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Canada: A Land of (Missed) Opportunity for Polish Business?

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The signing of a political deal on the EU–Canada Comprehensive Economic and Trade Agreement (CETA) should confirm Canada's status as an attractive market for Polish business. But despite the positive political and institutional environment, and real opportunities for expansion, Polish trade and investment relations with Canada leave something to be desired. Poland's government and trade promotion authorities should remedy this soon in order to be ready to take advantage of CETA when it comes into force.

Poland-Canada Economic Relations: "Can Do Better." Economic exchange between Poland and Canada has long been far from its potential, despite a history of friendly cooperation between Warsaw and Ottawa. Strong political relations have created a positive institutional environment for trade and investment. Polish companies have enjoyed investment protection in Canada since 1990. Initiatives to simplify business relations have included regulating social security benefits and limiting tax barriers. The free movement of persons has improved, as Poles can travel visa-free to Canada, and a Youth Mobility Programme allows visa-free employment for a year.

The Ministry of the Economy (MoE) has chosen Canada as a priority market, which means that Polish businesses can be refunded much of their expansion costs, participate in trade missions and fairs, and receive technical support. Moreover, Canada has an active and influential Polish diaspora (estimated at 350,000–900,000, and includes federal and regional politicians).

Yet, the Polish–Canadian exchange falls short of the potential created by this positive environment. Although trade is growing (by 32% in 2011–2012), Poland still exports just €733 million in goods to Canada—0.51% of total exports. Polish FDI to Canada is also below par. In 2010, it amounted to €47 million—0.14% of total FDI. The recent improvement is broadly down to one single large investment: KHGM's purchase of the Canadian mining company Quadra in 2011. Canadian FDI to Poland amounted to just €159 million in 2010, or 0.13% of total Canadian investment in the EU.

A political deal on the Comprehensive Economic and Trade Agreement (CETA) between Brussels and Ottawa, signed in October, suggests trade between the EU and Canada could be boosted by 23%, including improvements to the Polish–Canadian exchange. Although the details have yet to be negotiated, CETA is expected to remove more than 99% of tariffs between Europe and Canada and improve mutual market access, including in areas that have proven controversial in other agreements, such as government procurement and agriculture. If businesses and government act, CETA could provide a boost to Poland's economic relations with Canada.

Mental Hurdles and Physical Barriers. There are several explanations for the disappointing levels of the Polish exchange with Canada. First, Polish companies are reluctant to expand beyond Poland's immediate neighbourhood. The vast majority of Polish enterprises have little or no experience abroad, especially further away from home. This applies to trade as well as investment: more than 75% of Polish exports go to the EU. The maturity of the Canadian market may cause Polish companies to discount it, especially as the "Made in Poland" brand, which is an advantage in Eastern European markets, is not an asset in North America.

Polish companies may also be deterred from doing business in Canada by practical barriers, including protectionist policies in several sectors, such as arms procurement or the alcoholic beverages sector, which is dominated by province-owned monopolies. Linguistic requirements are another barrier: product information must be displayed in French for all goods sold in Québec, and in practice most packaging is bilingual across Canada.

Opportunities in Trade. Canada's high GDP ($52,000 per capita in 2012), robust growth (2.2% average real GDP growth since 2000) and equitable distribution of income among its 35 million inhabitants (its Gini coefficient is 32) make for a large middle class with a high level of disposable income, creating significant opportunities for Polish exporters.

Currently, the bulk of Polish exports to Canada are in machinery and transport equipment (63%), mostly engines, motors and parts. Other significant exports are chemicals, crude inedible materials, food, and furniture. These sectors' success on the Canadian market so far suggests that there will be opportunities for expansion once CETA is implemented. Producers of retail consumer goods have good prospects in Canada. Big cosmetics companies (e.g., Inglot, Ziaja) are already there, and others could follow. Clothing retailers (such as the giant LPP) have expanded across Europe but so far have failed to conquer North America, though they stand to benefit from Canada's large and wealthy consumer base. Vehicle manufacturers, who have been successfully exporting to countries such as Russia for years, could also thrive in Canada. Polish food producers already export to Canada, and CETA's gradual elimination of agricultural tariffs could boost these by improving the competitiveness of exports. Due to the distances involved, producers of non-perishable and processed foods are likely to benefit most. CETA's extension of protection for Geographical Indicators will also mean better conditions for producers of goods such as Polish *oscypek* cheese or vodka. However, the exact consequences of CETA for Polish agriculture will be unclear until more detailed information emerges about the deal.

Finally, mutual membership in NATO, joint training exercises and the mission in Afghanistan have created contacts between Poland's and Canada's militaries that could boost sales of Polish arms to Canada once CETA comes into force. Polish defence contractors, such as Polski Holding Obronny, already export to Canada, which is the second largest importer of Polish arms in the world (after the U.S.). Poland also has funds allocated for the modernisation of its military in the coming years, creating possible investment opportunities for Canadian firms.

Opportunities in Investment. Canada is a particularly attractive investment destination: in 2013 it ranked 15th out of 185 countries overall, and fourth in investor protection, in the World Bank's *Doing Business* report.

Although a large part of Polish investment in Canada is in manufacturing (34%), the bulk of Polish FDI to Canada is in the mining sector (60%). In 2011, Polish giant KGHM acquired Canadian mining company Quadra, and PKN Orlen is set to complete a €134 million deal to acquire TriOil Resources in November. The energy sector also shows promise. Canada's experience in hydrocarbon and shale gas exploration could be particularly useful for Poland. Investment by Polish energy firms in Alberta and British Columbia could help promote technology transfers.

Canadian FDI in Poland creates jobs and promotes know-how, but also boosts Polish exports to Canada, much of which occurs through subsidiaries of Canadian companies based in Poland. Poland is an attractive investment destination for Canadian companies given its EU membership, strong economic growth, and its location, which makes it a good springboard onto neighbouring markets (especially Ukraine, given the sizeable Ukrainian diaspora in Canada). So far, the bulk of Canadian FDI to Poland (€159 million) has targeted the manufacturing sector (58%). Notable Canadian investors in Poland are Pratt&Whitney Canada and Bombardier Transport. The financial sector also attracts a large amounts of Canadian FDI (28%). Agri-food, environment, ICT, aerospace, energy (particularly shale gas), and construction are other promising sectors for Canadian investment in Poland.

Conclusions and Recommendations. With the European economy showing little sign of recovery, it is vital that Polish companies look beyond the EU and their immediate neighbours. Canada is a particularly attractive partner, and will be even more so when CETA comes into force. The key hurdle to overcome is the reticence of Polish firms to expand further afield. Several projects have already been launched to remedy this, including the MoE's "Go Global," "Go China" and "Go Africa" initiatives, and KGHM's "Poland, Go Global!" platform. The next step is recruiting more companies to take part in these programmes.

Improving the "Made in Poland" brand in Canada is crucial to boosting Polish companies' readiness to expand there. The Polish MoE and MFA are key to improving Poland's image, e.g., through ensuring participation in trade fairs and organising guest lectures by Polish experts at Canadian universities. The MFA should also seek to create productive relationships with Canada's regional governments and province-owned monopolies.

Polish companies have benefitted from preferential investment conditions in Canada since 1990. Firms interested in investing in Canada should make the most of the know-how that has been acquired so far by other Polish investors, and by state institutions such as the MoE, for example, through forums for exchanging information, such as "Poland, Go Global!." They should also establish relationships with Canadian partners through dedicated chambers of commerce across Poland and Canada.

The key challenge for attracting Canadian investment to Poland is red tape. Although the investment environment has improved in recent years (it improved 21 places in two years, achieving 45th in 2014), it is still flawed. Canadian companies have reportedly preferred to ship to European ports outside Poland, simply to avoid the bureaucracy. This is harmful to Poland's reputation as a desirable investment destination, and denies Polish ports from handling revenues. Highly visible bureaucracy of this sort should be prioritised as a target for reform.