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Poland

Food Processing Ingredients Sector

Report

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Report Highlights:

Poland's food processing sector developed rapidly over the last decade as Poland moved to a market oriented economy with nearly 40 million consumers. Foreign companies are heavily invested in Poland's food processing industry. Poland's likely accession to the EU in May 2004 will give EU suppliers a competitive advantage as Poland becomes part of the EU internal market. Pre-accession Poland-EU trade liberalization agreements have already given many EU food sector ingredients and products greater market access than items from non-EU member countries.

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MARKET SUMMARY

Poland's economy underwent a radical transformation to a market oriented economy between 1984 and 2001. Transition continues. During this period, the value of food consumption in Poland, in real terms, grew 25 percent. In the meantime, the share of family expenditures on food and beverages, due to a fast increase in personal incomes, declined from 48 percent in 1989 to 30 percent in 2001.

Food consumption patterns also changed the consumption of milk and animal fats, sugar and potatoes dropped, while the consumption of fruit, vegetables, processed red meat, poultry, vegetable fats, fish, cheese, yogurt, and highly processed food significantly increased.

This created a good environment for the development of the food processing industry. During 1993-1997 the total value of processed food sales increased by almost 10 per cent a year, in 1998 by 7.1 per cent and in 1999-2001 by 1 per cent, reaching PLN 94.9 billion (excluding VAT) in 2001, which at the exchange rate of 2002 (PLN 4.00 to 1 US dollar) is US\$ 23.7 billion.

The food processing sector in many ways reflects the development of the Polish economy since the fall of communism. The sector is varied with both large domestic companies and international companies dominating the market. There are also a number of small plants concentrating on fruit, vegetables, meat processing, and bread located throughout Poland. The most important subsectors of food processing sector are meat, dairy, and alcohol (altogether 49 per cent of sold production value) followed by confectionery, food concentrates, sugar, fruits and vegetables, juices and non-alcoholic beverages production.

Imports of food products in 2001 totaled about \$3.2 billion, of which \$1.4 billion was processed food. By contrast, prepared food imports in 1998 totalled \$1.8 billions. About 52 per cent of total imports and 48 per cent of processed food came from the European Union. Poland is a net importer of both unprocessed and processed food products. In 2001 the surplus of imports over exports amounted to \$300 million.

The Polish food processing industry uses primarily domestic raw material inputs for processing. During 2001 the value of inputs was PLN 40 billion (about \$10 billion). Imports of raw materials in 2001 totaled \$1.6 billion or about 16 per cent of total inputs. The food processing industry also uses significant quantities of additives and packaging inputs. The value of these materials is estimated at \$2-2.5 billion. These are mainly domestic products, although often produced from imported materials.

Raw materials for processing are imported primarily from the European Union and CEFTA countries. Poland also utilizes considerable amounts (valued at about \$1 billion) of food products, mainly fruit and vegetables, imported from developing countries.

In 2001 the overall value of food (processed and unprocessed) imported from the United States was only \$80 million, which represented 2.5 percent of all Polish imports. Imports from the United States were dominated by poultry and red meat but also include raw materials and semi-processed products, such as tobacco, animal feed, protein concentrates, etc.

The majority (about 85 percent) of the processed food produced in Poland is consumed domestically. The breakup of the centrally planned economic system spurred economic growth and consumer

demand and incomes. Increasing demand for high quality processed food attracted foreign investments. Growing competition on the domestic market forced food processing enterprises to increase productivity and reduce costs.

Direct foreign investments have played an important role in the development process. Initially foreign investors were involved primarily in the beverages and beer, confectionery, food concentrate, tobacco and poultry-meat processing subsectors. During 1997-2001, foreign companies became dominant in the meat, fish, vegetable fats and alcoholic beverages industries.

Foreign companies have majority ownership in nearly all sectors of the Polish food industry. State owned enterprises still operate only in the sugar and alcoholic beverage sectors. The dairy sector is dominated by cooperatives. The food processing sector is becoming more concentrated as less efficient companies are closing down particularly in the fruit and vegetable, red and poultry meat, and animal food processing sectors. Foreign investment is playing an important role in these industries.

Table 1. Advantages and challenges for American products in the Polish market.

Advantages	Challenges
8 Increasing personal income and changes in the structure of consumption lead to the development of high-end food products of very good or best quality.	8 The US faces tough competition from food ingredients of Polish origin and those imported from European Union.
8 Increasingly market oriented nature of the Polish economy and integration with the European Union helps to promote Western patterns of consumption of food.	8 Integration with the European Union (possible in year 2004) is making access for European goods to the Polish market easier. This will limit import opportunities for food ingredients from the U.S.
8 Direct foreign investments increase use of imported additives and other components.	8 A high level of unemployment, resulting from the restructurization of Polish enterprises, slows down the growth of demand for high quality products.
8 Good location facilitates exports of food products to Eastern and Central Europe and the Former Soviet Union.	

ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Access to the Polish market is limited by tariffs. Lower tariffs are applied to products originating from Developing Countries as well as Least Developed Countries. In addition, as a result of international agreements, products from certain countries enter the Polish market on preferential terms. Poland signed such agreements with the European Union (0 duty for almost 500 products as of January 1, 2001, with additional duty reductions for other products based on agreement signed in 2002), CEFTA and EFTA countries, Israel, Turkey, Slovenia, Romania, Bulgaria, Lithuania, Latvia, Estonia and The Faroe Islands. Introduction of standards and regulations applied in the European Union will affect the hygiene and safety requirements that have to be met by importers.

Entrance to the Polish market, for imported food ingredients is diverse and not yet very stable. However, some patterns are emerging. These are:

- a. Polish processing companies and foreign owned supermarkets mainly use their own supply channels, i.e. their own commercial or representative offices in countries where they purchase raw materials, or final products.
- b. The biggest Polish food processors (with annual turnover of \$50 to \$100 Million) buy directly from exporters. Some of them have their own representatives in exporting countries.
- c. Imports of food ingredients for medium or small companies are handled by local wholesalers of imported products.
- d. The Polish food processing industry is supplied with additives and condiments directly by foreign companies or **by local producer or wholesalers.**

Direct contact with producers, importers and wholesalers is essential to entering the Polish market. Only those exporters who have current information on legal, fiscal, and sanitary requirements and those who participate in regional and national fairs and exhibitions, may hope to be successful on this market. The choice of representative depends on the exporter's products and existing distribution channels. It is very important to recognize import conditions and gather as much information as possible about a potential partner (importer) before any contract or long-term agreement is signed.

B. MARKET STRUCTURE

The chart below (Figure 1) shows the flow of product through the distribution chain.

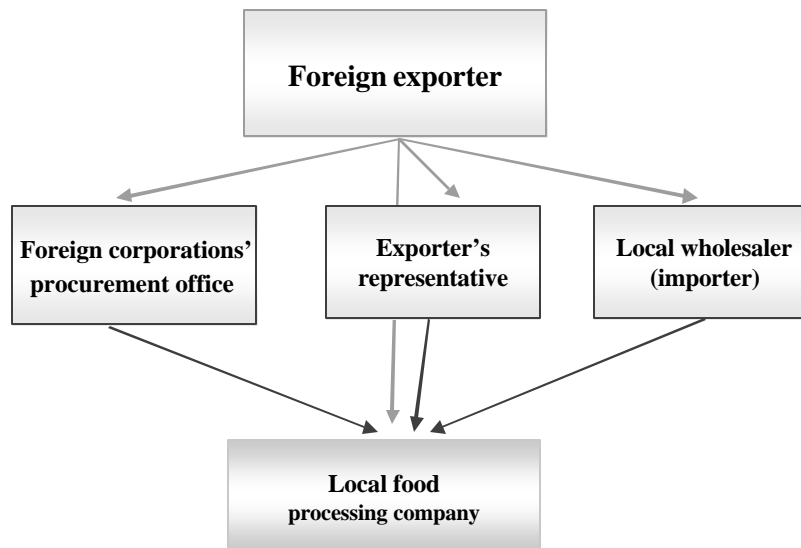


Figure 1. Distribution system of food production constituents

Many large Polish food processors are establishing their own procurement offices. The biggest food processing companies (according to the Polish Statistical classification large food processors are those employing more than 200, medium 50 to 200 and small up to 50 workers) more frequently procure foreign inputs from exporters. Small and medium processing companies are most frequently supplied with imported food ingredients by local wholesalers.

Wholesalers supply their customers with both locally-produced and imported materials for processing. The distribution of final products is dominated by the diverse retail sector, i.e. small and medium shops offering a usually wide assortment of food products with limited choice. This structure was formed at the beginning of the 1990s. For several years there has been a concentration in the retail trade and the development of large foreign chains. Their number and market share have continued to increase. At the same time small specialized shops and outlets run by producers are decreasing. The **size** of the HRI (Hotel, Restaurant, Institutional) food service sector is still very limited.

Large chains and specialized shops are usually supplied **directly** by food producers. Small shops which sell perishable products also receive direct deliveries. Other products are delivered to outlets by the wholesalers, who may be divided into two groups:

- C Wholesale distribution network created by the biggest **food processors** (usually employing more than 500 people) in a form of: trade centers, brand name wholesalers, **distribution companies**, and commercial representatives of the producer.
- C Independent wholesalers linking producers, retailers and HRI food service.

Wholesale trade in food products is very diversified. Generally, wholesalers distribute a very narrow range of products. This sector has been undergoing concentration, but at a very slow rate.

C. COMPANY PROFILES

The Polish food processing industry is very large. In 2001, there were about 30,000 companies operating in this sector. These included:

- almost 21,500 small local processing plants (up to 9 permanent personnel), accounting for 15 percent of total production and 22 percent of employment in the sector;
- around 5,600 small industrial enterprises (from 9 to 49 employees); over 15 percent of production and 14 percent of employment;
- 2,891 medium and large industrial enterprises with a 70 percent share in production and 64 percent in employment.

The meat processing sector (about 6,500 companies), has the largest number of producers followed by bakery and pastries (over 5,000 each), flour milling (over 2,000 mills), and fruit and vegetable processing. The highest level of concentration is seen in vegetable oil processing, production of food concentrates, and beer.

Table 1 shows the state of the main sub-sectors of the food processing industry. These refer only to companies employing 50 or more people on a permanent basis. Present statistics do not allow the estimation of similar data for companies employing less than 50 workers. Table 2 shows information about the most important companies in each sub-sector.

Table 2. Basic Information on the Polish food sector (companies employing 50 or more people)

Sub-sector of food processing industry	Number of companies	Employment	Net sales in 2001 (\$ Mil) ^{a/}	Annual average growth of sales during 1998-2001
Meat	800	74,900	4,000	9.3 percent
Poultry	97	13,500	859	7.6 percent
Fish	84	10,100	424	9.3 percent
Dairy	300	46,900	2,735	-0.2 percent
Potatoes, vegetables, and fruit	239	25,900	1,259	8.7 percent
Cereals	150	8,470	727	3.8 percent
Vegetable oils	14	3,440	428	-9.6 percent
Fodder	155	9,105	1,530	23.1 percent
Production of sugar	73	16,070	952	-0.3 percent
Production of bread and spaghetti	367	27,200	629	16.3 percent

Sub-sector of food processing industry	Number of companies	Employment	Net sales in 2001 (\$ Mil) ^{a/}	Annual average growth of sales during 1998-2001
Confectionery products	147	25,720	1,196	-4.0 percent
Non-alcoholic drinks	135	17,840	1,126	5.8 percent
Beer and wine	102	13,800	1,413	5.6 percent
Alcoholic drinks	46	5,800	380	-14.1 percent
Others ^{b/}	182	21,070	1,487	7.4 percent
Total ^{c/}	2,891	319,815 ^{c/}	19,145	5.0 percent

a/ values of sales without VAT and excise tax

b/ production of concentrates, ice creams, tea, coffee, and spices processing

c/ excluding production of tobacco industry.

Table 3. The most important companies operating in the food industry

Company (Product Types)	Sales in 2001 (\$ Mil.)	End-Use Channels	Production Location	Procurement Channels
Zywiec Group (beer)	657	Wholesale; Retail; HRI	Poland (4)	Direct; Importers
Kompania Piwowarska S.A. Poznan (beer)	620	Wholesale; HRI; Export	Poland (3)	Direct; Importers
Nestle Poland S.A. (dry goods and condiments, corn flakes, confectionery)	317	Wholesale; Retail	Poland (3)	Importers; Direct
Animex Holding/Smithfield (meat and poultry)	311	Wholesale; Retail; Export	Poland (5)	Direct
Polmos Bialystok S.A. (spirit distilling and alcoholic beverages)	299	Wholesale; Retail; HRI	Poland (1)	Direct
Rolimpex S.A. (cereal, cereal products, fodder)	294	Wholesale; Export	Poland (8)	Direct; Importers
Masterfoods Poland (confectionery)	277	Wholesale; Retail	Poland (2)	Direct; Importers
Unicom Bols Group (alcoholic beverages)	237	Wholesale; Retail; HRI	Poland (1)	Direct; Importers
Polmos Poznan (spirit distilling & alcoholic beverages)	230	Wholesale; Export	Poland (2)	Direct
Sokolow Holding S.A. (meats)	213	Wholesale; Retail; Export	Poland (3)	Direct

Company (Product Types)	Sales in 2001 (\$ Mil.)	End-Use Channels	Production Location	Procurement Channels
Danone Poland Ltd. (milk, dairy products, confectionery)	205	Wholesale; Retail	Poland (4)	Direct; Importers
Agros Holding S.A. (fruit & vegetable confectionery, meat, alcoholic and nonalcoholic beverages)	205	Wholesale; Retail; Export	Poland (6)	Direct; Importers
Kraft Food Poland (confectionery, coffee, milk)	180	Wholesale; Retail	Poland (3)	Importers; Direct
Mlekovita Cooperative (milk and dairy products)	176	Wholesale; Retail	Poland (2)	Direct
Mlekpól Grajewo Cooperative (milk and dairy products)	165	Wholesale; Retail	Poland (1)	Direct
Kruszwica S.A. (vegetable oils and margarines)	160	Wholesale, Retail	Poland (1)	Direct; Importers
Bestfoods Poland (now Unilever Poland)	142	Wholesale; Retail	Poland (1)	Importers; Direct
Coca-Cola Beverages Poland	140	Wholesale; Retail; HRI	Poland (3)	Importers; Direct
Pepsi Cola Poland (snack foods, beverages)	136	Wholesale; Retail	Poland (4)	Importers; Direct
Wrigley Poland (chewing gum)	134	Wholesale; Retail	Poland (1)	Importers
Tchibo S.A. (coffee)	122	Wholesale; Retail	Poland (2)	Importers
Indykpol S.A. (poultry meat)	122	Wholesale; Retail;	Poland (1)	Direct
Ferrero Poland (confectionery)	121	Wholesale; Retail	Poland (1)	Importers
Polmos S.A. Zielona Góra (spirit distilling and alcoholic beverages)	119	Wholesale; Retail; HRI	Poland (1)	Direct
Hortex S.A. (fruit & vegetables)	119	Wholesale; Retail; Export	Poland (4)	Direct
Carlsberg Poland Okocim (beer)	115	Wholesale; Retail; HRI	Poland (2)	Direct; Importers
Hochland Poland (cheese)	102	Wholesale; Retail	Poland (1); Europe	Direct; Importers
Morliny S.A. (meat products)	98	Wholesale; Retail	Poland (1)	Direct
Bakoma S.A. (yoghurts)	98	Wholesale; Retail	Poland (1)	Direct
Drosed S.A. (poultry meat)	93	Wholesale; Retail	Poland (1)	Direct

Company (Product Types)	Sales in 2001 (\$ Mil.)	End-Use Channels	Production Location	Procurement Channels
American Restaurants Sp. z o.o. Wroclaw	88	HRI	Poland (5)	Importers; Direct
Superfish Ltd. (fish & seafood)	84	Wholesale; Retail; HRI	Poland (2)	Direct; Importers

D. SECTOR TRENDS

Further development of the food processing industry in the next 5-10 years will be stimulated by

- **the increased demands of local as well as export (E.U. and Former Soviet Union countries) food markets:**
 - C increased demand for processed fruit, vegetables, milk, fish, and meat, (preserved, frozen and microwavable foods),
 - C increased demand for convenience products (highly processed, easy to cook, ready to eat),
 - C further reduction of small local processing and domination by large plants.

Food processed by small plants is generally of lower quality and higher price than larger plants.

The influence of western consumption habits and increased income are:

- C Increased demand for organic foods, produced without use of chemicals.
- C Development of the HRI food service market, which is presently less significant for the Polish consumers, but is expected to develop with increased incomes and changes in the lifestyle of Polish families. The food processing industry will be influenced by fast food and catering industries. The need for convenience food will be stimulated by high (nearly 40 percent) share of households with more than one income.

Membership in the European Union will create new opportunities for domestic food processors. Undoubtedly, this will also increase competition from food imported from modern and efficient food producers in the countries already in the European Union. However, this will at the same time increase export opportunities in those segments of food processing industry where Poland has some advantages compared to EU countries. This refers mainly to the production of processed milk (cheese and yogurt) and frozen fruit and vegetables. Big investments are necessary to adapt the Polish food industry (particularly dairy and meat producers) to the EU standards. Such investments will be financed by food processors with help from EU structural funds (SAPARD, PHARE).

The Polish food industry is slowly regaining its traditional markets - Russia as well as countries of the Former Soviet Union (especially Ukraine, Lithuania, Latvia and Estonia) which were adversely affected by the economic crisis in the FSU in 1998/99. The Polish food processing industry will undergo changes in the structure of food products offered, but also in further modernisation and concentration of food processing. These changes will be forced by market and economic factors as well as by

activities adjusting the Polish food industry to European Union standards (hygiene, veterinary, quality, and wholesomeness of food).

Membership to the European Union will be preceded by the completion of privatization of the food processing sector. At the end of 2001 30 percent of the spirit industry, 70 percent of the sugar and dairy industries, and about 40 percent of cold storage houses were not privatized. The remaining subsectors (**e.g. meat**) are privatized completely or nearly completely.

Foreign investments have played a significant role in the process of development and modernization of the Polish food processing industry. Up to the end of 2001 total foreign investments in the food industry exceeded US\$ 4.8 billion and in the tobacco industry to about \$ 0.8 billion.

American companies are the largest foreign investors. The following companies have involved their capital in the food processing sector:

- C Pepsico: production of beverages, snacks, confectionery products,
- C Smithfield: meat processing,
- C Mars Incorporated (Master Foods): production of confectionery products and animal feeds,
- C Schooner Capital Corporation: vegetable oil processing,
- C McDonalds: fast food,
- C Cargill Inc: production of animal feeds,
- C Bestfoods: production of food concentrates,
- C Gerber: fruit and vegetable processing,
- Wrigley: confectionery,
- Philip Morris and Reynolds Tobacco: tobacco industry.

Increased levels of foreign investment are expected during the coming years, particularly in the spirit and sugar industries as well as meat, dairy, fish, fruit and vegetable subsectors.

COMPETITION

European Union companies are and will be the main competitors in the food processing sector for U.S. exporters and investors. Currently, over 50 percent of food product (processed and raw materials) imports come from EU countries, particularly Germany. Companies from the EU and the United States are the most significant foreign investors. This includes Germany, Great Britain, France, Italy, the Netherlands, and Switzerland.

U.S. products compete with European Union dairy products (cheese, yogurt, ice-cream), processed fruits (preserved and dried), alcoholic (wine and beer) and non-alcoholic beverages, fish and seafood, vegetable fats, condiment, snacks and food additives.

Table 4. Estimation of market share of the U.S. versus foreign competitors by major processed food types in 2001

Type of food	Market share of the U.S. in %	Market share of foreign competitors in %	Main Competitors
Red meat	0.3	1.5	EU, CEFTA
Poultry meat	0.8	1.8	-
Fish and seafood products	0.2	45.6	Norway, Russia, China, EU
Dairy products	0.0	2.5	Germany, Holland, France
Prepared fruit, prepared vegetables, oilseed products	0.3	16.9	Greece, Turkey, Israel, EU
Confectionery products	0.0	8.1	EU
Beverages, including alcohol	0.1	3.6	EU, CEFTA, Bulgaria
Dry goods, condiments, snacks and specialized food ingredients	0.6	21.5	EU, China, VietNam

BEST PRODUCT PROSPECTS

A. PRODUCTS PRESENT IN THE MARKET, WHICH HAVE GOOD SALES POTENTIAL.

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

- C highly processed, convenient i.e. ready-to-cook and ready-to-eat products, and a wide range of snacks (chips, sweets, yogurts, cheeses, etc.),
- C food for the HRI food service sector (frozen and ready to cook products, beverages),
- C organic food produced from food ingredients cultivated without or with limited use of pesticides, mineral fertilisers, and other chemicals,
- C processed meat, fish, milk, and fruit and vegetables.

All these products are known to Polish consumers. The demand for them is growing with the increase in personal incomes. These products will be, in most cases, produced in Poland, but imported ingredients will often be used. This will result in further growth of demand for the importation of basic products necessary for food production (durum wheat, processed soybeans, sunflower, palm oil, and juice concentrates) as well as various additives.

B. PRODUCTS PRESENT IN SMALL QUANTITIES BUT WHICH HAVE GOOD SALES POTENTIAL

This group mainly includes:

- **processed vegetables, ready-to-cook dishes and snacks (excluding chips). Local production is limited and demand, while showing potential, is still small,**
- C **“high quality” food (including seafood) and non-alcoholic beverages for people with the highest incomes,**
- C **food ingredients for special use, e.g. vegetable fat for processing sector, sweeteners replacing sugar, protein or vitamin preparations necessary for the production of diet and health foods.**

The market for these products is very small, but changes in eating habits and higher incomes create an increase in demand.

C. PRODUCTS WHICH ARE NOT PRESENT IN THE MARKET

This group mainly includes foods which contain additives not permitted in Poland. Polish legislation in this respect (**concerning dyes and preservatives in particular**) is much stricter than in the developed countries. Information on such products is available from Panstwowy Zaklad Higieny (State Hygienic Office) and from the Ministry of Health. Integration with the European Union will allow some of those additives to be admitted for use in food production.

This group also includes products made from products and spices grown in other climatic zones (mainly vegetables, fruit, seafood), which make the highly processed products more attractive to consumers.

POST CONTACT INFORMATION

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

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homepage: <http://www.usaemb.pl/usfas.htm>

For more information on exporting U.S. food products to Poland, including “The Exporter’s Guide”, “The Food Processing Sector Report”, “The Retail Food Sector Report”, product briefs on the market potential for U.S. fruit, wine and dried fruits and nuts, please visit the Foreign Agricultural Service home page: <http://www.usda.gov>. Importer lists are also available from our office to exporters of U.S. food products.

Enclosure 1. Foreign investors operating in agri-food sector as of the end of 2001

Sector and name of the Company	Investments in m. US\$		Country of origin
	Realized	Planned	
CONFECTIONERY			
Nestle	348 ^{1/}	-	Switzerland
Mars Incorporated	160	30	USA
Cadbury Schweppes	126	-	Great Britain
Ferrero Holding	80	10	Italy
Craft Jacobs Suchard AB	31	39	International
Wrigley Jr. Company	79	30	USA
Stolwerck AG	26	2	Germany
United Biscuits Investments	16	25	Great Britain
BEER			
Harbin BV	326	-	the Netherlands
Heineken	221	-	the Netherlands
Brau Union	77	12	Austria
Carlsberg	70	-	Denmark
PALM	50	-	Belgium
South African Breweries	25	40	Republic of South Africa
Malteries Souflet S.A.	30	-	France
Bitburger Brauerei GmbH	25.5	14	Germany
BEVERAGES			
Coca-Cola Beverages Plc	500	-	Great Britain
Pepsico ^{2/}	203	380	USA
EDIBLE OILS			
Schooner Capital Corporation	80	50	USA
E.B.S. Montedison	54	40	Italy
DAIRY PRODUCTS AND ICE CREAM			
Schoeller	43	-	Germany
BSN Gervais Danone ^{3/}	136	-	France
Hochland	17	7	Germany
SUGAR			
Sud Zucker AG	21	-	Germany
British sugar	90	10	Great Britain

Sector and name of the Company	Investments in m. US\$		Country of origin
	Realized	Planned	
Pfeifer und Langen	41	-	Germany
POTATO			
Mc Cain Foods	54	-	Canada
CEPV	47	-	the Netherlands
Farm Frites Beheer BV	38	-	Holland
MEAT			
Campofrio Alimentacion	35	-	Spain
Globe Meat Technology A/S	32	-	Denmark
Smithfield Foods	46	50	USA
Forttrade Financing SPA	60	100	Italy
Epstein	50	-	USA
FRUIT AND VEGETABLE			
Gerber Finance Company	20	4	USA
Orkla Foods A.S.	28	8	Norway
Eckes-Granini Int.	11	-	Germany
Alione Industria Alimentare	10	4	Italy
FOOD CONCENTRATE			
Unilever (Bestfoods) ^{4/}	140	7	USA
Dr Oetker	17	-	Germany
Kruger GmbH	11	-	Germany
COFFEE			
Tchibo	35	-	Germany
Union Cafe Confectionery Group BV	13	-	Holland
SALTED SNACKS			
Bahlsen	17	11	Germany
Intersnack Knabber Gebaeck GmbH	15	15	Germany
CEREAL			
Michel Marbot	10	-	France

Sector and name of the Company	Investments in m. US\$		Country of origin
	Realized	Planned	
Bering Netherlands Company	7	6	Holland

- 1/ Data for Nestle refers to total investments: confectionary, food concentrates and cornflakes.
- 2/ Data for Pepsico refers to non-alcoholic beverages and salted snacks.
- 3/ Data for Danone refers to dairy and confectionery products.
- 4/ Data for Unilever NV refers to food concentrates, fish products, and margarine production.