one of the most difficult obstacles facing imported products. According to Polish authorities, the new list is consistent with with current EU regulations. Please note: As each EU member state introduces slight variations to allowable food additives, it is vital for all U.S. exporters to check with the potential Polish importers about whether the product intended for the Polish market meets all ingredient requirements.

Additional details concerning EU food additives regulations can be found at http://www.useu.be/agri/usda.html.

VI. EMBASSY CONTACT INFORMATION

If you have any questions or comments regarding this report or need assistance exporting to Poland, please contact the Office of Agricultural Affairs in Warsaw at the following address:

Office of Agricultural Affairs

American Embassy

Al. Ujazdowskie 29/31

00-540 Warsaw

Poland

ph: 4822-504 23 36

fax: 4822-504 23 20

e-mail: agwarsaw@usda.gov

homepage: www.usinfo.pl/agri

Please visit the Foreign Agricultural Service home page (www.fas.gov) for more information about exporting U.S. food products to Poland, including “The Exporter Guide”, “The HRI Food Service Sector Report”, “The Retail Food Sector Report”, product briefs on the market potential for U.S. fruit, snack foods, ready-to-eat, health products and a complete listing of upcoming activities designed to promote your product in Poland. Importer lists are available from our office to exporters of U.S. food products.

For more information on exporting U.S. agricultural products to other countries please visit the Foreign Agricultural Service home page: http://www.fas.usda.gov.

Table I **Largest foreign investment projects in food-processing and tobacco Industries ($ Million, December 2003)**

Investor	**Branch**	**Capital Invested**	**Registration/Origin**
Philip Morris Holland	tobacco products	525.7	The Netherlands/USA
CC HBC (Coca-Cola Hellenic Bottling Co.)	mineral water and soft drinks	513.0	Greece/USA
Imperial Tobacco	tobacco products	500.0	UK
Nestle	Chocolate and sugar confectionery, mineral water and soft drinks	365.0	Switzerland
House of Prince	tobacco products	348.0	Denmark
Harbin B.V	brewery	325.9	The Netherlands
British American Tobacco	tobacco products	300.0	Germany/UK/USA
PepsiCo	mineral water and soft drinks	275.0	USA
Heineken	brewery	220.8	The Netherlands
Seita	tobacco products	180.0	France
Mars Inc.	chocolate and sugar	160.0	USA

	confectionery, pet food		
Wm. Wrigley Jr. Co.	chewing gum	144.0	USA
BSN Gervais Danone	dairy products, sugar confectionery	135.5	France
Cadbury's Schweppes	sugar and chocolate confectionery	126.5	UK
Ferrero Group	sugar confectionery	112.0	Italy
Carlsberg Breweries	brewery	107.5	Denmark
British Sugar	sugar	90.0	UK
Cargill	animal feeds, glucose	81.0	USA
Pernod Ricard	Alcoholic beverages, fruit and vegetable juice	80.4	France

Source.- Polish Information and Foreign Investment Agency