

# Expert

## Foreign Direct Investment

# Some food for thought

By **Ben Creighton**,  
Food Sector Head  
for CEE,  
PM Group



## Foreign Direct Investment in Poland: An engineered approach

Poland is a very attractive location for Foreign Direct Investment (FDI) particularly for its stable economy, well educated workforce, central location, infrastructure, large market (population of Poland is nearly 40 million) and business friendly environment. In the EY's Attractiveness Survey Europe 2016, Poland was again ranked as the most attractive country in Central and Eastern Europe (CEE) in which to invest in the coming years. According to the EY data, the CEE region was a 34% growth in FDI in 2015.

Many investors eye Poland for its potential in agriculture. According to the National Bank of Poland, the food industry is one of the main sectors targeted by foreign investors in Poland. The food industry amounts to 14 billion USD or 19% of total manufacturing FDI into Poland to date.

This is why Poland is the biggest agricultural and food product manufacturer in CEE and the 7<sup>th</sup> biggest in Europe. Food processing in the country, including beverages and tobacco production, is the most developed compared to other CEE countries.

### Things to do

Companies considering an investment in a foreign market have a long "to do list" of things they need to consider. Starting with market research, it is important to know the size, maturity and local trends of the market in the country in which you propose to invest. It is also crucial to know who your main competitors are and what their market share is. Other key considerations are:

- Skills availability and

labour cost;

- Logistics, communications Infrastructure;
- Human resources and recruitment;
- Legal and commercial advice;
- Finance, taxation, currency risks and insurance;
- Tax incentives and grants;
- Public relations and marketing;
- Political stability or risk.

For food facilities, from an engineering/architecture perspective, you need to begin with three key assessments:

- Site selection;
- Buildings and equipment design, permitting, procurement and installation;
- Utility applications, considering cost, quality & reliability.

Like any investment, there can be a number of pitfalls and in the particular case of site selection, buildings & equipment design, permitting, procurement and installation, the following are the key pre-investment considerations you need to make.

### Legal Entity Formation & Financial Plan

A legal entity is a mandatory requirement for land purchase in Poland and for application for environmental and building permits. Polish regulations allow domestic and foreign enterprises to operate under a wide variety of legal forms. The limited liability company is the most attractive legal vehicle for foreign investors to conduct business in Poland. A financial plan needs to take account of currency risk hedging and financial control processes for the project. Engaging specialist advisors with suitable competence in these areas is highly

recommended as a first step prior to site selection.

### Site Selection & Due Diligence

When selecting a site, check the ownership status and if the seller holds an appropriate legal title and associated legal burden of proof.

Investigate the extent and quality of communications infrastructure, who your neighbours are and what local industries are present in the area. Is there potential for planning permission objections or possible cross contamination / odour from other activities?

Is there a local development plan in place for that region?

There are 14 special economic zones in Poland and they offer a range of support measures:

- Income tax exemption (CIT or PIT) from the income created in SEZ
- Land plot suitable for the investment at competitive prices
- Free support of formal processes concerning the investment.

A thorough investigation and assessment of ground conditions and stability is essential to determine whether a site is suitable for building on and especially soil conditions and water table.

The availability and lead time for utilities must be investigated and analysed as part of the project schedule and also their availability during construction.

Your advisor should include the site's history, archaeological status and unexploded ordnance surveys as these can cause problems during construction.

### Site Master Planning & Building Concept Design

It is important to complete a Site Master Planning (SMP) and a Building Concept Design (CD) as this will allow you to plan for complete site utilisation to "Future Proof" your proposed site. As part of this you will consider expansion of buildings and utilities. The CD becomes the baseline for the project budget, scope and schedule so it's critical that it considers all aspects of the project. A project's chances for success, therefore, are often determined by the quality of the concept design.

Even at this pre-investment stage of the project you need to consider constructability and safety, internal and external traffic, people and material flows as you want to maximise efficiency and functionality from the start.

### Cost Plan, Cost Estimate & Budget

Project cost control is a continuous process, starting with project commencement and continued during the full project duration. The cost plan determines at what stages of the project, the project costs are incurred and reported. It is also important to have a change management plan in place for the management of the project scope and requests for change.

The building and equipment cost estimate will be produced at the end of the CD. It is important that this estimate includes appropriate design and execution contingency and that allowances have been made for inflation and currency fluctuation. It should also include owners costs (legal, HR & staff, utility fees, insurances, etc.).

Local Authority Fees can vary depending on the region. Always remember that an estimate is not a budget!

#### Schedule Control

As with all projects, effective schedule control is a must for project success. The aim is to have one integrated baseline schedule for the project covering all activities and to update

## According to the National Bank of Poland, the food industry is one of the main sectors targeted by foreign investors in Poland. The food industry amounts to 14 billion USD or 19% of total manufacturing FDI into Poland to date.

this regularly to track actual progress. It should show all the key milestones. For these key dates it is worth considering using contractual incentives or penalties as a motivation to achieve them. Do include some schedule contingency or 'Float' strategically placed in the schedule. Remember a realistic schedule is the fastest schedule!

#### Permitting

In Poland, when building a Greenfield facility, you are required to have an environmental decision and utility agreements before you apply for your building permit. The environmental permit is a one or two step process: Environmental Information Card (this is simple and fast for low risk facilities) and is

used to determine if a second step involving a full environmental impact study is required (this has a high level of detail, takes 5-6 months, involves public consultation and is for higher risk facilities).

Utility agreements are required and you have to obtain technical conditions of utilities connection for water, gas, power, effluent, rain disposal, waste disposal etc.

Additionally, a water law permit is required for borehole water extraction and rain water disposal to rivers. The Building Permit design is detailed (approx. 60% completed design) compared to other western European countries so possible abortive design costs and significant change cost and time could be incurred if significant design changes occur following building permit application.

#### Execution Approach

When looking at the project execution approach complex projects have the best chance of success when a full service, locally based design and project management company is engaged to deliver the full project management and design scope of the project. Having a single point of contact with the industry specific expertise, scale and experience will significantly help to mitigate risk and ensure effective project delivery.

For less complex projects a traditional design and build approach may be suitable, however the following factors need to be considered to determine what is important to your specific project.

- Time vs Quality vs Cost;
- Cost Level & Early Cost Certainty;
- Schedule Speed & Early Schedule Certainty;
- Design Change Flexibility;
- Quality & Suitability of Design, Materials & Finishes;
- General Contractor vs Specialist Package Contracting.

#### BIM and 3D

With the widespread adoption of Building Information Modelling (BIM) in the design and construction industry by clients, consultants, vendors

and contractors it is even more feasible to achieve effective and efficient project delivery. For the design of a complex food plant, BIM is a really important design tool and allows for the plant to be fully designed in 3D before it goes to the installation stage. BIM is being used to model all structures, equipment, piping, HVAC and electrical containment integrating the process and packaging elements. This has significant design benefits including clash detection and is a very powerful co-ordination tool used to complete design reviews as well as facilitating client approvals, for early continuous constructability reviews and for assessing maintenance access during plant operation.

#### Procurement

Following a structured procurement process has its advantages, such as using a known and vetted contractor short list, doing robust contractor pre-qualification and a detailed tender analysis (comparing "apples with apples"), technical and commercial "value engineering" and having full contractual support (using for example the FIDIC suite of contracts widely recognised in Poland or bespoke contracts if preferred).

Specialist support is also a benefit, especially if you are importing equipment, as there may be issues with CE certification, import duty or customs clearance. Pre-ordering of long lead items should be considered, particularly if they are on the projects critical path. Co-ordination is key when renovating and relocating equipment from multiple sites.

#### Construction & Installation Management

The safe way is the right way! Safety should always be the number one priority. There are statutory construction control requirements in Poland i.e. statutory supervision (*inspektor nadzoru* services—discipline statutory inspectors, site manager and safety manager). During the construction phase of a project it is important to have tried and tested contract, cost, schedule, quality and change

management systems. Project success = "scope, cost and quality, delivered on time...."

#### Commissioning

Commissioning a plant can bring its own challenges. It may involve the start-up of specialist equipment. Depending on the product there may be regulatory or corporate qualification requirements (IQ/OQ/PQ) and GMP Audits. Many food retailers now have their own stringent standards and carry out customer audits.

#### Certification

UDT, the Polish inspection and certification body can provide CE certification and the German TUV certification is also widely recognised. Such certification may be required before start-up. In Poland building occupancy permits and production operational permits are a requirement. If the facility is designed to the latest green building standards for energy efficiency, then application can be made for LEED or BREEAM certifications which require energy modelling and seasonal commissioning. Where such certification is necessary it is highly advisable to include this objective in the CD phase of the project to ensure all aspects of the certification can be included from the outset.