1. Study tour organizers

There was a lot of interest in Ukraine on wholesale market development and, particularly, to see experience from neighboring transition economies. The rationale for this was that the experience from a similar country would be much more relevant than visiting Western Europe where the markets were developed over many years and food quality standards and competition are at a different level. Three organizations independently were going to organize a study tour to Poland on wholesale markets and due to the project co-ordination meetings set up between projects by the Agrilogistics project, it was agreed to organize one larger study tour.

The Agrilogistics Project organized the study tour on wholesale markets in conjunction with the following institutions:
- Central European Initiative
- World Bank in cooperation with the FAO
- USAID – Agricultural Marketing Project

This was a good example of co-ordination between donors and other projects.

2. Objective of tour

The objective of the tour was to provide the participants with information on wholesale market operations in Warsaw, Poznań and Gdańsk. Those three wholesale markets in particular cities were selected because each of these premises represents a different model and a different philosophy of building the market, different model of the management and organization of the market, financing the investments, other urban planning and logistic solutions and other problems related to the current operations of the market. During the study tour the participants learnt about the issues related to:
- market transformations in 1989-2005, in particular in relation to the distribution of agricultural and food products
- difficulties and barriers in the first period of economic transformations in Poland (1989-1993), in particular in relation to production, distribution and retail trade in agriculture and food produce
- establishing a governmental program on the construction of wholesale markets in Poland
- different financial models related to the construction of wholesale markets
- urban planning projects of wholesale markets, including e.g. the planning, location and financial conditions
- financial framework of the particular wholesale markets
- management of wholesale markets, including e.g. lease, entrance, parking and regulation charges
- current difficulties and barriers referring to completing the initial arrangements specified in the governmental program of the construction of wholesale markets in Poland.
- further development plans

The basic provision and objective of the study tour was to present to the participants not only the positive elements but also negative ones, the mistakes made during the preparation of the wholesale market construction concept, political conditions, mistakes related to the project and logistics solutions, the lack of vision of the market development in the subsequent years, difficulties during the start of the wholesale market operation, competitive activity of other wholesale and retail facilities established spontaneously and frequently illegally during the economic transformations in 1989-1993.

3. Wholesale markets in Poland

The biggest economic transformations in Poland took place in 1989-1993. In that period the centralized economy in Poland was transformed into a market-oriented economy. Such transformations referred also to agricultural production and retail trade. The traditional structure of agriculture produce purchase and distribution (substantially based on state-owned companies) ceased to operate. Consequently, in a spontaneous manner, without any control and supervision of the state entities, market places of wholesale character began to emerge in almost each city. Those premises were frequently established without any permission, not in conformity with binding regulations, often in places of poor infrastructure (sanitary and rainwater systems, etc.). Those premises did not meet the then obligatory basic regulations related to e.g. sanitary, veterinary and urban planning conditions. However, the local and governmental authorities and entities responsible for observance of the regulations permitted the operation of such premises. There was an understanding that the producer had to have a possibility to sell their products and small business including restaurants and retail traders had to have a place where they could purchase the goods. The lack of alternative place to complete the wholesale transactions forced the local authorities to allow such places to exist despite the fact that they did not meet e.g. the basic sanitary conditions. Each of the big cities like Warsaw, Poznań, Kraków, Gdańsk, Wrocław, Lublin, etc. had at least one or several facilities of that kind. The premises were never monitored by the state services. Such places were also the centres of unrecorded product distribution and the place where smuggled and illegally produced goods were sold. In 1989-1992, wholesale market places became the basic place of sale of agriculture and food produce and also the basic place of providing goods for small businesses including retail market places.

During the early nineties several European governments, the US government, international institutions like e.g. the World Bank, FAO, British Know How Fund offered assistance in the form of consultancy, grants, credit lines, etc. for the Polish government. However, the Polish government and local authorities were not interested in such assistance at that time. There was no understanding that
modern wholesale markets were the basic element of the agriculture infrastructure and distribution.

Only the resources offered by the Swiss government in amount of 10 million Swiss francs as a grant were developed. As a result of the financial support and the consultancy of the Swiss experts a modern wholesale market that fulfilled all the European market standards, was constructed in Poznań. The market became the example for the local initiatives in other regions in Poland. Until that time, several initiative groups of different regions in Poland had not received any support from the local authorities and the Ministry of Agriculture and Food Economy. Only the involvement of the Polish Economic Chamber of Agriculture Producers and Exporters and the establishment of the first professional wholesale market in Poznań resulted in the change of the local authorities approach and made the governmental and parliamentary circles and local governments realize that the wholesale market was the basic element of the infrastructure of agriculture and food products distribution. In that moment, the Ministry of Agriculture and Food Economy became the main coordinator of the local initiatives and the wholesale market construction program.

3.1 Program of the construction of wholesale markets in Poland

Only in 1994, the Ministry of Agriculture and Food Economy (MRiGŻ) became active in order to improve the market infrastructure. In that time, MRiGŻ in their program of the construction of wholesale markets defined the following action plan (fragments of the MRiGŻ program):

“Due to the unfavourable processes in the trading services for agriculture, country and other divisions of food economy, the market was fragmented, there was no professional food wholesale market, and we faced big trading risk and non-application of unified trading standards.
Therefore, there was a need to create in Poland the organization of agricultural market that will reduce or eliminate the existing unfavourable circumstances. It will be possible through the development of:

- wholesale markets of auctions and agricultural commodity exchange;
- independent centralized system of trade information on the price and operations on the national and foreign markets;
- centre of market analysis;
- organization of standardization and quality control.

In the discussion on the organization of the agricultural market in Poland it was decided that the state would take an active role in the creation of principles of the whole market operations in compliance with the already functioning solutions of the European Community and in Poland in accordance with the only properly organized wholesale market: the Wielkopolska Agri-Horticultural Wholesale Market Plc. The Minister of Agriculture will allocate available resources for this purpose recognizing that the resources for the agricultural market institutions are the most proper and the least expensive form of intervention on the agricultural and food market and the promotion of
the agricultural and food produce on the foreign markets and the precondition of the efficient integration with the European Union.

The state support refers to:

**the Agricultural Property Agency of the State Treasury:**
- that shall contribute in the form of land valued as arable land where the wholesale premises and commodity exchange facilities will be located;

**the Agency for Agricultural Market:**
- that shall contribute in the form of financial capital as per the following criteria:
  - volume and significance of the market i.e. volume of national and foreign produce supply, volume of internal market demand and export, the development stage of the local undertaking;
  - resources for completing the pre-project pilot wholesale markets and other markets run by FAPA.

**the Agency for Restructuring and Modernization of Agriculture**
- that shall provide contribution for the construction of markets and auctions infrastructure i.e. communication, access road construction
- etc.
- the Agency for Restructuring and Modernization of Agriculture shall provide access to national and foreign preferential loans and in particular cases shall assure the award of credit guarantees

**FAPA (Foundation of Assistance Programmes for Agriculture)**
- shall finance, from subsidies, ‘Feasibility Studies’ for wholesale markets

In order to provide the effective organization and construction of wholesale markets and commodity exchanges, joint-stock companies will be established comprising the following shareholders:

- economic entities and organizations representing the circles gathering agricultural production and trading capital;
- social and professional organizations of farmers and economic chambers;
- the Agency for Agricultural Market;
- the Agricultural Property Agency of the State Treasury;
- Bank for Food Economy (BGZ);
- other banks and insurance companies

At the start of the undertakings, the shares of the State will be gradually transferred to organized groups of agricultural producers, at a particular price and as per the principles specified by the Minister of Agriculture.

The preparation of the organizational schedule of the first stage of the construction of wholesale market in Poland was based on the strategic objectives related to policy for rural areas, agriculture and food economy.

At the location selection for the first stage of the organization of wholesale markets and commodity exchanges in Poland the following elements were taken into account:

- size of agglomeration where a particular wholesale market or commodity exchange will be located,
- volume of demand and supply,
possibility to export,
- degree of involvement of the local initiative,
- communication routes,
- trading tradition of a particular regions and prospects for development,

so that within five years, the framework of agricultural and food market organization could be established, which is indispensable for the integration of the Polish agricultural sector with the EU.

The networks of wholesale markets will cover the whole country and will comply with the adequate systems in the European countries. Depending on the needs, location and destination, the said network will comprise a variety of wholesale markets connected to each other with the trading information system. They will comprise:

- over-regional wholesale markets providing goods for the biggest agglomerations:
- regional wholesale markets located around cities of 100-250,000 inhabitants and near the main border crossings.

The first stage „Wholesale market and commodity exchange network construction program” comprises big agglomerations, i.e. Warsaw, Silesia, Tri-City and due to the revival and development of trade with East-European countries: Lublin and Elbląg. These markets will be basic wholesale markets and over-regional markets of the needs resulting not only from the volume of agglomeration but also from their other character and function.

At the same time, the development of local markets will be facilitated (as per the research program implemented by FAPA in cooperation with the Agriculture Consultancy Centres and Rural Cooperatives Fund) in regions of high concentration of homogeneous production e.g. animal, grain and fodder in the form of auctions, marketing groups, etc. In time, the selected wholesale markets would be transformed into typical commodity exchanges, mainly in case of mass products or export-destined products.”

There were preliminarily-allocated financial resources for the preparation and implementation of the prepared projects related to the established program and the first 6-7 wholesale markets. There were also financial resources obtained in the form of foreign subsidies (grants) and credit lines from financial institutions (World Bank, EBRD). There was a great chance of quick and effective implementation of the said program.

Unfortunately, in a short time, as a result of various political factors, pressure of different political and economic circles the said program was changed. Despite the fact that there were no financial resources guaranteed, no preliminary financial and organizational analysis, under the pressure from various political and economic officials the governmental program was expanded by additional projects located in other regions in Poland. The decisions on the implementation of the program were no longer taken by experts, people who have thorough knowledge on wholesale markets but by people who had little knowledge on the said markets, their tasks and the role in the structure of the food and
agricultural produce distribution. As a result of those populist, unreasonable actions, the program of the construction of wholesale markets failed and the consequences of that process can be visible till today. The attempt of the Ministry of Agriculture and the government to create the second stage of implementing the wholesale market construction project is a clear example of this approach. Instead of 6-7 entities, 32 ones were established and some of them had never even begun their business activity, some went bankrupt and the majority of the existing wholesale markets have to deal with difficulties. Those difficulties result from that fact that the majority of the companies had too little initial capital compared to the credits from the bank, the local authorities and the government did not fulfill the conditions, the state services do not operate properly (e.g. sanitary, veterinary, building inspections) that allow the operations of the illegal wholesale market places.

The participants of the Ukrainian delegation had a chance to get to know all those problems.

Those mistakes shall be eliminated at the implementation of the governmental program of the construction of wholesale markets in Ukraine. The mistakes made by the Polish government, including the Ministry of Agriculture, shall become a warning for the political and local-authority officials of the Ukrainian government, the Ministry of Agriculture, the local authorities and initiative groups related to the construction of wholesale markets. The government, local authorities and initiative groups should mainly be guided by the experience of other countries, follow the best models of other countries that take into account the financial possibilities of the national budget and local budgets and the specific situation of the Ukrainian government.

### 3.2 Brief characteristic of Warsaw, Poznan and Gdynia wholesale markets

#### 3.2.1 Bronisze Wholesale Market

In July 1995, within the department program of the Ministry of Agriculture and Food Economy was appointed joint stock company named *Warszawski Rolno-Spożywczy Rynek Hurtowy*. In the first period the main shareholders of the company included governmental agencies subject to the Ministry of Agriculture, the Warsaw Governor and a small group of private shareholders. As late as after preparing the wholesale market construction concept and after providing the performance project in October 1996 the first shares were issued for the future operators on the wholesale market. As a result it was possible to take investment loans for the future construction.

The wholesale market in Bronisze was granted a loan from European Bank for Reconstruction and Development 100% guaranteed by the Polish government and the commercial credit of the Polish bank. In October 1996, the cornerstone for the construction of wholesale market was laid. As a result of different problems during the project implementation the market was opened in May 1999.

Despite the fact that the facility met all the standards of a modern wholesale market and that the majority of the space was leased, the market did not operate as per the initial
provisions. The reason behind it was that the illegal flower and vegetable and fruit market places, the basic traditional wholesale trade in the Warsaw region, were not closed down (those markets operated in different places). Moreover, the companies that were the shareholders of Bronisze wholesale market and leased the trading area did not run their business activity either. Therefore, during almost 12 months the new wholesale market only operated at a minimal level. There were two main reasons for this:

- The total cost of the facility was high which meant that rental of trading spaces was more expensive than the ‘illegal’ markets
- The ‘illegal’ markets were a fantastic source of income for the operators, whose main two functions were to organize the cleaning of the market and the collect the money (in cash). They provided no services so enjoyed a very lucrative (although illegal business). Therefore they did whatever they could to delay the building of competitive facilities (this included making bomb threats to key initiators of the new markets) and, of course, paying substantial bribes to the authorities to ensure that their illegal markets were not closed down.

Despite all the efforts of the Bronisze market they could not get the illegal markets closed and, in desperation, they were forced to buy the site of the illegal market for around $8 million and close it down themselves!

However, as a result of that decision the wholesale market related to vegetables and fruit started to operate as per the project provisions in March 2000. Already in December 2000 the millionth customer entered the market. Since that time, the wholesale market in Bronisze has been operating properly and has become the basic place of providing vegetables and fruit for retail trade for the Warsaw region. It is also a distribution point for other regions in Poland. Only the flower wholesale market has not reached the scheduled volume as the illegal market place trading traditionally in those goods for many years, has not been closed down until today.

Despite the fact that the wholesale market operates as per the initial provisions (excluding the flower market) and that it generates income that covers the operational costs including current costs related to credits from the bank, the market faces financial problems. It results mainly from the fact that:

- for many months the market did not operate as per the financial provisions
- the investment process lasted too long and it made the company cover their credit obligations despite the fact that it did not begin their business activity
- the initial size of the market and so cost was much too large and so placed too large an initial capital cost on the company
- the company took another loan for the purchase of the land of the competitive market place
- the commercial credits taken in the Polish banks had much worse financial terms than the credit from international institutions.

As a result the Polish government that guaranteed some of the credits had to provide more financial resources through purchasing subsequently issued shares of the company.
Therefore, the State Treasury share in the company capital is much higher than the initial provisions of the governmental program.

Shareholders of Warszawski Rolno-Spożywczy Rynek Hurtowy S.A.
Financial institutions – 5.613%
State Treasury- 59.321%
Market Operators – 222.468%
Gmina (municipality) Ożarów Mazowiecki – 0.083%
Agency for Restructuring and Modernization of Agriculture – 12.515%

Currently the wholesale market is entered daily by 4,500 to 14,000 cars. The number depends on the season and the working day. As a result of the number of entries including those who sell their goods off the back of trucks (agriculture producers) the parking area was recently expanded.
There are plans to build the fish and meat market on a green filed site in the nearest future.
The wholesale market is open 24 hours a day for the buyers and the sellers but the trade traditionally takes place from 2:00 a.m. to 8:00 a.m., namely at night and early in the
morning. There are slightly more visitors between 18:00 to 20:00 when the retail shops are closed down.

During the visit in Bronisze the participants visited the flower, vegetable and fruit and food market halls, places for off-truck sale and the logistic centre of Spanish products. The representative of the company showed the study tour participants round and provided information on various aspects of technical and functional solutions of particular premises. During the meeting with the President of the company Mr Janusz Byliński the participants received very thorough information on the investment costs, the rates of lease, operational costs, etc. It is worth emphasizing that the participant were also informed about the negative aspects including the difficulties the wholesale market faced during the first term of operation.

3.2.2 Wholesale market in Poznań

The Wholesale market in Poznań was established as a result of the initiative of the horticultural producers in cooperation with the Swiss government. The initiative was supported by funds from the Agency for Agricultural Market and the Ministry of Agriculture. The structure of the company capital includes: 8 % ARL, 19 % Ministry of Agriculture, 23 % private market operators (wholesalers and producers), 50 % Swiss fund. During approx. 1.5 year after signing the cooperation agreement with the Swiss government fund a modern wholesale market was established. The company had 12 hectares where the wholesale market was built in cooperation with the Swiss consultants.
On 26 November 1992, the Wielkopolska Giedła Rolno-Ogrodniczą S.A. in Poznań (WGRO S.A.) was opened. Today the name reads Wielkopolska Gildia Rolno-Ogrodnicza S.A. - the first in Poland, fruit, vegetables, fresh and artificial flowers and food wholesale market of the European standards.

The market is comparable to similar premises in Europe in terms of modernity and technological solutions. WGRO S.A. is a regular supply centre for approx. 9,000 companies of Central, Western and North Poland. Annual turnover of the market totals approx. from 400 to 500 million zlotys and 250,000 to 350,000 tons. WGRO S.A. is located in Poznań near Katowicka Route and Poznań-Franowo railway junction. Within the said 12 hectares there are 12 trading premises of a total area of 4 hectares. They include: 2 fruit and vegetable market halls, 4 food halls, 2 flower halls, warehouse and cooling room, garden equipment room and 2 carports.

The traders have at their disposal:

- 250 air-conditioned boxes to sell fruit, vegetables and fresh flowers,
- 250 places to sell fresh flowers in the air-conditioned market hall,
- 60 boxes to sell artificial flowers and flower accessories,
- 300 boxes where they can sell food and vegetable and fruit produce,
- 26 big cooling chambers
- restaurant in the flower hall and modern gastronomy and sanitary facility,
- 2000 parking places for the sellers and the buyers
- bank

During the visit of the delegation in the wholesale market in Poznań the participants of the study tour had a chance to see all the trading premises and learn about the construction and logistic solutions.

During the meeting with the President of the wholesale market Mr Hempowicz they received information on the history of the wholesale market, capital structure, rates binding on the market, operational costs, investment plans and difficulties the market faces today.

It is worth emphasizing that the biggest problem is the lack of land to be developed and the possibility to build new premises. It refers mainly to the professional fish and meat market hall. The President of the wholesale market emphasized the professional preparation of the wholesale market premises and the guarantee of proper land for the development of the market in the future.
3.2.3 Wholesale market in Gdańsk
Wholesale market in Gdańsk similarly to wholesale market in Warsaw was established within the department program of the wholesale market construction program. Before the decision to build the wholesale market was taken, there had been a thorough analysis related to the location; 56-hectare plot of land close to the Tri-city ring-road was chosen. The location of the wholesale market met all the requirements resulting from the logistic schedule referring to over-regional market, i.e.

- central location of the Tri-city agglomeration in relation to the North Poland,
- location at the East-West and North-South transit communication route,
- convenient road and rail network in terms of national and foreign connections,
- direct connections with the basic road and sea transport routes via Gdynia and Gdańsk ports
- direct connections with airport in national and international routes.

The program on the construction of wholesale markets was divided into three development stages. In the first stage it was scheduled to develop approx. 20 hectares and build complete road infrastructure providing access to the market though a network of public roads. It was agreed that the infrastructure and the related premises will make it possible to move all the entities operating on the market place in Gdańsk and Gdynia which serves as a temporary wholesale market. As a result there would become conditions to make the food wholesale market more civilized. The newly-built food wholesale market was comparable in terms of standards and logistic solutions to the modern wholesale markets in other countries. Within the implemented program flower market hall of 5,000m² was built and equipped with all the technical devices that provide optimal conditions for the trade in those goods. Two halls were built, each of 10,000m² for vegetables, fruit and other food products. The halls were designed in order to adjust the premises to the changing conditions in a flexible way as per the development and concentration of wholesale trade. Some of the area was destined for the off-truck sale, which enables to retain the traditional form of trade existing in Poland and in other countries where there is a small consolidation of agricultural organization and substantial seasonal fragmentation of the sale of vegetables and fruit and flowers in bulk. Through the construction of office building, the wholesale market guarantees sufficient space for institutions that provide services and monitor the agricultural market and distribution of its produce. It was agreed that following the example of similar premises of other countries, the premises will include offices of the representatives of customs office, sanitary and epidemiological services, central standardization inspectorate, customs agencies, food trade agencies, bank, etc.

The company was registered in 1995. It was offered consultancy services from Know How Fund and the World Bank. It received a loan from the World Bank in amount of approx. 14 million Euro guaranteed by the State Treasury. In 1998, after a long time of preparing the investment, the investment process began.
This first stage of investment was fulfilled in 100% in a record time of 9 months as per the financial provisions. The facility was recognized by many experts closely connected to this sector, as one of the most advanced facility in Europe in any aspect.

In the second stage of the market development the construction of the next premises were scheduled including the specialized hall for meat and fish trade, packing and sorting premises and warehouse for big distributors. The third stage comprises the equipment of the wholesale market comprising mainly the elements of the infrastructure. Such big concentration of wholesale trade will result in greater interest in this location on the part of petrol stations, truck wash, air-conditioning service, shop and warehouse equipment, warehouse transport equipment servicing, etc.

Despite the fact that the market met all the statutory standards, that the costs of lease were competitive compared to the prices of the illegal wholesale market places and the area of the market was 100% leased at the market opening, similarly to the Warsaw wholesale market, the market did not operate as per the scheduled provisions. The reason behind it was similar to that of the Warsaw wholesale market, namely the lack of decisions of the political authorities and bodies responsible for observing the law on closing down the illegal market places or banning the wholesale trade and night work in this area. As a result, till today, six years after opening of the facility, the market does not operate as per its destination.

Only the flower market operates well but there is no trading place for new entities. Similarly to the Warsaw wholesale market, a decision was taken to close down the competitive market place offering the same goods through paying compensation to the entity that runs this illegal facility. However, such action was not possible in the case of two wholesale market places operating in Tri-city.

Therefore, the company has too little profit to pay the principal installments to the World Bank. As a result the government pays the principal installments instead of the company.

During the meeting the participants visited the premises of the wholesale market. They had a chance to receive information on the urban planning and logistic solutions and the operation of the flower market.

During the meeting with the President of the Company Mr Gierszewski the participant received information on the current daily rates, financial situation and the investment plans.

For the participants of the study tour the market was the perfect example of positive elements (investment process, logistic and technical solutions of particular premises) and negative ones (difficulties in opening the market in the case of competition from other facilities operating in the similar way).
4 Conclusions:

The main conclusions from the development of wholesale markets in Poland are:

- The markets are an important part of the local infrastructure and have an important social and economic function, including maintaining jobs, providing an outlet for local farmers to sell their produce, provide an accessible source of, especially fresh products, for small retail shops
- The markets provide an important balance against the rapid take-over of retailing by the large supermarkets and discount chains
- The process of building the markets was far too long and did not take into account the huge increase in market share of the supermarkets
- The long time to develop the markets resulted from the lack of a clear strategy and master plan for their development and so scarce resources of grant, technical assistance and government support were divided too thinly to have a good impact
- The illegal bazaars were not closed down and so it became extremely difficult to move traders to the new facilities
- The new markets helped to develop food standards and also had a positive effect in keeping food prices lower which has a positive effect on inflation and assisted poor people
• The markets should not compete with bazaars – simply the ‘wholesaling’ function should be moved away from the bazaars to the new wholesale markets and they should become bazaars for retail sales only

We would like to thank the Central European Initiative for its support to the exchange of know-how from Polish to Ukrainian stakeholders in the development of wholesale markets.