

Potential and Challenges in the Polish Market

Poland stands out as one of the most successful and open transition economies in Eastern Europe. The privatization of small and medium-size state-owned companies, and a law encouraging establishment of new firms, have ushered in rapid development of the private sector, which now generates an impressive 70 percent of the nation's economic activity.

Poland has a broad-based, stable economy. Its industrial pillars include machine manufacturing, coal mining, shipbuilding, food processing, and production of iron, steel, chemicals, glass and textiles.

Poland experienced robust economic expansion throughout most of the 1990s, averaging over 6 percent growth in gross domestic product (GDP). However, despite the expanding economy, Poland does have its problems. GDP is estimated to have slipped to 2-2.5 percent during 2001, while unemployment climbed to a relatively high 15.8 percent.

During 2001, inflation decreased to an estimated 6.1 percent, compared with 10 percent recorded for the previous year. Average monthly pay of Polish consumers increased by 2.6 percent in real terms during the year 2000 and is expected to slightly decrease during 2001. Despite the current situation, the future of the Polish economy does look optimistic, and this biggest market of Eastern Europe could be of great interest to U.S. exporters.

Demographics Driving Demand

The dour unemployment rate notwithstanding, about 30 percent of the population lives in Poland's large cities, where



U.S. SUPPLIERS AND EXPORTERS FACE FORMIDABLE COMPETITION IN THIS MARKET.

employment approaches 100 percent and attracts workers from as far away as 100 kilometers. About 56 percent of urban households have two or more earners.

The openness of the Polish economy, coupled with increasing business and pleasure travel, will likely boost the popularity of Western foods and eating habits.

In addition, demographic changes typical of developing economies—such as general economic improvement, higher per capita income, more women in the workforce and more households with two or more incomes—are prompting changes in consumption patterns and lifestyles that will support further development of food services.

Tourism: Another Market Driver

Poland is the most frequently visited country in Central Europe. The number of foreign visitors between 1994 and 1998 climbed from 82 million to nearly 89 million. The number of tourists and business persons staying overnight rose by 23.3 percent.

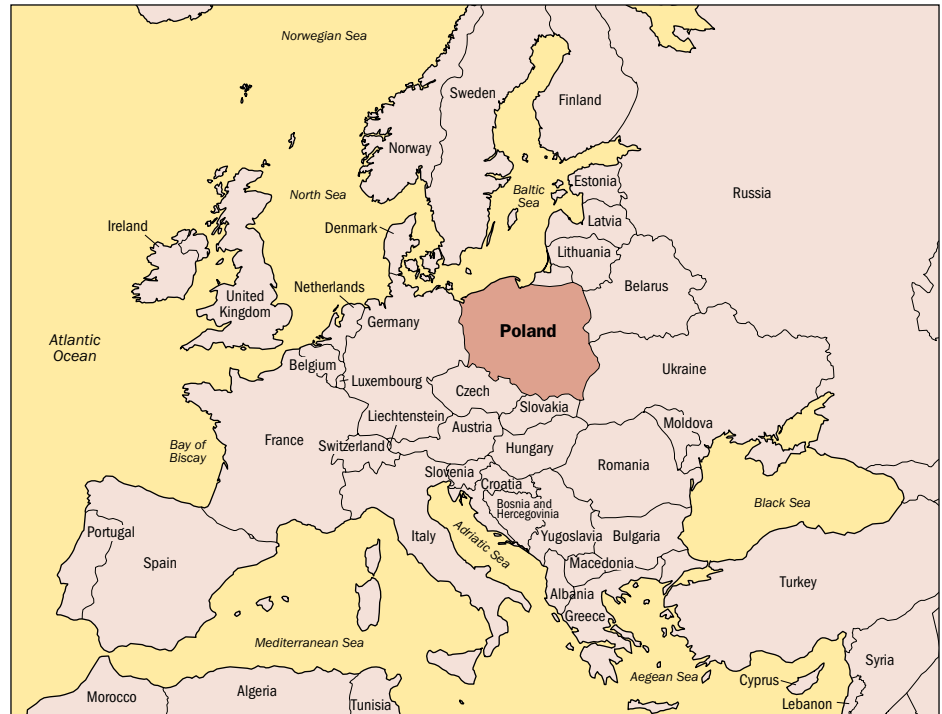
Most visitors are from neighboring countries, mainly Germany, the former Soviet Union, the Czech Republic and Slovakia. The number of Polish citizens travelling abroad on business has also grown rapidly.

Trade Constraints

Naturally, the factors that make Poland an attractive possibility to U.S. exporters make it attractive to U.S. competitors as well. U.S. suppliers and exporters face formidable challenges in this market which should not be underestimated.

Poland already obtains most of its imports for the hotel, restaurant and institutional (HRI) sector from the European Union (EU). For the most part, imports

Poland Occupies a Strategically Central Location for Tourism and Trade



from the United States are limited to raw materials and semi-finished products destined for further processing, such as meat products (poultry and beef), seafood, nuts, unprocessed tobacco, protein concentrates, soybeans and soybean meal.

The Polish government is working hard to gain EU membership. Poland and the EU reached agreement on agricultural trade liberalization in September 2000, which could reduce or even eliminate tariffs on most EU products entering Poland. Moreover, Poland's growing integration with EU trade practices and regulations will give food ingredients from the region increasing access.

Poland is itself a major producer of agricultural commodities, and has enacted high tariffs and low quotas to protect its industries. In addition, it has a complicated system for product registration that can de-

lay, or even prohibit, product entry.

Finally, Poland remains a very price-sensitive market. Many shops take this into account and provide a relatively large variety of low-cost products and few high-end products. Major food chains rely heavily on domestic products, further constraining import demand. Lower tariff rates, logistical advantages and more favorable exchange rates often combine to make EU imports less expensive than U.S. products.

Market Conditions

Rising incomes, more women working outside the home, and tourism are all playing their part in stimulating HRI restaurant sales. Market analysts expect overall HRI sales growth to average 7 percent for the next several years.

Food service sales in Poland's HRI sector averaged an impressive 9.8 percent

Poland's Import

In view of the considerable—and intensifying—challenges facing U.S. agricultural exporters in Poland, it may well be asked whether it's a viable market, and what lessons can be drawn from it.

With its expanding economy; developing food processing and service industries; stable, progressive government; and growing, sophisticated urban middle class, Poland would seem an ideal target for hefty sales of U.S. foods and ingredients, with substantial promise of future growth. Yet U.S. agricultural sales in this market have dropped precipitously and continuously for the past several years, plummeting from \$197.1

million in fiscal year 1996 to \$46.4 million in fiscal 2000.

The case of Poland is significant because it points up the stiff competition the United States faces in former Eastern bloc countries as they prepare for and attain EU membership. It throws into sharp relief the practical consequences of not belonging to a trade group whose members enjoy maximum access to each other's markets and harmonious trade rules and practices. It also demonstrates the necessity of the United States' membership and active participation in international trade organizations and negotiations.

growth rate for 1994-1998. Growth in food service sales for institutions (schools, hospitals and factory or business cafeterias) is expected to average 1-2 percent.

The outlook for sales at hotels, resorts and restaurants is especially bright, with sales expected to rise by 8 to 9 percent. Food service establishments (cafés, bars and restaurants) in the hotel and resort sector alone account for about 25 percent of total HRI sales.

The number of such establishments jumped about 12 percent between 1994 and 1998. The number of restaurants grew fastest, by 14 percent, while the number of bars and coffee shops grew by more than 12 percent.

Restaurants come in all shapes, sizes and price ranges. Warsaw boasts a variety of low-cost eateries "fit for kings." American, Mediterranean, French, Middle Eastern and Asian cuisines are becoming more popular and therefore more readily available. Many Polish families visit traditional and fast food restaurants as a form of entertainment.

American and Western European companies dominate the hotel and restaurant

sector. Fast food services are concentrated, and dominated by U.S. companies. McDonald's, Pizza Hut, KFC, New York City Pizza, Telepizza and Domino's Pizza all have a presence. Ownership of hotels, restaurants and resorts is dispersed rather than concentrated among a few market players. The biggest hotels belong to international hotel chains, but most restaurants and resorts are Polish-owned.

Tips and Caveats

To overcome these considerable obstacles, U.S. exporters should obtain the services of a local representative or agent, and establish personal contacts through local exhibitions and trade fairs. A solid market position can be achieved only by working intensively with an experienced local agent—one with a thorough knowledge of current legal, tax and customs regulations, market structures and nontariff barriers.

Relations between an exporter and a local partner should be well established before contracts or long-term agreements are considered. Consulting companies working in Poland can provide prospective ex-

porters with valuable market research.

Advertising is a must in Poland, and television, present in almost every home, is believed to be the best way to reach consumers. Products on television show the greatest sales growth of all advertised items.

Products with Promise

Polish consumption of vegetables, fruit, wine, fish, seafood and beer continue to grow, and sales opportunities for these products are bright. Fast foods like sandwiches, snack foods, fish, meat and vegetable dishes served at shops and bars or delivered to the office or the home have good potential, too.

Products that are not yet best-sellers but that also have favorable prospects include health and organic foods, and low-fat and low-sugar snacks made from natural ingredients. Vegetarian cuisine may also enjoy growing demand.

Almost all Polish households boast modern cooking utilities and refrigerators with freezers; 20 percent have microwaves. Market niches exist for semi-ready food products. Microwaveable and ready-to-cook products may also have favorable prospects, particularly in the institutional sector. ■

For more information on the Polish market for U.S. agricultural exports, contact: Office of Agricultural Affairs, U.S. Embassy, Warsaw, Poland, Tel.: (011-48-22) 621-3926; Fax: (011-48-22) 628-1172; E-mail: agwarsaw@it.com.pl

For details, see FAS Report Nos. PL0006, PL0033 and PL0038. To find them on the web, start at www.fas.usda.gov, select **attache reports** and respond to the dialogue boxes.

