Poland:
A Guide to Business Opportunities

External Affairs and International Trade Canada
Affaires extérieures et Commerce extérieur Canada

SECOND EDITION

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35 Somerset Avenue West
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K2P 0H3
Tel. (613) 236-8504, Fax: (613) 237-7666

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Message from the Task Force on Central Europe

Poland has been a pioneer in the transformation of Central and Eastern Europe and Canada has been a strong supporter of this country during the transition stage. When Poland faced the possibility of severe shortages during the initial period of reform, Canada pledged food aid. It followed up with further direct assistance through the provision of "know-how" as the country moves into a market economy and develops its democratic institutions; and a short term revolving export insurance facility was established to encourage trade. It also provided financial support to assist in stabilizing the Polish *zloty*.

This publication is another concrete example of Canada's support for Poland's economic transformation. Addressed to the business community, it provides an introduction to Poland's economy, and an outline of the current reform process. It also offers an indication of business opportunities that are opening up as a result of reform. In providing business people with such information, it is hoped that this book will prove useful in helping Poland establish new international business relationships.

Business people interested in further information on trade and investment opportunities in Poland may contact:

Task Force on Central and Eastern Europe (RGZ)
External Affairs and International Trade Canada
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel: (613) 992-7820
Fax: (613) 943-0333

Central and Eastern Europe Trade Development Division (RBT)
External Affairs and International Trade Canada
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel: (613) 996-2858
Fax: (613) 995-8783

Commercial Division
Canadian Embassy
Ulica Matejki 1/5
Warsaw 00-481
Poland
Tel: (011-48-22) 29.80.51
Fax: (011-48-22) 29.64.57

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ABOUT THE AUTHOR

Jan Fedorowicz is a recognized authority on Polish affairs. Author of numerous books and articles on the Polish economy, politics and history, he has spoken widely on Polish topics and is frequently called upon to comment on Polish events by the Canadian media. He lived in Poland for several years while working on his doctorate in economic history from Cambridge University. In preparing *Poland: A Guide to Business Opportunities*, he worked with Polish officials and travelled to Poland to collect the most recent information available.

During the course of his career, Dr. Fedorowicz has accumulated a wide range of experience. Prior to assuming his present duties as President of Prospectus Publications Ltd., he has been a professor, a broadcaster, a manager of international trade for a major business association, senior writer/editor in a leading Canadian corporation, and senior partner in a research and consulting firm.

Table of Contents

I. The Opportunity

The Opportunity

Poland was the first country in Central Europe with a non-communist government. It was also the first to institute dramatic and broadly-based reforms that demonstrated a commitment to free markets and a western-style mixed economy. At the beginning of 1990 and with the approval and support of the International Monetary Fund, the new Polish government introduced a radical program of economic stabilization and adjustment that has been the driving force behind the country's recovery.

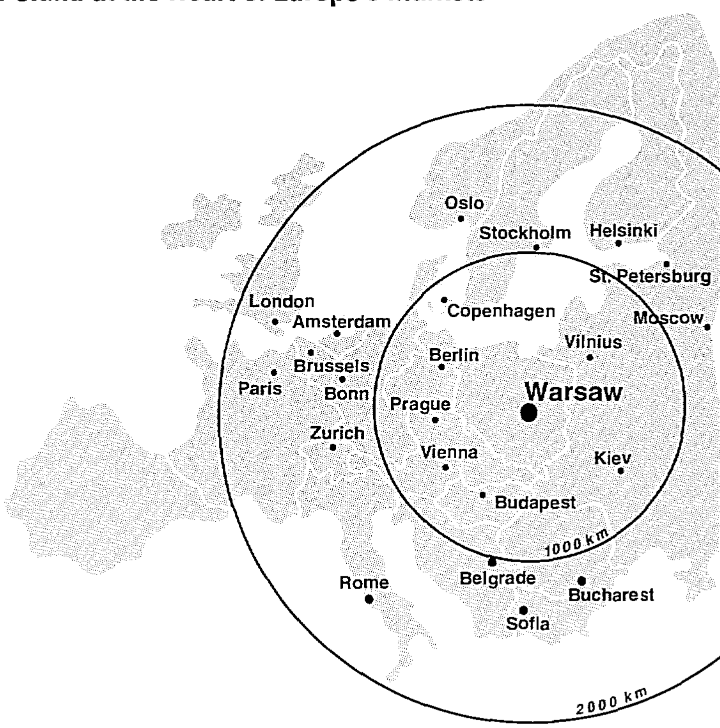
Poland's "shock therapy" dismantled most elements of the communist system. It eliminated subsidies, reformed the state budget, freed prices, reduced inflation, ended the state monopoly over foreign trade, stabilized the currency and made it domestically convertible. And it began the process of returning many state-owned enterprises to private control. This comprehensive transformation did not come without costs. Reforms have been associated with a deep recession that has seen a steep drop in the output of state-owned industries, a fall in consumer purchasing power, and a rise in unemployment.

Recent Successes

Despite some difficulties, the reforms are working, though perhaps not as quickly as the Poles would like. Certainly there are several encouraging signs. One is that prices are stabilizing. At the close of 1989, Poland was in the grip of hyper-inflation. As a result of the reforms, the inflation rate fell dramatically through 1990 and 1991.

Price stability has restored credibility to the Polish *zloty*. Artificially controlled under the communist government, the *zloty* was made domestically convertible on January 1, 1990. It is now possible to convert freely between the *zloty* and western currencies inside Poland though all business transactions within the country must occur in *zlotys*. Furthermore, all enterprises bringing hard currency into the country must convert them into *zlotys*, though they have the right to reconvert and withdraw the money so brought in. Since domestic convertibility was introduced, the exchange rate has remained stable with two corrective devaluations occurring in May of 1991 and February of 1992. So far, the

Figure 1.1
Poland at the Heart of Europe's Markets



Macro-regions and Capital Cities

Macro-region	Capital	Area thous. sq. Km	Population Large Cities	Population Rest	Administrative Regions
North	Gdansk	39.5	1.8	2.5	5
South-West	Wroclaw	40.5	1.2	3.2	7
Cen-West	Poznan	48.2	1.5	3.7	7
Centrum	Warsaw	39.3	4.2	2.5	8
North-East	Bialystok	46.1	.6	2.0	5
Cen-East	Lublin	31.6	.6	2.1	5
South-East	Kraków	38.7	1.9	3.6	8
South	Katowice	25.1	4.5	2.1	4
Total:		310.0	16.3	21.7	49

Source: Central Statistical Office, Hungary.

Factors to Consider When Deciding to Enter the Polish Market

The decision to enter any market is highly complex. Business people thinking of doing business in Poland should be aware of both the opportunities and the difficulties presented by this market.

Opportunities

1. Poland is a relatively large market of almost 40 million people.
2. Located in the geographic centre of Europe, it is equidistant from the established markets of the European community and the emerging markets of the former Soviet Union.
3. Poland is characterized by ethnic homogeneity and relative stability.
4. Poland's population is relatively well educated, especially in technical disciplines.
5. Labour costs remain competitive by west European standards.
6. Poland has been experiencing an export boom that marks its reintegration into the world economy.
7. Entrepreneurship is on the rise as literally thousands of new companies are being created.
8. The process of privatizing the Polish economy is well under way and is accelerating.
9. Many assets remain undervalued and can be acquired at a reasonable price.
10. The Polish government encourages inward foreign investment and has established a favourable legislative framework that provides for full repatriation of profits.

Challenges

1. Poland continues to experience a deep and persistent recession caused by far-reaching efforts to transform and restructure the economy.
2. Implementation of further economic reforms has been delayed by the political impasse which arose as a result of the Parliamentary elections in late 1991.
3. Most factories are badly outdated and in need of significant capital investment for modernization.
4. Unemployment continues to rise and Polish consumers have low purchasing power.
5. The process of policy-making remains in flux and it is often difficult to know what laws are applicable or to get clear decisions from the government administration.
6. Despite the government's efforts, inflation continues to be a serious problem. Though it is now convertible, the *zloty* remains subject to periodic devaluation.
7. Poland's infrastructure remains underdeveloped, especially in critical business areas such as telecommunications, banking, transportation, and distribution.
8. Because Poland's external debt remains a problem, bank credits may be difficult to obtain and alternative means of financing must be employed.
9. The period of transition has been accompanied by an increase in various types of crime. Security of personal and corporate property can be a concern in certain areas.

$US 1 billion currency stabilization fund assembled by the International Monetary Fund (IMF) has not been needed. On present trends, it is likely that the *zloty* will be made fully convertible in the near future.

Another positive sign can be seen in the rapid development of the Polish private sector. New companies are springing up throughout the country. Some of them are growing quickly, accumulating capital, and providing a base for further economic activity. The private sector already accounts for more than 44% of employment in six major sectors. According to some estimates, one quarter of all industrial production is now privately-produced. About one third of Poland's construction services and 80% of its agriculture are already in private hands.

Poland's foreign trade has also grown rapidly, signalling the country's reintegration into the global economy. In 1990, exports rose faster than imports, generating a substantial trade surplus. The situation was reversed in the first half of 1991 because of the virtual collapse of trade with the Soviet Union. By the end of 1991, Polish trade had been redirected to western countries and was roughly in balance with high levels of both exports and imports.

The most visible outcomes of the reforms are seen daily on the streets of Poland's cities. The queues and shortages that characterized the communist economy have almost disappeared. In Warsaw, the capital, it is now possible to buy a wide variety of goods that were not generally available before 1989. However, prices have crept up to world levels, wages remain low, and purchasing power has fallen. As a result, Polish consumers have become both cautious and demanding as they assess the latest western offerings.

An Open Window

Poland has turned an important corner in its economic evolution. As it moves toward recovery and growth, it offers western business a significant window of opportunity. Those who take advantage of that opportunity can enter "on the ground floor" of what promises to be a large and dynamic market. They can also use a Polish location to access the European marketplace as Poland integrates into the world economy.

Poland is the largest single market in Central Europe. Its location at the geographic centre of Europe ensures ready access to the European Community (EC) — a market of more than 320 million people. It is also adjacent to the republics of the former Soviet Union and other Central European states which together represent some 370 million potential consumers. Poland also enjoys a large, growing, competitively priced, and well educated labour force that is the product of a traditional emphasis on scientific and technical training in the school system.

Poland has another fundamental advantage: stability. Unlike most of its neighbours, it is ethnically homogeneous and does not face serious conflicts over nationhood, religion, and language.

Rapid change often means economic dislocation and uncertainty. In many ways, the difficulties of doing business in Poland resemble those faced in a developing country undergoing structural adjustment. They include inefficient telecommunications, slow banking procedures, production bottlenecks, and an underdeveloped service infrastructure. But these shortcomings are being corrected. Several of the world's largest telecommunications companies, among them Northern Telecom, are participating in the modernization of the telephone system. The latest banking technology is being introduced and banking schools have been created to train a new generation of financial experts. Joint ventures are introducing western technology and know-how to improve production. And a growing array of business services, unknown during the communist regime, have sprung up to facilitate economic transformation.

The country is in a state of flux. Everything is being changed quickly and at the same time. Working in such an environment may not be easy, but for companies with patience and persistence, the potential advantages of doing business in Poland can more than compensate for the challenges.

II. The Market

Population

Regional Distribution

Living Standards

Some Market Characteristics

Adjacent Markets

Population

Located at the geographic centre of Europe, Poland is strategically situated within a few hours of Germany, Hungary, Austria, Italy, the Czech and Slovak Federated Republic, the Commonwealth of Independent States (CIS - the former Soviet Union) and Scandinavia. It ranks seventh in Europe in terms of both area and population with 312,600 square kilometres and 38.3 million citizens.

Poland shares borders with Lithuania and the CIS (1244 km), Czechoslovakia (1310 km), and Germany (460 km). In the North, it is bounded by the Baltic Sea, which stretches along a maritime border of 524 km and affords easy access to Scandinavian ports and the North Sea. There are four major river systems: the Bug (772 km), the Warta (808 km), the Odra (854 km), and the Vistula (1074 km).

Size: At the end of 1991, Poland's population was estimated at 38,305,000, an increase of 7.2% since 1980, and 17.3% since 1970. Forecasts based on current trends suggest that the country's population will reach 39,547,000 in the year 2000 and 40,982,000 in 2010.

Age Profile: Approximately 21.9 million (57.3%) of Poland's people were of working age (18-64 years for males, 18-59 years for females). An additional 11.4 million (29.9%) were under 18 years old, and 4.9 million (12.8%) had reached the age of retirement.

Growth: Up to the middle of the 1980s, Poland was among the faster growing countries of the world with an annual population increase of 0.9%. This high rate of growth has leveled off in recent years, falling to only 0.3% in 1991. During that year, there were 547,000 births and 405,000 deaths, as well as some net emigration for a net increase of 122,000, the lowest since the Second World War.

Marriages and Divorces: There were 237,000 marriages registered in 1991, 18,000 fewer than in the previous year. At the same time, there were only 35,000 divorces, 8,000 fewer than in 1990. This continued a downward trend observable since 1984. The Polish marriage rate is comparable to rates in Canada and most other OECD countries, but is significantly lower than that in the United States. Conversely, the divorce rate in Poland is less than half that in Canada, and less than a third that in the United States. The low divorce rate reflects the influence of the Catholic church in Poland, as well as the realities of a severe housing shortage and economic crisis.

Life Expectancy: Economic turmoil, pollution, and stress seem to be having an effect on life expectancy which has fallen, especially among males. In 1991, average life expectancy in Poland was 66.5 years for males and 75.5 years for women.

Female Participation: Low male life expectancy is partly responsible for the slight preponderance of women to men (105 to 100) in the Polish population. Female participation in the labour force is about equal to male participation, in spite of the fact that by law, women retire at 60 while men retire at 65. Interestingly, women predominate in the group under 24 years of age. Among those aged 25-40, males predominate by a narrow margin. Among older groups in the population, there are significantly more women than men, partly reflecting heavier male losses during World War II.

Trends: Poland's population is relatively young, about one-third below 20 years of age. Currently, another 12% is retired, but a gradual increase in both the numbers and proportion of this population segment is expected. In 1985, for every 1000 people of working age, there were 715 people who were either younger or older. By 1990, the proportion of the non-working age population had grown to 738 per 1000. Since the birth rate is falling, this increase is largely the result of a gradual aging of Poland's population similar to that occurring in many of the western industrialized nations.

Politically, Poland is divided into 49 administrative regions known as *voivodeships* (see Figure 2.1). The national capital is Warszawa (Warsaw) with a population of 1,655,100.

Poland's population density ranks in the middle range of European countries with 123 people per km². After the Second World War, Poland was predominantly rural, but today, approximately 62% of the population lives in cities and towns. By western standards, Poland still has a relatively large rural population, but it is decreasing in both relative and absolute terms as people leave their farms and migrate to the cities.

Figure 2.2 shows the population distribution of Poland's cities and towns as of 1990. By the end of 1991, the number of urban centres with more than 5000 inhabitants had increased to 833. Half of that population was concentrated in 43 cities of more than 100,000 inhabitants each.

Figure 2.1
Administrative Map of Poland

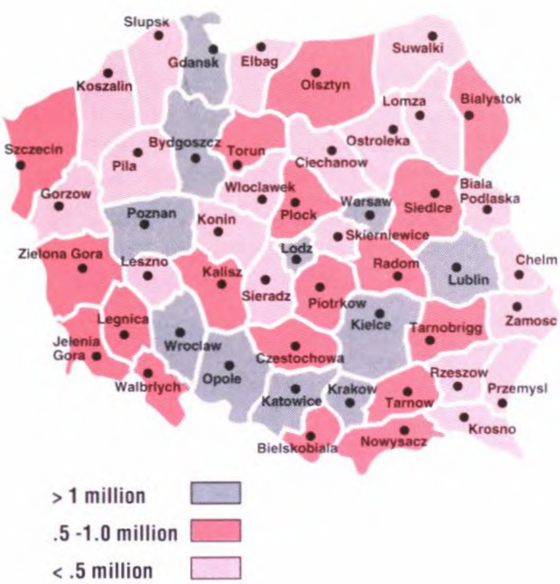


Figure 2.2
Size Distribution of Polish Urban Centres, 1990

Size of Population	No. of Cities
200,000+	20
100,000-199,999	23
50,000- 99,999	48
20,000- 49,999	128
10,000- 19,999	177
5,000- 9,999	177
< 5,000	257
Total	**830**

Source: Rocznik Statystyczny, 1991.

About one-sixth of the country's population resides in seven urban areas, each of which has more than half a million people (see Figure 2.3) The most heavily populated regions are around Warsaw, Lodz, Katowice and Krakow, the most promising markets for those seeking to do business in Poland.

Figure 2.3
Poland's Largest Cities, 1990
(in 000s)

City	Population
Warszawa	1,656
Lodz	848
Gdansk-Gdynia Metropolitan Area	763
Krakow	751
Wroclaw	643
Poznan	590
Upper Silesian Conurbation[1]	1,972

[1] Includes the adjacent cities of Katowice, Sosnowiec, Bytom, Gliwice, Zabrze, Ruda Slaska, Dabrowa Gornicza, Chorzow, Czeladz, Bendzin, Siemianowice Slaskie, and Swietochlowice.

Source: Rocznik Statystyczny, 1991.

Living Standards

The latest available data on households is for 1988. At the end of that year, there were 11.9 million households in the country with an overall average of 3.1 members per household. At that time, there were 2.2 million (18.5%) single-member households, while 2.1 million (17.6%) contained five or more members.

Incomes

Economic and political difficulties have eroded living standards and purchasing power. Nominal wages and salaries skyrocketed in the late 1980s. But the cost of living rose even more sharply, causing a decline in real incomes. Reforms initiated in January 1990 caused an even greater drop in purchasing power as prices were freed while wage increases were controlled. As a result, in 1990, real incomes fell by 14.6% compared with 1989.

In 1991, however, incomes began to recover. Over the year, average real incomes rose by more than 10%. Pensions rose even faster at more than 30%. Pensioners had been especially hard hit by inflation and the Government has reviewed their situation regularly to ensure that their living standards are maintained.

The dramatic changes of the past two years have made it difficult to be precise about income levels. In December 1991, the average salary in the six most important sectors of the economy was 2,264,674 *zlotys* per month, equivalent to about $US 200 at the current exchange rate. This figure underestimates true incomes, however, because it does not include bonuses and profit-sharing. The data is collected primarily from state-owned enterprises and does not adequately reflect the growing private sector. Moreover, many people either hold down two jobs, or supplement their incomes in the unreported informal economy.

Nonetheless, Polish incomes remain low by western standards. It is also true that they are rising and that standards of living are recovering from the crisis of 1989. Statistically measured, real incomes have regained their level of 1987, before the onset of hyperinflation. As a result, the first half of 1991 saw Polish families reestablish their consumption levels of two to three years earlier. In comparison with the previous year, consumption rose by as much as 25% among urban workers and pensioners. Consumption continued to fall in the country's huge farming community.

Consumer Spending

One reaction to the drop in real incomes was a reallocation of household spending. Poles responded by reducing spending on clothing, culture, and recreation during the worst of the inflationary period. As Figure 2.4 shows, different social groups felt the impact in different ways, with pensioners the hardest hit. At the beginning of 1990, food took up more than half of all family spending in most Polish households. By the end of the year, however, the crisis had eased and some rebalancing occurred in the structure of household expenditure (see Figure 2.5).

During the worst of the crisis, the consumption of key foodstuffs actually declined. There was an especially sharp drop in the consumption of grains, fish, and cheese, and again, pensioners reduced their consumption by a greater proportion than did the working population. The situation improved later in 1990 as real incomes recovered. Figure 2.6 compares spending on various food items in the first and last quarters of 1990. It illustrates the partial recovery of consumption in certain food categories. What these statistics do not show, however, is a more rational pattern of consumption. As supplies to stores stabilized, there was less panic buying and stockpiling of food. That, in turn, meant that less food was spoiled and wasted before it could be consumed.

Despite the obvious hardships associated with economic transformation, there is a surprisingly buoyant consumer market in Poland. The shortages and bottlenecks associated with the communist regime created massive pent-up demand among consumers and this demand has now

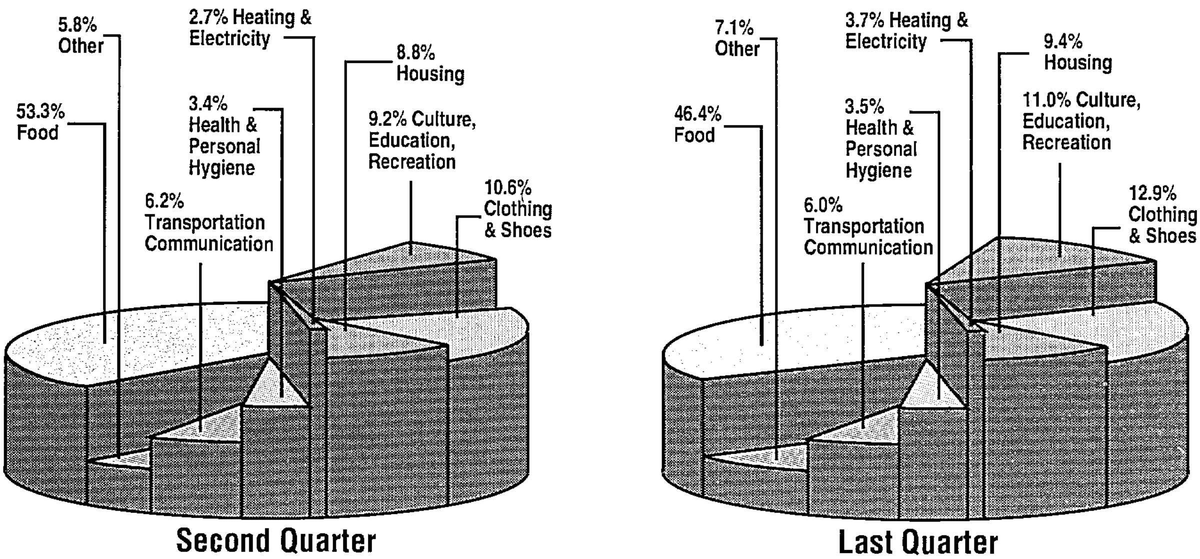
Figure 2.4
The Structure of Household Expenditures, 1990
(in percent)

	Workers	Farmers	Pensioners
Food	51.5	51.8	57.8
Clothing and Shoes	11.1	9.0	7.9
Housing	9.2	11.2	8.4
Heat and Electricity	3.7	4.6	6.9
Health and Personal Hygiene	3.0	2.2	3.7
Culture, Education, Recreation	9.9	5.0	5.8
Transportation and Communication	5.6	8.2	3.8
Other	6.0	8.0	5.7

Source: Rocznik Statystyczny, 1991.

Figure 2.5

Rebalancing Household Expenditures in the Average Worker's Family, 1990



Source: Rocznik Statystyczny, 1991.

expressed itself in the rapid acquisition of consumer durables. In 1990 and 1991, the supply of these durables improved and many families took the opportunity to replace their outdated appliances (see Figure 2.7). Market penetration grew dramatically for video cassette recorders (four-fold increase), tape recorders and stereophonic radios (+50%), colour televisions (+33%), refrigerators (+20%), washing machines (+8%), and automobiles (+10%).

Increased spending on consumer durables (many of them produced domestically), has also caused a boom in imports. In 1991, imports of all goods rose by an astonishing 34% over the previous year while imports of consumer goods actually doubled. This wave of imports is evident in the shops and the streets of Warsaw where foreign foods, clothes, household goods and entertainment items abound. And there seems to be no limit to what Polish consumers will buy. French perfumes and champagnes vie with luxury German cars for the attention of a small but significant and growing class of newly-rich Poles.

Figure 2.6

Average Monthly Consumption of Selected Foodstuffs per Member of Working Class Household, First and Last Quarters, 1990

(in kilograms)

	First Quarter	Last Quarter
Flour	1.10	1.19
Bread	6.97	7.24
Potatoes	4.46	12.69
Vegetables and Vegetable Products	3.25	5.51
Fruits and Fruit Products	2.60	3.12
Meat and Meat Products	4.79	5.40
Fish and Fish Products	0.40	0.59
Edible Oils	1.47	1.62
Milk (litres)	7.10	6.72
Eggs (units)	15.04	13.18
Sugar	1.47	1.98

Source: Rocznik Statystyczny, 1991.

Figure 2.7

Market Penetration of Consumer Durables

(in percent)

	Workers		Farmers		Pensioners	
	1989	1990	1989	1990	1989	1990
Colour TVs	50.7	67.5	14.8	28.4	21.0	28.3
VCRs	4.7	20.1	0.9	4.7	0.7	2.4
Tape Recorders	24.3	37.0	18.0	14.9	4.3	7.0
Refrigerators	20.3	28.0	33.7	42.9	9.1	11.4
Automobiles	30.7	33.2	30.4	36.4	9.2	9.5

Source: GUS.

Some Market Characteristics

At first glance, there seems to be a baffling contradiction between official statistics showing falling living standards and the number of expensive imported cars seen on the streets. There are, however, simple explanations.

First, throughout the eighties, Poland experienced all the usual difficulties associated with centrally planned economies. Production bottlenecks, irregular distribution, and poor quality still characterize many Polish-made goods. As a result, consumers have a strong appetite for products imported from the advanced industrialized nations. With recent economic reforms, such goods are now more readily available, ending the queues and shortages which were common before 1990.

Second, much private income and wealth in Poland remains unreported or under-reported. Under the communist regime, hard currency, extra income and certain kinds of moonlighting went unreported out of fear that the government would confiscate, prevent, or tax them. These habits persist under the new regime. The banking system remains inefficient and inflation is still significant, both of which also encourage cash transactions. Few such cash transactions are reported making it impossible to accurately evaluate the size of the Polish economy, let alone estimate the true incomes of individuals.

Third, official statistics represent aggregates and averages that reveal little about wealth distribution. It is clear that a new class of entrepreneurs has emerged, that it is accumulating capital rapidly, and that it will serve as an engine for future economic growth. In fact, there is already a gulf opening up between the wealthiest and the poorest segments in Polish society. It should also be remembered that Poland has a large population. Just the wealthiest quarter of Polish society constitutes a significant market of 10 million people.

The demand for western goods in Poland goes far beyond a simple preoccupation with clothing or popular music. For example, the severe shortage of personal computer technology combined with a highly trained young workforce has prompted many Poles to purchase computers in foreign markets for domestic personal use or resale. Similarly, there is a tremendous demand for tools, small machinery and machine parts which are subject to relatively low import duties.

A Warning to Exporters

In one sense, the Polish market may seem an easy target for western exporters. Traditionally, the chronic shortages and poor-quality goods created an artificially favorable climate for almost any product from the west. This is no longer the case. Many Polish citizens have relatives or friends abroad, or have worked in other countries themselves, and are well aware of consumer expectations in western industrialized nations. They are becoming discriminating consumers with the same eye to quality and durability as their West European counterparts. Investors can no longer expect to reap the benefits of pent-up consumer demand through volume sales of goods which do not meet world standards. In addition, the Polish government will not make it easy for foreign suppliers to use Poland as a dumping ground for substandard products. Its legislation is geared to enforcing internationally accepted standards, especially in the area of health, safety, and environmental protection.

Adjacent Markets

Poland offers a convenient base from which to export inasmuch as it is located at the geographic centre of a Europe with 700 million inhabitants. As part of its efforts to support economic reform in Poland, the European Community has accorded it the status of an Associate Member with a view to eventual full membership. In effect, the EC is helping Poland to reduce its large foreign debt by giving it easier access to export markets. Among Central European countries, Poland receives the lion's share of funding for economic development from the IMF, the World Bank, and other major western investment sources. For instance, of the $US 7 to $US 8 billion in World Bank credits allocated to Central Europe until 1992, over 30%, or $US 2.5 billion, is scheduled for Poland. In varying amounts, this kind of foundation capital is duplicated by other western sources.

Poland also enjoys a long-standing and close trading relationship with the Scandinavian nations. Negotiations are underway to strike new bilateral trade agreements. For example, Norwegian and Swedish firms have invested heavily in the Polish shipping industry. Scandinavian countries have also combined to offer Poland credits and foundation capital for specific areas of economic cooperation and development. In June 1990, the Finnish government offered to forgive $US 22.5 million of Polish debt, in return for an agreement from the Poles to use this amount to purchase environmental protection equipment from Finland.

Poland retains some links to its former partners in the Council for Mutual Economic Assistance (CMEA), the Soviet bloc's chief international economic agency. The CMEA used to coordinate economic planning among communist countries, but was abolished with the collapse of the Soviet bloc. Nonetheless, the former member countries retain bilateral trade and economic links. Poland maintains important ties to Hungary, the Czech and Slovak Federated Republic, Germany and the successor states of the Soviet Union. Trade among these countries is now almost entirely in convertible currencies. That means that a base in the Polish market can put an investor in an ideal position to export to adjacent markets.

Figure 2.8

A Snapshot of the Central European Economies

	GDP	Industrial Output Change over previous year (%)	Exports ($USbn)	Imports ($USbn)	Inflation rate (%)	Unemployment rate (%)	Trade Balance ($USbn)
Poland							
1989	- 0.2	- 2.5	15.6	17.4	251.0	0.3	-1.8
1990	-12.0	-28.8	18.6	14.7	684.0	6.1	+3.9
1991	- 3.7	- 5.7	18.6	18.8	80.0	7.3	-0.2
Czechoslovakia							
1989	+ 1.4	+ 1.0	14.3	17.1	1.4	0.0	-2.8
1990	- 3.1	- 3.7	13.5	19.0	15.0	1.0	-5.5
1991	- 9.8	- 4.5	13.7	16.5	40.0	2.8	-2.8
Romania							
1989	- 9.9	- 2.1	6.1	3.8	1.1	0.0	+2.3
1990	-10.2	-22.0	3.5	5.2	27.0	0.0	-1.7
1991	-10.0	-20.0	3.2	3.9	130.0	3.6	+0.7
Hungary							
1989	- 0.2	- 1.0	10.9	12.4	17.5	0.5	-1.5
1990	- 3.5	-10.0	10.8	12.6	28.2	1.6	-1.8
1991	- 6.0	-12.0	11.4	11.3	36.0	2.9	-0.1
Bulgaria							
1989	- 0.4	+ 1.1	7.9	10.0	6.4	0.0	-2.1
1990	-11.8	-10.7	6.4	8.9	26.3	1.6	-2.5
1991	-19.8	-12.0	6.1	6.5	200.0	2.7	-0.4

Source: PlanEcon, OECD, as reprinted in The Economist, September 21, 1991.

III. The Economic Base

Natural Resources

Agriculture

Manufacturing

Natural Resources

Poland's economy has been shaped by three important assets. The first is the country's natural resource base. It includes huge endowments of coal as well as significant deposits of copper, silver, sulphur, zinc, rock salt, limestone, gypsum, and ceramic clay. The second asset is the country's fertile plains, the foundation of its agricultural wealth. The third asset is Poland's industrial strength in such sectors as steel, chemicals, pharmaceuticals, shipbuilding, and electronics.

Figure 3.1
Place in the World Economy, 1990

	As a percent of total	Rank
Area	0.2	63
Population	0.7	25
Exports (current prices)	0.4	37
Production of:		
Agricultural Goods		
Wheat	1.5	13
Rye	16.8	2
Oats	2.3	11
Potatoes	13.1	2
Cattle	0.8	25
Hogs	2.3	6
Meat	1.8	18
Beef	3.3	6
Sugar beets	5.5	5
Raw sugar	1.8	15
Energy		
Coal: hard coal	4.9	5
brown coal	5.6	6
All fuels	1.7	12
Electrical energy	1.3	15
Raw Materials		
Sulphur	8.2	4
Refined copper	4.5	9
Steel	1.9	11
Sulphuric acid	2.2	12
Cement	1.6	14
Paper and cardboard	0.6	22
Manufactured Goods		
Vehicles: personal cars	0.9	13
trucks	0.4	15
Ships	1.1	13
Television sets	0.7	20

Source: Rocznik Statystyczny 1991.

In the past, Poland has relied heavily on its rich endowment of mineral resources. It possesses the world's fifth largest reserves of brown coal, and is a significant producer and exporter of copper, sulphur, zinc, lead, silver, and rock salt (see Figure 3.2). Plans are underway to more fully exploit local deposits of chalk, kaolin and potash. There are also plans to direct greater exploration efforts at possible natural gas and oil reserves.

Coal: On a per capita basis, Poland is the leading producer of coal in Europe. Coal remains the foundation of Polish industry, and its extensive reserves, especially of hard coal, have made it one of the world's major producers. Currently, 80% of the hard coal is used for domestic consumption. In fact, Poland's overall energy consumption has remained roughly in balance. Its imports of oil are generally offset by its exports of coal. Nevertheless, the coal extraction industry is inefficient and dangerous. As a consequence, the wages of Polish coal miners are significantly higher than the rates for Polish industry as a whole.

Oil and Gas: Poland does have small reserves of natural gas and even a tiny amount of oil, but not enough to cover domestic needs. Before 1991, Soviet gas and oil dominated energy imports. Thereafter, the move

Figure 3.2
Annual Production of Poland's Principal Extractive Industries
(in 000s tons)

	1989	1990
Hard Coal	178,000	148,000
Brown Coal	71,800	67,600
Copper Ore	26,528	24,359
Lead/Zinc Ore	5,320	4,875
Electrolytic Copper	390	346
Zinc	164	132
Lead	78.2	64.8
Aluminum	47.8	46.0
Silver	1.0	.8
Sulphur Ore	2,592	2,732
Pure Sulphur	4,864	4,660
Salt	4,670	4,055
Petroleum	159	163
Natural Gas (million m^3)	5,368	3,867

Source: Rocznik Statystyczny, 1991.

toward hard currency settlements and world prices began to erode this trading relationship. Since the disintegration of the Soviet Union itself, Poland has sought to reformulate its relations with the newly independent republics on its eastern borders. Now, amid growing uncertainty about the Russian economy, Poland has begun the search for alternative sources of oil and gas.

The Gulf War hit Poland particularly hard because it had been relying on Iraq to supplement its oil supplies. Poland had built a number of turnkey factories in Iraq and was hoping to be repaid in oil. Early in 1990, Poland concluded a deal to purchase 1 million tons of Iraqi oil at $US 17.60 a barrel. Only a quarter of this amount had been delivered when United Nations sanctions were applied. Nevertheless, Poland joined the western boycott of Iraq and did not receive further deliveries.

Alternative forms of energy: Poland needs expanded energy supplies, and it will have to use its existing sources more efficiently to successfully restructure and rebuild its economy. One solution may be to stop exporting coal, and to produce other forms of energy with the retained surplus. Another approach would be to seek alternative sources of oil and gas. Nuclear power was considered for a time, but public opposition following the Chernobyl disaster scuttled the project. Polish authorities have also discussed hydroelectric power with potential western joint-venture partners. Poland is already experiencing a severe shortage of hydroelectric power.

Western suppliers of energy-related technologies and equipment will find new opportunities opening up, particularly in the energy conservation sector. Poland has an energy consumption index 2-3 times that of the advanced industrialized countries, primarily owing to the inefficiency and inadequacy of its energy-saving techniques. As a result, the Polish government is offering incentives to encourage research and development in energy conservation.

Agriculture

Agriculture plays a significant role in the economy. In 1989, approximately 18.8 million hectares (60.1% of Poland's total area) was used for agricultural purposes. Another 8.9 million hectares or some 28.4% of the country's total area is forested.

Wheat, potatoes, sugar beets and fodder crops comprise the main agricultural output (see Figure 3.3). Poland is a world leader in the production of potatoes, and of fruits such as currants, raspberries, strawberries and apples. In addition, it has considerable technical experience in the management of orchards and the production of vegetable crops. Even so, many food processing facilities are antiquated, and this situation offers attractive opportunities to western investors, especially those equipped with the appropriate technology.

Unlike most other centrally planned economies, Poland's agricultural sector has remained largely in private hands. Private holdings far exceed state-owned and collective farms both in total area and employment (see Figure 3.4). Although private farmers were able to preserve their status, they did not prosper under the communist regime. A typical government tactic was to turn the terms of trade against agriculture in an attempt to draw additional resources into the industrial sector. Prices for agricultural products were thus kept low. This policy undermined private agriculture, eliminated incentives to improve productivity and generally suppressed overall output. As a result, Poland has experienced continuous problems with food supply despite the fact that its land is fertile and well-suited to every type of agricultural production.

Figure 3.3
The Dimensions of Polish Agriculture

	1989	1990
Area Under Cultivation (m. hectares)	18.7	18.7
Wheat Harvested (m. tons)	8.5	9.0
Rye Harvested (m. tons)	6.2	6.1
Potatoes (m. tons)	34.4	36.3
Sugar Beets (m. tons)	14.4	16.7
Cattle (m. head)	10.7	10.0
Hogs (m. head)	18.8	19.5
Beef Produced (000 tons)	573.00	652.00
Pork Produced (m.tons)	1.498	1.498
Milk (billion litres)	15.9	15.4
Eggs (billion)	8.0	7.6

Source: Rocznik Statystyczny, 1991.

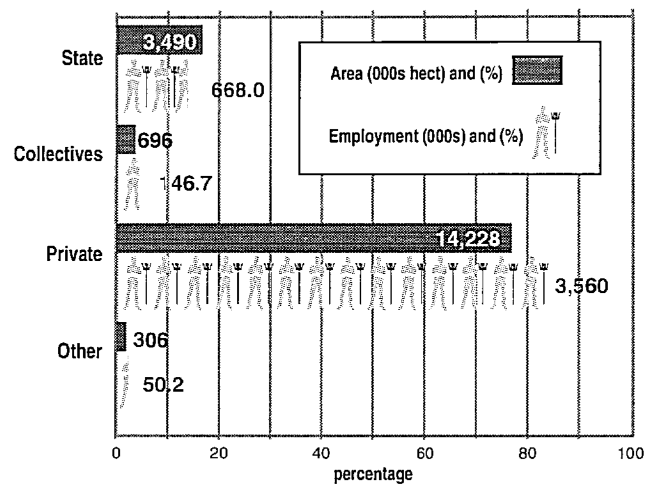
One side effect of the struggle between individual farmers and the state was that farm holdings could not be consolidated. The communist government limited the growth of private holdings, and farmers stubbornly hung on to their land in the face of official harassment. As a result, Polish agriculture today is characterized by extreme fragmentation. The average holding is only 7 hectares. Out of a total of 2,138,000 separate holdings, 49% cover fewer than 5 hectares and only 5% exceed 20 hectares.

The post-communist government is committed to the creation of a market economy. As part of this policy, it has begun to remove price controls and to break up the monopolies that cause price distortions. An unintended outcome of this policy has been the near ruin of the agricultural sector, since the costs of key inputs such as farm machinery, fuels, and fertilizers, have rapidly outstripped the prices farmers can charge for their produce. The damage has been compounded by increased taxes, insurance premiums, and interest rates. The government has further squeezed farm incomes by eliminating agricultural subsidies. These difficulties have been reflected in a drop of 47% in the use of fertilizers. In addition, these factors have forced many farmers to slaughter livestock, particularly cattle, for quick cash.

The hardship on Poland's farms has led the government to initiate adjustment measures. These are designed to ease the transition to a new market environment. Low-interest loans and credits are being made available to farmers, and the interest payments themselves are partially subsidized by the state. An Agricultural Market Agency (*Agencja Rynku Rolnego*) has also been created to stabilize product supply and demand. One of the Agency's first initiatives was to respond to huge potato harvests by buying 100,000 tons of potatoes for processing into starch.

Other countries have come forward with proposals for technical or financial aid to ease the strain of economic

Figure 3.4
Structure of Polish Agriculture, 1990



Source: Rocznik Statystyczny, 1991.

transition in this sector. One of a broad series of agreements recently signed by Canada and Poland includes the provision of $Cdn 2 million to train farm workers, and another special project to upgrade Polish cattle herds. In addition, Canada and Poland have signed a memorandum of understanding on general cooperation in agriculture and related food industries.

The Polish agricultural situation has recently begun to stabilize. Despite economic hardships, 1990 proved to be a record year for grain harvests (28 million tons) and 1991 was almost as good (27.8 million tons). In addition, livestock totals have more than recovered. The number of hogs on the country's farms reached 22 million. The future of Polish agriculture may not be easy, but it does seem that an important corner has been turned.

The third major asset of the Polish economy is its industrial and manufacturing base. Approximately half the country's net material product (NMP), along with the income derived from it, is produced by industry. The largest single industrial sub-sector is machine building and metal working, which comprises more than one quarter of the gross value of industrial output. Almost as important is food processing (20%), followed by energy, textiles, and chemicals (see Figure 3.5). Figure 3.6 presents a sample of some of Poland's most important industrial products. Before the current privatization drive began, almost all this production was in state hands.

Polish manufacturing is characterized by a large, skilled, and inventive workforce using outdated machinery and technology. This is a hasty — but probably accurate — description of the industry. In confronting the new environment created by the collapse of communism, the industry's first challenge was to reform management. The year 1990, in particular, saw the dismissal of many old style directors and general managers who owed their positions to political loyalty rather than competence.

This managerial shake-up, however, did not immediately eliminate the least efficient enterprises. Observers noted at the beginning of 1991, that bankruptcies and plant closures for the previous year had not matched the expectations of the reformers. The reason was that, during the first year or so of the post-communist era, many enterprises survived by drawing credit from each other or by making barter arrangements. As these options have run out, however, plant closings and unemployment have soared.

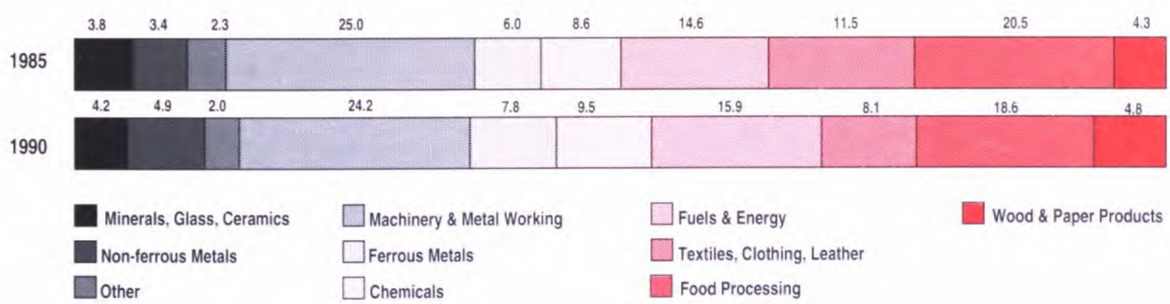
Figure 3.6
A Snapshot of Polish Industrial Production

Product	1989	1990
Steel (m. tons)	15.1	13.6
Machine Tools and Lathes (units)	48,800	27,600
Passenger Cars (units)	285,000	266,000
Trucks (units)	43,900	39,000
Agricultural Tractors (units)	48,000	35,400
Ships (000 DWT)	283	134
Electrical Motors (m. units)	12.5	10.4
Telephone Sets (m. units)	2.0	1.6
Radios (m. units)	2.5	1.4
Televisions (000s of units))	772	748
Semiconductors (millions)	373	208
Fertilizers (m. tons)	2.7	1.9
Plastics (000 tons)	721	627
Chemical Fibers (000 tons)	238	150
Cement (m. tons)	17.1	12.5
Boards (m. cu. metres)	5.2	4.0
Paper (m. tons)	1.2	.9
Cotton Cloth (000 km.)	760	428
Woolen Cloth (000 km.)	96.8	64.7

Source: Rocznik Statystyczny, 1991.

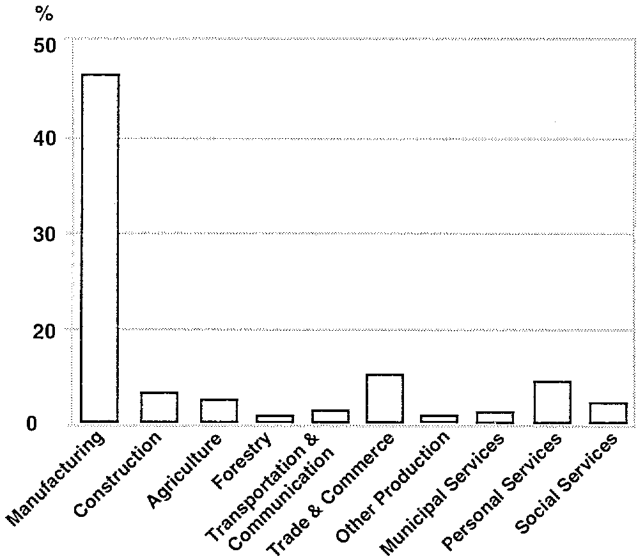
Another significant development is the collapse of Poland's trade with the former Soviet Union. The first blow came with the decision to move to world prices and to hard currency cash transactions. The second was the political and economic disintegration of the Soviet state. By the close of 1991, Polish-Soviet trade

Figure 3.5
Distribution of Agricultural Production
(in percent)



Source: Rocznik Statystyczny, 1991.

Figure 3.7
Poland's Gross Domestic Product by Sector, 1990
(in percent)



Source: Rocznik Statystyczny, 1991.

dropped to an estimated 10-15% of its previous volume. This has proven a fundamental factor in Poland's recession. Hardest hit have been textile manufacturers and producers of machinery and equipment. It is estimated that total exports of machinery in 1992 will only reach 8 to 10% of the previous year's levels.

With this in mind, Polish industry is turning toward the West. Although some segments are probably beyond salvation, most of Poland's industrial base can be rendered productive and competitive through the infusion of technology, know-how and capital. Its considerable potential stems from its diversity and versatility and from its location at the heart of Europe. This promise has moved a majority of Polish enterprises to seek western partners who can help reinvigorate their operations.

Industrial Structure

Poland's economy is broken down by sector in Figure 3.7. From a Canadian perspective, the structure of Poland's economy presents several noteworthy anomalies. The manufacturing and agricultural sectors are much larger than their counterparts in Canada. The service sector, by contrast, is much smaller.

The communist regime focused its efforts on material production and largely ignored services. As a result, the service sector has remained underdeveloped and inadequate. Only 7.2% of Poland's state-owned enterprises are active in the commercial sector, which includes wholesale and retail trade and services to business (see Figure 3.8). In comparison, 33% of all private companies and 40% of all individual entrepreneurs are active in this sector. The inherited inadequacies of the sector, combined with pent-up demand and relatively low capital costs, promise a relatively easy start for new ventures in service industries.

Figure 3.8
Registered Enterprises by Sector and Form of Ownership, as of September 30, 1991

Sector	State-owned	Cooperatives	Private Companies	Foreign Joint Ventures	Individual Entrepreneurs
Industry	3,061	2,531	8,617	1,693	348,803
Construction	1,430	998	8,387	232	170,618
Transport	531	261	645	155	60,203
Commerce	609	3,790	14,784	678	549,623
Other	2,788	9,801	11,793	754	236,197
Total	**8,419**	**17,381**	**44,226**	**3,512**	**1,365,444**

Source: Raport o Stanie Panstwa, p.49.

IV. The Scope of Change

The Balcerowicz Plan

Currency and Prices

Competition Policy

Privatization

Land Ownership

Tax Reform

Debt Rescheduling

The Balcerowicz Plan

Main Elements of the Stabilization and Adjustment Program

1. Liberalization of prices allowing them to rise in response to market forces during a period of "corrective inflation."
2. Fiscal adjustments consisting of sharp cuts in subsidies and government spending together with a substantial increase in budgetary revenues.
3. Introduction of a restrictive monetary policy leading to real positive interest rates that reduce the financial liquidity of enterprises.
4. A restrictive income policy enforced through a tax on wage and salary increases above the established limit, leading to a sharp reduction in real wages.
5. Withdrawal from a full employment policy and acceptance of substantial unemployment as an element of market discipline.
6. Introduction of internal convertibility of the *zloty* following its deep devaluation. Abolition of tax preferences favoring exporters and introduction of a new customs tariff.
7. Liberalization of foreign trade transactions and elimination of trade monopolies that served as barriers to foreign competition.
8. Privatization of state enterprises, encouragement given to development of the private sector, and elimination of monopolies in the economy.
9. Reform of the financial system and establishment of a capital market.
10. Reform of the tax system.

Poland has abandoned the model of a centrally-planned economy in which the communist party monopolized political power. In two years, the country has travelled a considerable distance along the path toward a western style free-market economy in which power is apportioned through democratic elections. The Parliamentary elections held on October 27, 1991 mark the first time since the Second World War, that both the *Sejm* (Lower House) and Senate (Upper House) in the Polish Parliament have been freely elected, and signify the end of the communist monopoly. This was the first stage of the journey. Now Poland must travel the more difficult part of the road — to create a competitive, free-market economy.

The Solidarity-led coalition government that came to power in September of 1989 was committed to a radical response to Poland's deteriorating economic situation. Within a month it had published an ambitious blueprint for reform. That blueprint envisaged the dismantling of all central economic planning mechanisms and the introduction of a market-economy as quickly as possible. The plan included immediate measures to deal with the deepening economic crisis, especially with runaway inflation. Worked out with the support and approval of the International Monetary Fund, it came to be known as the *Balcerowicz* Plan, after the Finance Minister who was its chief author. The first reforms of the program came into force on January 1, 1990. They were intended to:

- balance the government budget;
- tighten credit;
- allow prices to fluctuate freely according to supply and demand;
- keep the growth of money wages down; and
- make the *zloty* convertible.

Over the ensuing two years, most of these objectives were achieved; almost all government subsidies were eliminated; prices were allowed to find their own levels; wage increases were tightly controlled through tax penalties; and the *zloty* was made freely convertible within Poland at an exchange rate fixed and supported by the National Bank of Poland.

The state budget, however, remains unbalanced. With the onset of a deep recession, spending on social programs, such as unemployment assistance, has soared. At the same time, the progress of privatization has cut deeply into traditional sources of government revenue.

Monetary Reform

On January 1, 1990, the first post-communist Polish government introduced a new law on currency (see Figure 4.1). It ended the previous artificial and unrealistic "official" exchange rates for the *zloty*, devalued the currency to a realistic level of approximately 9500 *zlotys* to one US dollar, and provided for full domestic convertibility of the Polish currency. The new legislation removed many of the remaining restrictions on currency transactions within Poland and allowed both individuals and Polish enterprises to deal in hard currency with relative ease. In addition, it eliminated all vestiges of a parallel dollar economy. Specialty stores that used to transact business exclusively in western currencies began dealing only in *zlotys*.

The new measures were among the most successful of the government's reform program. The exchange rate for the *zloty* held firm throughout 1990 and through the first half of 1991. In May, the *zloty* was devalued and the new rate was set at 11,500 *zlotys* to one US dollar. Because of the lingering challenge of inflation, the value of the *zloty* continued to erode in what came to be known as "creeping devaluation." The government responded late on February 26, 1992 with another devaluation that set a new rate of 13,360 *zlotys* to the US dollar.

Currency reform has been accompanied by a fairly tight monetary policy as one of the elements in the war on inflation. At the end of November, 1991, domestic currency reserves stood at 200.9 trillion *zlotys*. This represented an increase of 58.3% over the previous year, but was significantly below the rate of inflation for the year which was about 70%.

The Polish government's hard currency reserves stood at $US 6.4 billion at the end of November 1991 and were stable. Private savings, denominated in hard currency, were similarly stable, reaching $US 5.7 billion by the end of November after dipping to $US 4.8 billion in May.

Entrepreneurs assessing business opportunities in Poland should welcome the new currency regulations as a strong sign of the government's commitment to addressing the country's economic difficulties. Currency reform compliments other steps taken by the new government, including the abolition of subsidies, the general realignment of prices, and the imposition of strict wage controls. Together, these policy initiatives have provided the strong medicine the country needed to rein in inflation and begin economic recovery.

Figure 4.1

Key Provisions of the New Law on Currency

(as of January 1, 1990)

- The Polish National Bank sells hard currency to all domestic enterprises requiring it for their commercial activities.
- All Polish enterprises earning hard currency abroad are required to sell it to the Polish National Bank.
- Previous distinctions between official, market, and auction exchange rates are eliminated.
- The President of the National Bank of Poland has the authority to set and modify the Bank's exchange rate in accordance with market demand.
- Private individuals are able to buy and sell hard currency at foreign exchanges counters (*kantors*).
- *Kantors* also have the right to sell and buy hard currency to and from Polish enterprises.
- Though few restrictions remain on how hard currency can be used, the law insists that all internal transactions be handled in Polish zlotys to end the "dollarization" of the Polish economy.
- *Kantors* still cannot have hard currency dealings with foreign enterprises, but they can sell to and buy from foreign individuals.
- Foreigners visiting Poland are no longer obliged to sell specified amounts of hard currency nor are they forced to pay for hotels and other services in hard currency.
- Commercial banks are the chief intermediaries for foreign transactions.

The War Against Inflation

As part of its efforts to restore confidence in Poland's currency, the government has given top priority to stabilizing prices and ending the inflationary spiral. Paradoxically, measures such as the lifting of price controls and subsidies actually contributed to inflation. At the same time, however, the government imposed controls on wage increases, and sought to balance the state budget.

Results of the Stabilization Program

Inflation has abated from annualized rates of around 2000% at the close of 1989 to 70% over the course of 1991.

The state budget was balanced in 1990, though deficits reappeared in 1991 as struggling state-owned industries reduced their remittances to the state while the growing army of the unemployed demanded social assistance.

The government has been successful in maintaining a policy of real interest rates that are in excess of inflation. This has encouraged savings and helped to cool off inflation but it has also made it difficult to finance new investment.

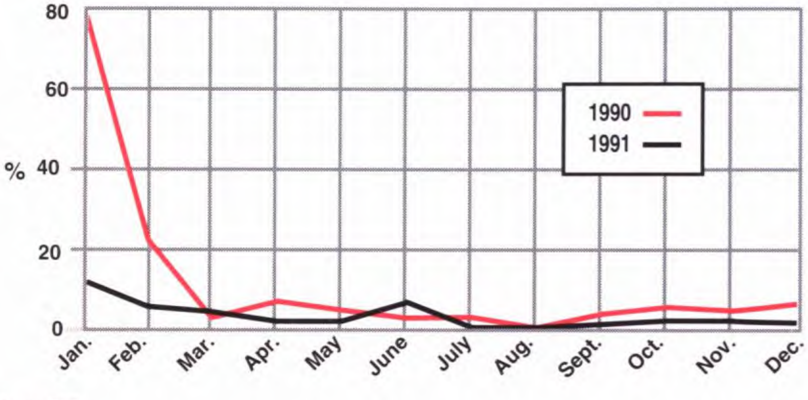
The announcement of domestic convertibility for the *zloty* has eliminated black market for foreign exchange and ended the "dollarization" of the Polish economy. The *zloty* can now be used interchangeably with foreign currencies in Poland's domestic market.

Dislocations associated with the reforms plunged the country into a recession in which the production of state-owned enterprises dropped 20-30%, real earnings fell by 35%, and unemployment rose to about 11% of the workforce at the close of 1991.

By contrast, the private sector has experienced explosive growth. Its output rose, its exports tripled, and it accounts for an ever larger share of employment in the Polish economy.

The end of most trade controls initiated a dramatic rise in both exports and imports.

Figure 4.2
Inflation in Poland (month-to-month)
(in percent)



Source: GUS.

In the second half of 1989, Poland's inflation had reached an annualized rate of about 2000%. The reforms reduced that to about 250% in 1990 and about 70% in 1991. Indeed, by the third quarter of 1991, inflationary pressure had eased to an annual rate of about 30% (see Figure 4.2).

Improving on this performance, however, will require a tight monetary policy and strict control over government spending at a time when pressures are mounting for the government to alleviate some of the worst effects of the current recession. The fall in living standards has fueled renewed demands for wage increases. And rising unemployment is imposing growing social costs on the state budget. If the government can resist these calls and stay the course, however, inflation in 1992 should be within manageable limits. Clearly, however, the war against inflation has not yet been won.

Competition Policy

The creation of a market economy has been facilitated by initiatives to promote competition and reduce the role of monopolies. An anti-monopoly law was passed in March 1990 and an independent Anti-Monopoly Office was created one month later. It has been active in investigating monopolistic practices and adopting measures to counteract them. In the first phase of the reforms, the creation of a competitive market and the curtailing of monopolies involved the splitting of the largest state-owned enterprises into smaller units. At the same time, new private companies were founded in competition with the traditional monopolies. As a result, monopolies now account for a diminishing share of both production and employment. The production share of industrial enterprises with more than 1000 employees fell from 21.2% to 14.1% between 1989 and 1990. By comparison, producers with fewer than 200 employees increased their share of total production from 26.8% to 45.1% over the same period. Similar trends were noted in other sectors of the economy.

Between 1989 and 1991, the work of the Anti-Monopoly Office converted 290 larger enterprises into 996 smaller ones. Where feasible, entire sectors of the economy, which had formerly been protected, were thrown open to competition. National meat processing and trading monopolies have been eliminated and the gigantic coal industry has been broken down into individual mines, operating as separate joint stock companies. Action has also been taken to demonopolize transport services, mining, grain storage, and the sugar industry.

Privatization

The government's competition policy can only work if it is accompanied by substantial privatization of state-owned enterprises. The transition to a free-market economy makes it essential that most of the 7000 original state-owned enterprises be turned over to the private sector. The government is withdrawing from ownership of these enterprises and from responsibility for their survival. Its methods include: the transfer of centrally owned assets to local authorities; the privatizing of cooperatives; and the divestment of assets by public enterprises. For example, many public enterprises have sold off ancillary activities such as transport units and distribution outlets. At the same time, small shops, retail outlets and other small establishments have been sold or leased to private entities or individuals.

The Polish government intends to employ two privatization methods. The assets of smaller enterprises will be liquidated and sold to the companies' employees or to third parties. Larger companies will be privatized in two phases. Initially the enterprise will be transformed into a joint stock company with the State Treasury as the sole stockholder. Later, a portion of the shares in each company will be offered to the Polish public and to foreign investors.

The Legislative Framework

The two key elements in the privatization process are the Law on Privatization and the Law on the Establishment of the Ministry of Ownership Transformation, both passed by the *Sejm* on July 13, 1990. The laws allow state-owned companies to be transformed into joint stock enterprises which then have two years to sell their shares on the open market through auctions, public offerings, or negotiated purchase agreements. The companies remain under state control, but one third of each Board of Directors is elected by employees of the enterprise.

Foreign investors have the right to bid for and purchase shares in the newly privatized enterprises. At the same time, the employees of each enterprise will be given access to a portion of their company's shares. Employees may purchase shares for half the open market value on the first day of public share offering. This privilege can be sold or transferred in an aggregate amount equivalent to 20% of the total company shares, provided the amount does not exceed the company's annual payroll. Farmers are given similar rights to buy shares at preferred prices in food production and other agricultural businesses. To encourage participation, the new laws also allow the government to issue one free bond to each resident Polish citizen. The bond can be exchanged for shares in privatized enterprises or mutual funds, or for the assets of liquidated firms.

Public opinion strongly supports the privatization drive. A recent survey revealed that 42% of Poles feel privatization will be good for the country, while fewer than 10% think it will be bad. Some 40% thought the process was taking too long, though another 40% felt the time frames were reasonable. Almost 9% of those surveyed wanted to buy shares in the newly privatized companies. Support for privatization was strongest among executives and managers, and weakest among employees fearful for their jobs.

Results to Date

Liquidation: In 1991, a total of 932 smaller state-owned enterprises were subjected to liquidation proceedings. There were two distinct grounds for liquidation: to privatize the enterprise (406 companies), or to wind up an insolvent enterprise (526 firms). In 354 of the companies slated for privatization, assets were sold to employees. The assets of insolvent enterprises were put up for public auction.

Privatization of Larger Enterprises: The privatization of larger enterprises has taken far more time. Only a handful have been sold outright to foreign investors and fewer than a dozen have been privatized through public share offerings (and listing on the Warsaw Exchange). As a consequence, the Government realized only 2,500 billion *zlotys* from the privatization of state-owned enterprises in 1991. This was significantly below the 15,000 billion *zlotys* initially anticipated. The tempo, however, is expected to pick up.

To accelerate the momentum toward privatization, the Polish government has chosen to lead with its strongest companies. Some 204 large and medium-sized enterprises are included in the Government's Comprehensive Privatization Scheme. This represents about 2.4% of all state-owned enterprises. According to studies by the Central Statistical Office (GUS), these companies:

- accounted for 5% of all enterprise assets;
- drew 4.5% of all loans and held 3.7% of all bonds; and
- were significantly more efficient and profitable than the average Polish enterprise (see Figure 4.3).

Sectoral Privatization: To speed up the privatization process further, the Ministry of Ownership Transformation has adopted a sectoral approach. The program starts with an analysis of the entire sector. This includes profiles of existing companies, reviews of the domestic and international context, estimates of investor interest as well as assessments of company needs in order to identify appropriate restructuring tools.

A "lead" adviser, selected by competitive tender, performs the sector analysis and the needs assessments for each company in the sector. At the same time, the adviser contacts all potential investors to learn about their interests, requirements, and suggestions for developing the sector. The adviser then prepares a sector strategy as well as an action plan for each company. After approval by the Government, the plan is implemented, using one or more of the standard privatization mechanisms: public offering, trade sale, liquidation, mass privatization, or some alternative restructuring format.

Table 4.3
A Comparison of the 1990 Performance of Enterprises to be Privatized and All State-Owned Firms
(in percent)

	Cost of Sales as % of Gross Revenues	Net Income as % of Gross Revenues
Manufacturing		
To be privatized	87.2	2.6
All	92.6	-.9
Construction		
To be privatized	77.1	8.3
All	85.6	5.1
Transportation		
To be privatized	72.8	.5
All	100.8	-14.4

Source: GUS.

Stock and Commodity Exchanges

Stock Exchanges: The Warsaw Stock Exchange reopened on April 16, 1991, after a 52 year hiatus. Ironically, the exchange is housed in the former headquarters of the Communist Party's Central Committee. Only five enterprises were listed on opening day. They were the first five state-owned companies to be privatized. By the end of 1991, nine companies were trading shares on the Exchange:

- Prochnik (textiles)
- Exbud (export of construction services)
- Silesian Cable Works
- Tonsil (electronics)
- Krosno (glass works)
- Swarzedz (furniture factory)
- Wolczanka (clothing)
- Zywiec (brewery)
- Wedel (confectionery)

The Exchange is a joint-stock company owned by the State Treasury. Modeled on the Lyons Bourse, it trades only on Mondays and Thursdays, since traded share volumes are still too small to justify continuous operation.

Table 4.4
Current Sectoral Privatization Projects

Sector	Lead Adviser
Ball Bearings	Kleinwort Benson
Bicycles	Arthur Andersen
Breweries	Sankt Anna Bank
Cement	IFC
Commercial Vehicles	Maison Lazard
Construction	BCG
Cosmetics & Detergents	Bain & Co.
Edible Oils, Fruits & Vegetables	Creditanstalt
Electronics	Bain & Co.
Glass	IPG
Industrial Gases	Samuel Montagu
Machine Tools	Company Assist.
Meat Processing	Ernst & Young
Motor Components	BZW
Paint & Lacquer	J. Henry Schroder
Passenger Cars	CSFB
Polymer Synthesis	Bankers Trust
Potato Processing	Ernst & Young
Power Engineering	Samuel Montagu
Pulp & Paper	Hambros
Refineries & Fuel Distribution	Maison Lazard
Rubber & Tires	LEK
Shoes	Company Assistance
Surgical Instruments	Bankers Trust
Tobacco	Morgan Grenfell

The Exchange is governed by the Securities Act of April 1991. The legislation is designed to harmonize with European Community regulations and creates a seven-member Securities Commission to govern the admission of securities, disclosure, investor protection, fair trade, competition in public trading, the issuing of prospectuses, and the licensing of brokerage houses. Provision has also been made for the establishment of a "Brokers Association" under Commission supervision, to act as a self-governing body in which membership will be obligatory for all brokers.

The Act encourages trading on the Exchange by imposing a 10% stamp tax on all equity transactions which occur outside its walls. It does not discriminate between the rights and obligations of foreigners and Poles. Foreigners can become brokers on the Exchange, and previous restrictions on foreign ownership of companies have been rescinded. Foreign brokers may operate in Poland by acquiring a permit from the Securities Commission. There are no restrictions on foreign investors. They are simply required to open an account with a member of the Stock Exchange and place their orders. Foreigners are subject to disclosure requirements if they acquire more than 10% of a company's issued share capital. Where such acquisitions are likely to involve ownership of more than 33% of a company, the foreign investor must announce a takeover bid.

Procedures are simple. The broker takes buy/sell orders to the Exchange where they are received by the specialist broker appointed for each listed company. The specialist's role is to match the buy and sell orders received during the period between trading sessions. This is done in such a way as to maximize sales. The opening price is set by a method similar to that used by the New York Stock Exchange. All transactions agreed to during the session are settled at this pre-set price. The specialist brokers may also purchase shares on their own account as a means of matching supply and demand. Because the price is pre-set, it cannot be influenced by this intervention.

Because the market is small, it is essential that price stability be maintained. A 10% fluctuation limit (up or down) is applied to each company's shares between trading sessions. If, at the end of the matching process, the price at which sales are maximized breaches the 10% limit, then trading is suspended in the subsequent session, no shares change hands, and the price is re-set by plus or minus 10%.

The Warsaw Stock Exchange is growing. It is expected that a new company will be listed every month for the foreseeable future. Actual numbers will depend on the pace of the Government's Privatization Program.

Commodity Exchanges: Representatives of 15 commodity exchanges met near Warsaw in May of 1990 to form the first Polish Exchange Council. This umbrella organization, headquartered in Lodz, will monitor the activities of over 40 exchanges dealing in commodities and, to a lesser extent, in bonds and other commercial paper. A network of brokerage houses is expected to expand throughout Poland. Currently the most active exchange house is Allimpex, which deals in basic raw materials: coal, textiles, agri-products, iron ore, and a range of construction materials.

Retail Privatization

The new legislation on privatization is designed to deal with large state-owned companies. In an earlier separate development, the ownership of many small and medium-sized state enterprises has already been transferred to employees and/or the general public. In the retail sector, for example, 60,000 shops have been privatized, most of them through sales to staff or to private bidders.

Poland's retail sector was formerly monopolized by a few gigantic concerns like Spolem, PHS, and WPHW. These large enterprises have now been broken up. For example, Spolem lost 80-90% of its chain of outlets. Most of the stores, once owned outright or leased from municipal authorities, were sold by auction to employees or other investors. This process has advanced farthest in the cities. The larger municipal authorities have adopted criteria to determine who is eligible to buy a store and what business may be carried on there. Their objective is to create shopping districts with distinctive profiles.

One route to store ownership begins with petty distribution of western goods. Many Poles responded to the deepening economic crisis by supplementing their incomes through travel to Western Europe where they bought goods for resale in Poland. Formerly, all these sales took place on street corners or at informal open-air markets where overheads were minimal. Some informal traders accumulated enough capital to invest in permanent retail locations. Others continue to sell in street stalls.

Retail privatization has proven highly successful. By the end of 1990, three quarters of all Polish retailing was in private hands, and by the third quarter of 1991, some 515,000 private companies and individuals were operating retail outlets.

As a result of this transformation, Poland is witnessing the reappearance of private family-owned retail chains, including some that were active before the Second World War. New, western-style department stores are also making an appearance, as are privatized pharmacies. Even so, the new retail sector faces an uncertain future. The severity of the recession has inhibited consumer spending, and there is intense competition from the multitude of street vendors who declare no taxes, pay no rent, and are beyond municipal control. In Warsaw, for example, retail space is now at a premium. The rental rates charged by the city for retail space create further problems. Toward the end of 1991, rental rates rose to about 200,000 *zlotys* ($US 17) per square metre per month for space in the city centre.

Privatization and Foreign Investment

At the outset of the privatization program, the Minister of Ownership Transformation predicted that more than half of the state's property would be in private hands within three years, and that in five years, the structure of ownership in Poland would be similar to that in Western countries. These optimistic assessments must be tempered, however, by a realistic appreciation of the program's magnitude.

The total gross value of Polish state property, excluding land, has been estimated at some $US 200 billion. Given the relatively small amount of money held in private savings accounts, it is clear that private citizens simply do not have the financial resources to buy up all of the state-owned property due for privatization. Privatization by public sale cannot therefore be the only method of moving state property into private hands.

To overcome this dearth of private savings, the government has adopted another road to privatization. More than 115 state firms have been transformed into joint-stock companies of the State Treasury, as an intermediate step toward privatization. Some of them will be sold by inviting large, professional investors (including foreign investors) to negotiate with the Ministry. This group includes the following enterprises:

Swinoujscie	- shipyard and repair dock in Szczecin
Parnica	- shipyard and repair dock in Szczecin
Krakbud	- a Krakow-based industrial construction company
Huta Olawa	- a foundry in Olawa
Milfor	- a manufacturer of processing equipment in Olsztyn
Zipo	- a Gdansk-based company supplying computers to the ship-building industry
Techma	- a Krakow-based engineering firm specializing in industrial modernization
Delia	- a clothing manufacturer in Zamosc.

Poland needs the participation of foreign investors in the privatization process. To encourage them, it has reformed the laws governing foreign investment, corporate taxation, and repatriation of profits (see Section VII).

Land Ownership

The issue of land ownership remains a thorny one in Poland. Under the communist regime, private land ownership was strictly controlled, though unlike other communist countries, Poland did allow limited ownership by farmers.

A Law on Land Ownership and Expropriation was passed by the *Sejm* on July 27, 1990. Its major objectives were to transfer administration of land to local municipalities, to define criteria for land ownership, and to restore the market value of land. The new law, however, does not allow foreigners to purchase land owned by the state or by municipalities. These restrictions on foreign land ownership were not imposed by the communists. Rather, they were adopted, following World War I, by a revived Polish state intent on resisting foreign encroachments of any kind.

Despite these restrictions on the foreign purchase of public land, foreign persons can "own" the *use* of the land through lease agreements, tenancy, or perpetual tenancy, the latter being defined as a land-lease agreement effective for a period of 99 years. It is generally recognized, however, that these are stop-gap provisions and a new law will eventually be introduced to permit foreign ownership of land owned by the state or by a municipality. The proposed legislation will not affect the disposition of private real estate, which can already be bought by foreigners. Under legal precedents established since 1920, foreign nationals can purchase land, buildings and apartments from Polish citizens with prior approval from the Ministry of Interior. Where arable land is concerned, however, the purchase requires special permission from the Agriculture Ministry.

Tax Reform

Under the communist regime, Poland did not have a tax system as it is known in western countries. Since the state owned all the means of production, any income and profits from its enterprises automatically went into the government treasury. Surpluses were then used either to cover government operating costs, or were returned to industry in the form of bonuses, investment, research and development expenditures, and the like. There was also no need for personal income taxes, though the small private sector was obliged to pay various levies.

The move to a market-based economy has necessitated the complete reform of Poland's tax system. The objectives of the reform are to encourage entrepreneurial activity and productivity. At the same time, the government intends to introduce a fair, equal, and stable tax system that will encourage diversified development of the Polish economy (see sidebar).

Poland's *Sejm* has introduced a universal income tax which took effect at the beginning of 1992. It replaces a number of existing taxes. Eventually, Poland will also replace the current turnover tax with a value-added tax modeled on that used in the European Community.

The growth in the number of taxpayers, coupled with a general climate of resistance to the new taxes, has made it necessary to impose new controls on tax verification and stiff penalties for tax evasion. A distinct department dealing with tax collection has been created within the State Treasury. It has the power to check tax returns and deal with violators. The new tax laws are fundamental to the whole reform effort. Without a coherent and effective system of taxation, the government will be unable to make up for the revenues it foregoes as it proceeds to privatize Polish industry.

The most significant tax reforms introduced in Poland, 1990-91, included the following:

- termination of various tax breaks and loopholes;
- strict limits on the tax holidays offered to new investors, including foreign investors (see Section VI);
- accelerated depreciation schedules for purchase of machinery and equipment, especially in regions hit by high structural unemployment;
- carrying forward of losses for up to three years;
- equalization of tax burdens for corporations and for private individuals registered as businesses;
- standardization of taxation principles for corporations and individuals registered as businesses;
- tax standardization to include a turnover tax levied on importers of foreign goods equivalent to that paid by domestic producers;
- waiver of tax penalties on wage increases in private and privatizing companies which exceed legal limits (taxes to be maintained for state-owned enterprises to enhance their prospects for privatization);
- standardization of the criteria governing local property taxes and road levies.

Debt Rescheduling

One pressing item on Poland's international agenda is its foreign debt. During the 1970s, the communist government tried to borrow its way out of economic difficulties, and many western countries and commercial lending institutions were happy to oblige. As a consequence, the Polish government owed about $US 25 billion to the West by the beginning of the 1980s. Bad investments, political turmoil, martial law, and economic stagnation made repayment impossible. The debt continued to snowball through the accrual of unpaid interest, and reached approximately $US 45 billion by the beginning of 1991.

Poland's foreign debt falls into two distinct categories: about $US 34 billion is official debt owed to western governments, the remainder is owed to commercial banks. Up to November of 1989, Poland had managed to service its bank debts and maintain them within reasonable limits. The official debts, however, had mushroomed out of control.

Poland approached western creditor governments (known as the Paris Club) and asked them to write-off 80% of the debt. After long and difficult negotiations, a deal was ratified on April 19, 1991. The members of the Paris Club agreed to a 50% reduction in the net present value of the official debt. Within that total, creditors have been given three choices:

- to write off part of the total debt;
- to accept lower interest payments while leaving the debt's face value unchanged; or
- to allow a reduction of interest payments along with some roll-up of interest into capital.

The agreement also created two stages of debt relief. The first stage, accounting for about 30% of the reduction in net present value, covers the period up to March 31, 1994 and involves reducing Polish payments by 70-80%. This satisfies the Polish government's desire for relief during the immediate period while it tries to stabilize the Polish economy. The bill for interest payments will rise in the fourth year of the agreement, and concessions on the debt service bill will likely average 30-40%.

Poland will pay about $US 0.5 billion to its official creditors under these terms in both 1992 and 1993. Thereafter, annual payments will increase to about $US 0.9-1.5 billion. This contrasts strongly with about $US 7 billion a year that would have been payable without the agreement.

While Poland's agreement with the Paris Club eases the debt situation, it fails to address two other issues. Poland owes about $US 10.5 billion to western commercial banks (the London Club) which have been extremely unwilling to contemplate any reduction or relief. Finally, Poland's relationship with its former partners in the CMEA must be considered. At the close of 1991, it was estimated that Poland owed a total of just under 1 billion transferable roubles to its former partners in the Soviet bloc excluding the successor states to the Soviet Union. As for the latter, the most recent estimates suggest that Poland owes them a total of 4.9 billion transferable roubles plus $US 1.8 billion and is owed 7.3 billion transferable roubles. The disintegration of the CMEA and the collapse of the Soviet state makes the ultimate fate of these obligations uncertain.

V. Economic Performance

Recession in Poland

Unemployment

Profitability

The Private Sector

Recession in Poland

The struggle to reform Poland's economy has not been cost-free. Although no longer plagued by shortages of consumer goods or hyperinflation, Poles have experienced a pronounced drop in their real incomes. The government has removed controls on prices while imposing heavy taxes on wage rises that exceed anti-inflationary guidelines. Since the end of central economic planning, the introduction of market pricing, and the abolition of subsidies, Polish enterprises are finding that they cannot simply muddle through. Companies that cannot compete are being allowed to fail.

Despite the inevitable dislocation caused by economic reform, there are encouraging signs which point to success:

- Polish exchange rates have remained stable following devaluation in May, 1991. As of February 26, 1992, the exchange rate stood at 13,360 *zlotys* to the US dollar.
- The government's reserves of hard currency remain strong, totalling $US 6.5 billion at the end of 1991.
- Real incomes are finally beginning to rise at approximately the same rate as inflation, and consumption is beginning to recover.
- Private savings continue to grow in nominal terms, and private savings denominated in hard currency are stable, totalling $US 5.7 billion at the end of 1991.
- The supply of and demand for goods and services remained in rough balance.
- Though not yet won, the war on inflation has succeeded in ending the hyperinflation experienced at the end of 1989 and beginning of 1990.

Recession is a typical by-product of programs aimed at halting inflation and balancing government budgets. In Poland, the problem has been compounded by the need to expose enterprises to the full shock of international competition. The country's state-owned firms were deprived of price controls, subsidies, protected markets, and artificially low input costs. Once these were removed, the production of state firms plummeted because there were few buyers for their products. Prime Minister Jan Krzysztof Bielecki put it with disarming frankness: "a 30% drop in the production of goods that cannot sell", he said, "cannot be called a recession, but simply a return to normality."

Poland's Central Statistical Office estimates that Gross Domestic Product fell 11.6% in 1990 and a further 7 to 8% in 1991. The performance of different sectors, however, varied widely. For example, production in manufacturing and transportation declined steeply, while construction and agriculture more or less held their own. Trade, services, and communication, meanwhile, recorded actual increases in production.

Industry

Industrial production fell 24% in 1990 and a further 14% in 1991. The fall was caused by a variety of factors including the war against inflation, the restructuring and marketization of the sector, and a fall in domestic demand as a result of the recession. The most important single factor, however, was the collapse of trade with the former Soviet bloc which had constituted the single largest customer for Poland's industrial exports. The hardest hit were light manufacturing, which fell by 48% in 1991, and electrical machinery, which contracted by 42%. These two sub-sectors were among the most closely involved in intra-bloc trade. Least affected were paper and wood products, and fuel and energy.

The collapse of state-owned production was mitigated to some extent by the growth in private-sector production, which reached almost a quarter of the total, compared to only 16% in 1989. Another mitigating factor was an expansion of 55-60% in the sector's hard-currency exports. There are also some encouraging signs of an overall recovery. November 1991 was the fourth month in which average daily industrial production increased.

Construction

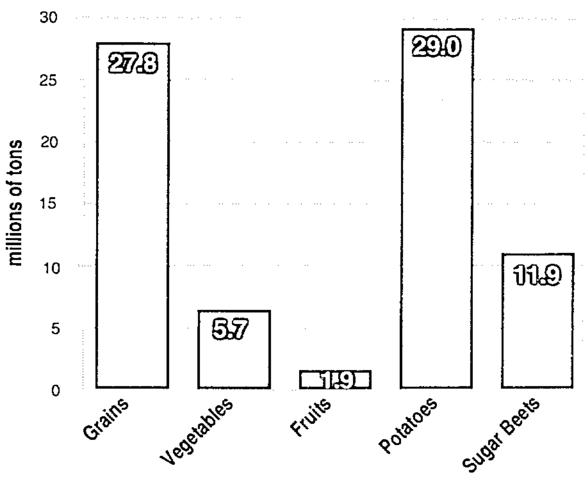
The recession has been less severe in building and construction than in other sectors. Contraction in this sector began in August of 1988, but some recovery was already observable in the second quarter of 1991, as general contractors found increasing demand for renovations of commercial and public buildings. This new demand arose partly from the privatization of the retail sector.

The construction sector as a whole contracted by only 2% in 1991. In fact, the last quarter of the year saw a modest upturn in overall construction activity. The biggest advances were made by companies working on less capital-intensive projects, such as renovations or modernization of existing space. By the third quarter of 1991, the renovation sector had already grown 12.2% over the same period in the previous year. New residential construction (apartments and houses), however, remained weak, with only 129,400 units completed in 1991. This was some 4,800 less than in the previous year. And there were few large-scale public construction projects. The balance between state-owned and private construction firms was also changing. The state-owned sector contracted by 16.7% in the first nine months of 1991, while production in the private sector grew by 30%. As a result, the overall share of construction held by private firms increased from 33% to 44% during this period.

Transportation

Under the communist regime, transportation was one of the most poorly organized sectors in the economy. Goods were moved around the country unnecessarily, because there was no economic incentive to do otherwise. The move to market conditions therefore hit this sector especially hard. The transportion of goods dropped by 41% in 1990 over 1989, and the first 10 months of 1991 saw a further contraction of 27%. These figures do not include the performance of small private drivers, but the steep fall suggests that Polish industry as a whole is using transportation services in a more rational manner.

Figure 5.1
Polish Agricultural Production, 1991
(million tons)



Source: GUS.

Communications

Communications is the only sector of the Polish economy to experience strong and consistent growth over the recent period. New investment and a program of modernization increased the number of telephone subscribers by 227,000 in 1991. This is a substantial jump compared to annual increases of 100-140,000 in the period 1985-87 and 170,000 in the period 1988-1990. The highest growth rates are in the countryside, where 54,000 new subscribers were connected in 1990, as opposed to 28,000 in 1989. International telephone connections have been significantly improved, although inter-city and local services continue to cause concern. The aggregate effect of these changes was an increase in telephone penetration from 8.2 per 100 people to 9.2 in 1991.

Agriculture

Despite a drastic reduction in the use of chemical fertilizers and insecticides, Poland recorded record grain harvests of 28 million tons in 1990 and 27.8 million tons in 1991. The total number of hogs, at 22 million, was also quite high, an increase of 12.3% over 1990. By contrast, the 8.8 million head of cattle in 1991 represented a 12% decrease. Fruit production was up 0.5 million tons over the previous year. Production of potatoes was down about 7.3 million tons, and sugar beets fell by 4.8 million tons (see Figure 5.1). Overall, food production improved slightly through 1991. Agriculture as a whole is expected to contract further, though not as much as other parts of the Polish economy.

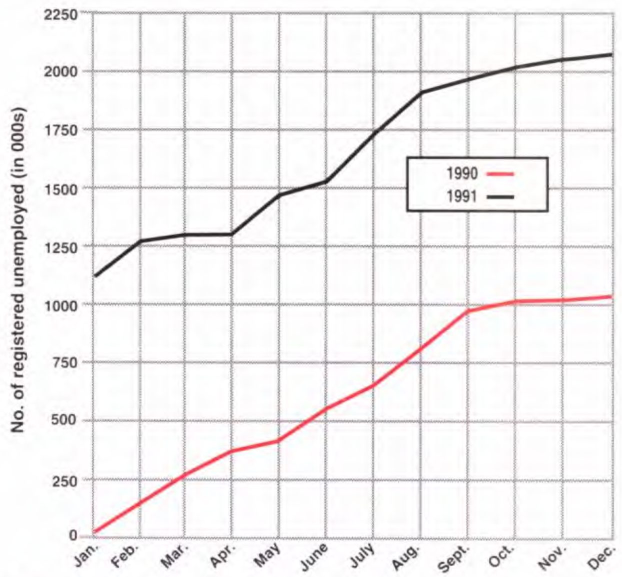
The prices of basic agricultural commodities rose by only 33% during the year, a less impressive performance than that recorded by the prices of industrial products which increased by 47%. The overall indebtedness of Poland's farmers continued to swell and remains a serious concern. It was not until the fourth quarter of the year that agricultural prices firmed up and farmers began experiencing less difficulty in selling their products.

Unemployment

Unemployment is a relatively new phenomenon in Poland. The communist regime guaranteed full employment, though often in non-productive or heavily subsidized jobs. As recently as December, 1989, there were still 255,000 job vacancies reported and only 10,000 unemployed. Hidden unemployment, at the same time, was estimated at some 30% of the workforce. This figure reflected persons listed on payrolls, but without any significant work to do.

The onset of the recession in 1990 was accompanied by a steady growth in unemployment. Through the course of 1991, the number of unemployed in Poland nearly doubled to exceed 2.2 million by the end of the year. The rate of unemployment, which stood at 6.1% at the end of 1990, grew to 11.4% by the end of 1991 (see figure 5.2). If this trend continues, some observers warn, total unemployment could grow to 3.5 million by the end of 1992.

Figure 5.2
Unemployment in Poland



Source: GUS.

The real rate of unemployment may be somewhat higher than these figures suggest, since official data covers only people registered in labour offices. An additional problem is the failure of the statistics to cover farmers who supplement their incomes by taking industrial jobs. Concentrated in southeastern Poland, many of these "worker-farmers" have lost their industrial jobs, but the losses are not reflected in the official figures for unemployment in the region. A true reading of the employment situation in Poland is further complicated by the fact that some 30-40% of those registered as unemployed are women who have never been in the paid workforce, and who are caring for children at home. In addition, some 240,000 workers took early retirement in the first three months of 1991 rather than compete in an uncertain job market.

The largest numbers of unemployed are 18 to 24 years old (34.2%), and 25 to 34 years old (29.4%). The figures include both men and women. Only 3% of the unemployed have a university education. Those with a primary school education, or less, comprise the overwhelming majority.

Unemployment is currently highest in northeastern Poland, which is the poorest part of the country. Unemployment rates are also higher in the rural areas and towns than in the larger cities. This balance is expected to change because heavy unemployment is anticipated in regions with large industrial concentrations, where entire sectors are threatened. These regions include Lodz, where the textile industry is in serious difficulty, the Katowice area, which is home to a large part of Poland's heavy industry, and upper Silesia (Walbrzych), where many coal mines face the threat of shutdown. The recently passed law on foreign investment offers special tax breaks to those who invest in regions with especially high rates of unemployment.

At the beginning of 1990, prices were freed, interest rates were set above the inflation rate, and subsidies and tax exemptions were eliminated. This was part of a program to rationalize the economy and improve the performance of Polish enterprises. These drastic changes, however, did not have an effect on the results recorded by state-owned enterprises in 1990. The ratio of gross profits to the cost of sales reached about 29.4%, an unusually high level of profitability. This was because many enterprises were raising their prices while still using raw materials bought earlier at much lower rates. Others were simply using up their reserves of foreign currency. And some were exporting their products instead of selling them on a weakened domestic market.

In 1991, however, reality caught up with Poland's state-owned enterprises and their profitability fell drastically to an average of about 6.2% by the latter part of the year. Even so, some sectors have maintained their overall profitability and offer attractive investment prospects (see Figure 5.3).

Figure 5.3
Profitability, 1991 (first three quarters)

Twenty Most Profitable Industrial Sectors	Index	Twenty Least Profitable Sectors	Index
1. auxiliary sectors of the electronic industry	75.31	1. tractors	-34.48
2. spirits and yeasts	71.84	2. agricultural and forest machinery & equipment	-30.53
3. breweries	70.81	3. shipbuilding	-27.70
4. tobacco	56.49	4. textiles	-27.45
5. copper mining	53.60	5. electronics	-25.80
6. chemical machinery and equipment	50.80	6. informatics	-22.14
7. pharmaceuticals	50.32	7. machinery and equipment for light industry	-18.64
8. herb cultivation	49.43	8. cotton	-17.55
9. auxiliary sector for coal mining	46.74	9. woollens	-15.76
10. non-ferrous metal working	45.85	10. auxiliary sectors of precision tools	-13.87
11. lignite (brown coal) mining	41.35	11. petroleum	-10.70
12. mineral and non-alcoholic beverages	38.68	12. aircraft	-10.57
13. auxiliary sectors of the chemical industry	37.07	13. apparatus for electrical measurements	-9.47
14. mining of raw chemicals	35.28	14. wooden packaging	-9.36
15. general machinery	34.90	15. construction machinery and equipment	-8.81
16. chemicals for various purposes	34.80	16. auxiliary sectors of construction industry	-8.03
17. non-ferrous metal ore mining	34.51	17. wood fiber	-7.69
18. auxiliary sectors of the energy industry	33.31	18. shoes	-7.27
19. fine ceramics	30.70	19. wood and wicker products	-6.30
20. electrical machinery for the energy sector	30.53	20. knit-wear and stockings	-5.95

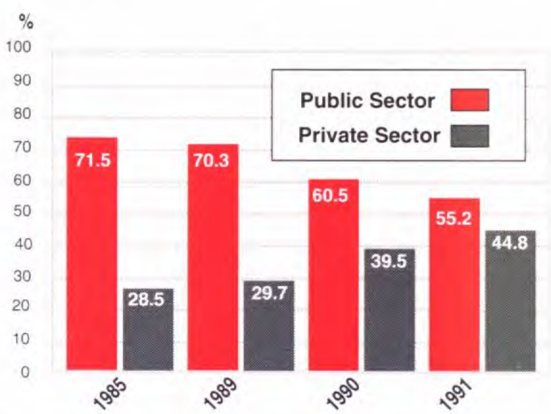
Source: Centralny Urzad Planowania.

The Private Sector

Poland is making a rapid transition away from state-controlled economic activity. By September of 1991, only 55.2% of the country's workers were employed in state-owned enterprises, a sharp drop from 71.5% in 1985 (see Figure 5.4). Poland is rapidly approaching the point where more than half its workforce will be employed in the private sector. It should be added, however, that Poland had a head start on privatization because unlike the other countries of Eastern Europe, most of its agriculture had not been collectivized. In 1985, for example, 23.1% of its workforce was already employed in private agriculture.

In looking at the recent contraction of production, it is important to remember that this recessionary phenomenon is characteristic of Poland's state-owned enterprises. The small but growing private sector offers a different picture. In 1990, overall Gross Domestic Product for Poland fell by 12% in comparison with 1989 but the Gross Domestic Product contributed by private firms actually *grew* by 17%. Industrial production fell by 25% in state-owned enterprises and cooperatives but it *grew* by 8.5% in private firms. Sold output from the public sector fell by 28.7%. In the private sector, it *increased* by 2%.

Figure 5.4
Proportion of Workers in Poland's Public and Private Sectors
(in percent)



Source: GUS.

Figure 5.5
Private Sector Participation in the Polish Economy
(in percent)

	1989	1991
Share of sold manufacturing output	17.5	22.1
Share of construction/installation	33.4	43.9
Share of transportation services	11.3	16.3

Source: GUS.

While the public sector in Poland declines, the private sector registers expansion and growth (see Figure 5.5). Overall, it was estimated that at the end of 1991, the private sector (excluding agriculture) accounted for almost a quarter of Poland's GDP. If Poland's large and largely private agricultural sector is included, the private-sector contribution to the Polish economy may be as high as 40% according to some estimates.[1]

It is clear that the role of the private sector in the Polish economy will continue to grow. The Polish government has announced its intention to reduce the number of state-owned enterprises through liquidation, the creation of joint ventures, or outright sale. The new law on privatization, announced in July, 1990 and discussed in chapter IV, has accelerated the growth of private-sector entrepreneurship. As a result, there is a growing shift of productive energies away from the state-controlled sector and into the private sector.

Private firms have begun to emerge on a mass scale in Poland (see Figure 5.6). Each quarter of 1990 saw further growth in the number of new private enterprises with the fourth quarter alone seeing more new companies established than in the first six months of 1990. At the same time, the proportion of bankruptcies to new establishments declined steadily. By the end of September, 1991, there were some 1.5 million private enterprises registered with the government, some 600,000 more than at the end of 1989.

Figure 5.6
Growth in Private Proprietorships during 1990

Quarter	Enterprises that began activity (in 000s)	Enterprises that were liquidated (in 000s)	Liquidated enterprises as a % of new enterprises
I	66.9	33.7	50.4
II	107.8	31.9	29.6
III	139.4	36.3	26.0
IV	202.1	52.0	25.7
Total	**516.2**	**153.9**	

Source: World Economy Research Institute, Poland: International Economic Report, 1990/91.

Of the 600,000 new enterprises that appeared in Poland since 1989, 550,000 are sole proprietorships and 87% of these concentrate on retailing, distribution, import and export, or the provision of services. Though the value added by the private sector was 26% higher in 1990 than in 1989, most of this increase was attributable to commercial activities. The value added contributed by private manufacturing firms grew by only 8%.

Retailing is one area that is now overwhelmingly in private hands. The private sector accounted for 4.8% of all retailing in 1989 but after three quarters of 1991, its share has risen to 70%. The privatization of small enterprises such as stores, restaurants, and bars has virtually been completed. Former employees of state-owned outlets as well as new entrepreneurs have been given an opportunity to tender for the assets of these establishments. The process has now been concluded and one result is a dramatic improvement in the quality and selection of goods and services available to consumers in Poland's larger cities.

The effects of privatization have also been felt in foreign trade where the private sector accounted for only 2% of all foreign trade in 1989 but 28% after the first three quarters of 1991. Private-sector exports grew three-fold and imports five-fold in 1990 while state-owned trade activities declined by more than 30%. The private sector tends to be more active in importing than in exporting partly because of the nature of Poland's traditional exports (raw materials, agricultural goods, some heavy manufactured goods) and partly because the private sector is rushing in to fill consumer needs that the state had long neglected. Especially popular among private importers were electronic products such as television sets, computers, and stereo equipment, as well as foodstuffs such as coffee, chocolate, and cosmetics. Private-sector exports focused on agricultural products, livestock, wood and timber, as well as furniture.

Figure 5.7
Structure of the Polish Private Sector, as of December 31, 1990

	No. of enterprises	% of total	Employees	% of total
Managed by Private Individuals	1,135,492	97.2	1,915,462	79.8
Manufacturing	334,613	28.6	716,672	29.9
Construction	165,541	14.2	349,204	14.6
Transportation	61,368	5.3	70,307	2.9
Trade	346,294	29.6	485,382	20.2
Food Services	22,511	1.9	49,193	2.0
Other Material Services	122,099	10.5	134,985	5.6
Non-Material Services	83,066	7.1	109,719	4.6
Other				
Corporate Entities	32,834	2.8	485,329	20.2
Private Companies	29,839	2.6	306,237	12.8
Joint Ventures	1,761	0.2	87,274	3.6
Foundations	461	-	8,817	0.4
Polonia[1] Firms	773	-	83,001	3.4
Total	**1,168,326**		**2,400,791**	

[1] Firms founded by Polish emigres.

Source: World Economy Research Institute, Poland: International Economic Report, 1990/91.

Figure 5.8
Growth in Incorporated Private Companies

Year		Total	Manufacturing	Construction	Trade	Other
1989	.31.XII	11,693	2,769	2,640	1,759	4,525
1990	.31.III	16,589	4,082	3,455	2,809	6,243
	30.VI	21,542	5,160	4,195	4,380	7,807
	30.IX	26,275	5,914	4,779	6,636	8,946
	31.XII	29,650	6,416	5,171	8,326	9,737
1991	.31.III	34,642	7,168	6,053	10,448	10,973
% Increase						
Dec.-Dec.		153.6	131.7	95.9	373.3	38.0
Mar.-Mar.		108.8	75.6	75.2	271.9	22.6

Source: GUS.

At present, the private sector in Poland is still dominated by private proprietorships that have only 1-2 employees and make up more than 97% of all private-sector enterprises. This is not surprising given that most of these ventures are only a year or two old. As Figure 5.7 shows, legally registered corporations average about 20 employees. Among these, private companies with more than 100 employees constitute less than 0.1% of the total. Interestingly, the most significant sub-group among these larger private companies are the so-called "Polonia" firms that were created under special legislation in the 1980s to facilitate investment by Polish emigres. Averaging about 107 employees per firm, these companies have been in business a bit longer and have therefore grown to a more imposing size. Overall, registered corporations have been increasing in Poland at rates in excess of 100% (see Figure 5.8) though the initial proliferation in the number of new companies seems to be tapering off somewhat. As in the case of private proprietorships, the commercial sector has seen the most explosive growth.

Despite impressive early performance, the Polish private sector faces serious challenges. Above all, there is a profound shortage of investment capital available to private companies as a result of the dramatic deflationary policies of government. Indeed, credit is tighter for private companies than for state-owned enterprises. Polish banks are more willing to lend to the latter because they expect that the government will ultimately cover any losses. As a result, at the end of 1990, the private-sector share of bank credit was about 40% below the private-sector contribution to overall GNP.

Another constraint on the growth of the private sector is weak consumer demand. Inflation followed by recession have combined to weaken purchasing power, especially in the state-owned sector where wage rises have been strictly controlled. Even so, this has not prevented the emergence of completely new types of businesses such as video rentals, xerox copying, and foreign language instruction.

The fundamental challenge faced by the Polish private sector is to accumulate sufficient capital to invest in larger-scale production. To meet this challenge it is following the same historical path as did western economies: it is beginning with mercantile activities involving the transportation and distribution of goods made by others. Later, some companies will find it more profitable to move into the physical transformation of goods and the manufacture of new products.

[1] For example, the figure of 40% is cited by *The Economist*, September 21, 1991.

VI. Trade

Recent Performance

Trade Partners

Foreign Economic Relations

Legislative Changes

The Organization of Trade

Recent Performance

Prior to the reform program, Poland's foreign trade was divided into two distinct zones, the rouble zone, which embraced Poland's partners in the Soviet bloc's Council for Mutual Economic Assistance (CMEA), and the hard currency zone, which included the advanced industrialized economies of the West. Perhaps the most striking new development in Poland's international commerce is the rapid increase of exchanges with the West, especially the European Community, and the corresponding collapse of trade with the Soviet Union and other former members of the communist bloc. As part of this movement, 1991 saw the end of trade denominated in "transferable roubles" and a movement toward exclusively hard currency accounting.

In 1990, exports denominated in US dollars grew by a remarkable 41% over the previous year. In 1991, the value of Polish exports in real terms declined by 1.4% from the previous year, the first such fall since 1981. In nominal terms, however, exports grew by 10%, reaching a total of $US 14.2 billion.

During the same period, imports denominated in hard currency also increased dramatically. In 1990, import growth was still moderate at 6.3% over 1989. In 1991, imports rose by an unprecedented 34.4% in real terms and a staggering 62% in nominal terms to reach a total of $US 14.2 billion. Part of the reason for this growth was the need (for the first time) to pay for Soviet oil and gas imports in hard currency. In the first three quarters of 1991, the value of Soviet oil imports reached $US 710 million and natural gas imports cost $US 457 million.

Poland's private sector has tended to drive the import boom. The value of private-sector imports was three times the value of its exports. The private sector's strongly negative trade balance more than matched the positive trade balance achieved by state-owned enterprises. Even so, by the close of 1991, Poland's overall trade was roughly in balance.

The largest single product category in terms of both exports and imports, was machinery and equipment, which accounted for more than a third of the value of all trade (see Figures 6.1 and 6.2). Over the past decade, machinery and equipment has played a diminishing role in exports, but has increased its share of imports. Chemicals and pharmaceuticals have become more important both in exports and imports, as have various kinds of light industrial products.

In 1990, Poland's trade registered notable increases in the export value of agricultural products, as well as chemicals, textiles and clothing, machinery and metallurgical products. Exports of fuels and processed food were down slightly. Decreases in import values in 1990 primarily affected processed food, chemicals, metallurgical materials, and light industrial products.

Figure 6.1
A Comparison of the Sectoral Composition of Poland's Imports and Exports
(in percent)

	1985	1990		1985	1990
Imports			**Exports**		
Fuels and energy	21.2	27.5	Fuels and energy	14.7	10.3
Metallurgical industry	9.5	5.6	Metallurgical industry	8.8	9.9
Machinery	32.7	38.5	Machinery	40.4	37.6
Chemicals	13.0	9.5	Chemicals	9.9	13.4
Mineral products	1.5	1.2	Mineral products	1.0	1.1
Wood and paper products	1.9	1.2	Wood and paper products	2.0	2.2
Textiles, clothing, leather	5.8	6.1	Textiles, clothing, leather	5.9	4.6
Processed food products	7.7	6.8	Processed food products	6.8	7.4
Other products	1.1	1.2	Other products	0.5	1.0
Construction	0.0	0.1	Construction	5.3	5.8
Agricultural produce	4.9	2.2	Agricultural produce	3.7	6.0
Forest products	0.1	0.0	Forest products	0.6	0.3
Other imports	0.3	0.1	Other exports	0.4	0.4

Source: Rocznik Statystyczny, 1991.

Figure 6.2
Top Twenty Polish Imports and Exports, 1990
(in millions of *zlotys*)

Imports		Exports	
Crude oil	11,354,885	Hard coal	9,191,611
Petroleum products and synthetic liquid fuels	4,022,702	Hot-rolled steel products	5,363,476
Metalworking machinery	2,018,279	Copper	4,462,458
Pharmaceutical products	1,584,975	Meat and meat products	3,154,517
Televisions	1,515,265	Sulphur	2,548,996
Food processing machinery	1,510,684	Clothing	2,432,600
Natural gas	1,351,213	Railway freight cars	2,241,038
Cold-rolled steel products	1,182,749	Petroleum products and synthetic liquid fuels	2,037,193
Foundry and casting machinery and equipment	1,176,868	Auto parts	1,822,308
Computer systems and equipment	1,015,058	Furniture	1,789,764
Plastic products	1,011,046	Computer systems and equipment	1,746,942
Iron ore	918,997	Frozen and fresh fish	1,721,343
Auto parts	903,331	Wire and cables	1,618,355
Automobiles	891,429	Slaughter cattle	1,608,102
Pig iron	818,739	Pharmaceutical products	1,578,398
Industrial chemicals	877,609	Leather shoes	1,497,740
Knitted goods	739,900	Coked coal	1,494,001
Cotton	686,450	Sugar	1,111,058
Oil seeds	680,304	Chemical processing systems and equipment	1,090,495
Hot rolled steel products	637,030	Silver	1,023,395

Source: Rocznik Statystyczny, 1991.

As Figure 6.3 shows, the bulk of Poland's imports in 1989 and 1990 were for consumer needs. Commercial imports (spare parts and equipment required by business) and investment imports (materials needed as capital inputs for investment) were far less important. These trends continued into 1991 which saw a doubling in the import of consumption goods. In the same year, investment-related imports grew by about 50%.

Figure 6.3
Structure of Polish Imports
(in percent, constant *zloty* prices)

	Total		Rouble Area		Hard Currency Area	
	1989	1990	1989	1990	1989	1990
Investment imports	12.6	13.2	14.8	12.8	10.5	13.6
Consumer imports	68.5	68.9	71.8	74.4	65.5	64.9
Commercial imports	17.5	16.3	12.7	12.0	22.0	19.3
Other	1.4	1.6	0.7	0.8	2.0	2.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: GUS, Handel Zagraniczny, Feb. 1991.

Trade Partners

Throughout the 1980s, Poland's trade orientation toward the West, particularly Europe, became more pronounced. During the decade, dealings with the CMEA countries shrank as a percentage of overall trade, while trade with advanced industrialized countries grew (see Figure 6.4). The shift away from the CMEA, especially in the case of imports, presaged the collapse of that organization and indeed of the international communist alliance. The import shift toward the European Community (EC) suggests that, even before the formal end of communist rule, Poland was instinctively turning to the West for the supplies of goods and services required to maintain its economy.

By 1989-1990, the westward shift in Poland's trade had become unmistakable and irreversible (see Figure 6.5). Part of the reason for this movement was the steady increase in the prices of imports from the CMEA (mainly the Soviet Union) during the 1980s, while the prices Poland received for exports to its CMEA partners remained soft. By 1988, Poland's ratio of aggregate export prices to aggregate import prices (on a 1980 base) was 95.4 in the case of trade with the CMEA, and 100.5 in the case of hard-currency trade. Clearly, the terms of trade were changing in favour of a westward trade expansion. By 1989, the EC and EFTA countries accounted for close to half of Poland's imports and exports. Figure 6.6 offers a more detailed view of Poland's most important trading partners by country.

Figure 6.4
Changing Trade Partners
(in percent)

	1981	1988
Exports		
CMEA	45.7	41.1
Other socialist	2.8	5.4
Developed	36.9	43.5
EEC	23.8	28.3
Developing	14.5	9.9
Imports		
CMEA	51.8	40.9
Other socialist	3.2	6.2
Developed	37.1	45.9
EEC	20.6	28.3
Developing	7.9	7.0

Source: Poland - Statistical Data 1989, table 90, p.74.

Figure 6.5
Geographic Structure of Polish Foreign Trade
(in percent)

	Exports		Imports	
	1989	1990	1989	1990
CMEA Countries	40.6	28.4	40.1	33.1
of which USSR	20.8	15.4	18.1	20.1
Developed Market Economies	49.1	62.0	53.0	60.1
of which EC	32.1	42.8	33.8	38.4
of which Germany [1]	14.8	25.0	15.8	19.8
Other	10.3	9.6	6.9	6.8
Total	100.0	100.0	100.0	100.0

[1] In 1989, West Germany and West Berlin, in 1990, the whole of Germany
Source: GUS, *Handel Zagraniczny, Feb. 1991.*

European Community

The European Community (EC) has emerged as Poland's most important trading partner. In 1989, the EC took 48.5% of the Polish exports denominated in hard currency and supplied 50% of its hard-currency imports. In 1990, the dollar value of Polish exports to the EC rose by about 55% and imports from the EC grew by 8%. These trends continued in 1991. By the end of the third quarter of that year, the EC was absorbing 55% of Poland's hard-currency exports and supplying 48% of its imports. Since most of Poland's international transactions were denominated in hard currency by that time, this meant that the EC alone accounted for about half the country's international trade.

Initially, the EC applied the GATT-based Generalized System of Preferences to trade with Poland. This was a unilateral move requiring no reciprocity from the weaker Polish economy. Then, following lengthy negotiations late in 1991, Poland's outgoing Deputy Prime Minister, Leszek Balcerowicz, signed an agreement with the European Community giving Poland associate status in the organization. The Agreement became effective on March 1, 1992 and, among other things, provides better Polish access to EC markets and reduces EC tariffs on a wide range of Polish goods.

Figure 6.6
Major Trading Partners
(percent of total commodity turnover)

1989 Country	Share	1990 Country	Share
USSR	29.8	Germany	23.0
West Germany	15.2	USSR	17.2
Czecho-Slovakia	5.6	Great Britain	6.6
Great Britain	5.5	Switzerland	5.2
Austria	4.6	Italy	4.7
East Germany	4.4	Austria	4.5
Switzerland	3.7	Czecho-Slovakia	3.9
Yugoslavia	3.4	France	3.2
Italy	3.2	Holland	3.0
Holland	2.8	Sweden	2.4

Source: GUS, Handel Zagraniczny, Feb. 1991.

The Agreement removes most restrictions on the flow of goods between Poland and the EC. The EC has agreed to an outright end to most quotas on Polish goods with the exception of agricultural products, textiles, and coal, where quotas will be phased out over a five-year period. Poland will eliminate its quotas on EC goods over the same period.

The Poland-EC Agreement also establishes a schedule of gradual tariff removals by both sides (see Figure 6.7). The schedule brings immediate benefits to Poland because initial cuts in EC tariffs will be steeper than the corresponding Polish reductions. This gives Polish industry more time to adjust. Over the same period, Poland will adopt a number of EC regulations governing competition policy, the protection of intellectual property and government subsidies to industry.

Poland and the EC have mutually pledged not to introduce any new restrictions on trade except as allowed by the GATT rules on dumping and trade remedies. Poland will be able to reintroduce limited tariffs over the next ten years if it can demonstrate that such duties are essential to prevent injury or to promote its restructuring process. A key advantage of the deal is that it gives Polish manufacturers equal access to the huge EC procurement market. Poland must reciprocate once it has adopted regulations to govern its own procurement process. The Poland-EC Agreement is widely regarded as the first step toward eventual full membership for Poland in the European Community.

Poland is also liberalizing its trade with the countries of the European Free Trade Association (EFTA). A Poland-EFTA Agreement provides for an even more rapid elimination of customs duties than is provided for in the EC deal. In addition, trade liberalization is the subject of Polish talks with Hungary and the Czech and Slovak Federal Republic.

Figure 6.7
Scheduled Tariff Reductions Under the Poland-EC Agreement
(as a percent of the 1991 rates)

Year	EC on Polish goods	Polish on EC goods
1992	36	73
1993	33	73
1994	27	73
1995	21	58
1996	16	44
1997	2	29
1998	0	15
1999	0	0

Source: Polish Ministry for Foreign Economic Relations.

Foreign Economic Relations

As part of its economic stabilization program, Poland is expanding its international economic relations and joining key international bodies such as the International Monetary Fund. It is also entering into numerous bilateral treaties with various countries designed to expand linkages and improve economic cooperation.

Since April of 1991, Poland, Hungary, and the Czech and Slovak Federal Republic have been discussing ways of liberalizing trade among themselves. Their objective was to enhance the influence of all three countries as they pursued their common goal of being accepted as members of the European Community. In addition, Poland has become a member of what used to be known as the Pentagonale, a group of cooperating nations which includes the Czech and Slovak Federal Republic, Hungary, Yugoslavia, Austria, and Italy.

Poland has also signed bilateral treaties of friendship and economic cooperation with its larger neighbours. It has entered into a treaty of friendship and cooperation with Germany. During the signing ceremony, Chancellor Kohl expressed the hope that Polish-German relations in the future would be as good as the current state of French-German relations. Germany has promised to support Polish membership in the European Community, and French backing for the idea is mentioned in a recently affirmed Franco-Polish Agreement.

Poland has also signed a bilateral treaty of economic cooperation with the United States. It has been granted freer access to the US market for its textiles. A US-Poland Agreement to this effect will formally end quota rationing on specific categories of textiles within the 1992 - 1993 period. The Americans have also pledged not to seek reimposition of limits on Polish exports to the US in any subsequent renewal of the current Agreement.

Poland had signed a treaty of economic cooperation with the Soviet Union just at the point where the USSR effectively ceased to exist. In an ensuing development, Poland expressed its desire to build closer ties with the former Soviet republics by becoming the first country in the world to recognize Ukrainian independence.

Legislative Changes

Until the end of 1989, Poland's foreign trade was controlled by the central government. Foreign trade authorities used a system of licences, quotas, permits, and bilateral balancing to enforce that control. There was also central control over currency, which was then carefully doled out to enterprises seeking to import needed goods. Various accounting techniques, levies, and tax exemptions supplemented these efforts to balance trade flows.

The main objective of the trade-related reforms initiated at the beginning of 1990 was to introduce mechanisms appropriate to an open market economy. The new government wanted to create competition among enterprises as a way of improving their efficiency. The new laws allow all enterprises to participate freely in foreign trade without seeking permission from the central government.

Initially, permits were required for the export of about a dozen commodities because they were required to stabilize supplies to the domestic market, and in order to prevent re-export activity from rouble trading export destinations to hard-currency countries. As the internal situation stabilized, however, products were rapidly removed from the list until only hard coal and liquid fuel remained.

The only restrictions remaining on Polish exports are those imposed by western trading partners. They require Poland's acceptance of quotas for textiles and clothing, steel, sheep, milk products and exported construction. The Polish government now publicly announces the levels and timing for the granting of quotas. A system has been established which reviews applications from those interested in taking advantage of a particular quota and issues licenses on the same basis as a tender.

One exception to the general easing of Polish export controls involves Iraq. The Polish government has followed western governments imposing restrictions on exports to Iraq, and on advanced technologies subject to international controls.

The Polish government continues to restrict imports from Iraq. It also controls the import of cars, engines, spirits, vodka, and toxic wastes in the interests of domestic policy. Permits are required for the import of liquor, beer and wine, oil, gas, and fuel oil. Companies can get the appropriate permits from the department of trade in goods and services at the Ministry of Foreign Economic Relations. Individuals usually receive such permits from the Customs Office.

Duties on cigarettes are being raised from 55% to 90%, and cigarette importers must produce Western certificates of quality as well as signed contracts with purchasers. Duties on imported cars have been raised from 15% to 35%. Exempt from import duties are auto parts destined for assembly in Poland.

Exchange Rates

A major factor in stimulating Poland's international trade has been the introduction of domestic convertibility of the *zloty*. A realistic fixed exchange rate has been adopted, backed by the National Bank of Poland. Companies requiring hard currency for purchases abroad can buy it with *zlotys* at the Bank. Companies earning hard currency abroad must exchange it for *zlotys* at the Bank on the condition that they may reconvert the funds as required for external purchases.

As the Polish currency stabilized, the government ended its initial policy of stimulating exports by means of tax

exemptions. It accepted the view that the exchange rate should be the only measure of export profitability.
Initially, the *zloty* was set at 9,500 to the US dollar and held that level for a year and a half. In May of 1991, it was devalued to 11,100 to the US dollar as a means of stimulating exports. In October of 1991, a fluctuating exchange rate was introduced, which in conditions of persistent inflation, caused the creeping devaluation of the *zloty*. In February of 1992, another devaluation set the value of the *zloty* at 13,360 to the US dollar, a move that will further stimulate exports.

Customs

Creation of a unified schedule of tariffs has been a key principle of Poland's trade reforms. The previous system provided for three different tariff schedules; the new system has only one. It imposes duties only on imports. Tariffs are uniform and based on the value of the goods under consideration, and all importers are treated equally. No distinctions are made between companies and private individuals. Under the old system, no attempt was made either to influence the kind of imports that entered Poland or to minimize any differences in production costs between Poland and foreign countries. The new system, however, aims to ensure that the prices of imports are roughly in line with the costs faced by domestic producers. Tariffs on imports are used to regulate the size and nature of such imports. In order to stimulate competition and combat inflation, tariffs have been gradually eliminated or reduced on about two thirds of all dutiable items.

Poland's tariffs conform to the System of the Customs Cooperation Council in Brussels. The adoption of this system actually increased Polish tariff protection slightly, since Polish customs duties were among the lowest in Europe. The new Harmonized Tariff is established as the maximum. It describes what are called "conventional" rates of duty which apply to goods originating in two groups of countries: those with whom Poland conducts trade under Most Favoured Nation (MFN) arrangements; and those who are members of the General Agreement on Tariffs and Trade (GATT). Poland is a member of the GATT and has been accorded normal tariff treatment under its rules. Poland applies a third category of tariff rates on goods from those countries which are not members of GATT or with which it does not have MFN arrangements. Known as "autonomous rates," these tariffs are generally 100% higher than conventional rates.

As part of its overall reform of customs, the government has opened several new border posts and is streamlining customs procedures. It is also developing trade remedies to protect domestic markets from dumping, foreign subsidies, and other unfair trade practices. In order to level the playing field for domestic and foreign producers, in March of 1991, the government introduced a value-added tax on imports which is exactly equivalent to that paid by domestic producers.

To further facilitate international trade, Poland has established several duty-free special economic zones along its western borders. The city of Swinoujscie, located on the Baltic Sea at the German border, is being developed as a centre to attract value-added manufacturing for re-export.

Some Key Polish Trade Institutions

Ministry of Foreign Economic Relations
(Ministerstwo Wspolpracy Gospodarczej z Zagranica)
Warsaw, Plac Trzech Krzyzy
tel. 21 03 31, telex. 814501 mhz pl

Central Customs Office
(Glowny Urzad Celny)
Warsaw, ul. Swietokrzyska 12
tel. 20 03 11, telex. 814427

Central Office for Quality Inspection
(Centralny Inspektorat Standaryzacji)
Warsaw, ul. Zurawia 32/34
tel. 21 64 21, telex. 813 653 CIS pl

Institute of Foreign Trade Research
(Instytut Koniunktur i Cen Handlu Zagranicznego)
Warsaw, ul. Swietokrzyska 12
tel. 20 03 11

Polish Chamber of Foreign Trade
(Polska Izba Handlu Zagranicznego)
Warsaw, ul. Trebacka 4
tel. 26 02 21, telex. 814361 pihz pl

Foundations

Solidarity Economic Foundation
(Fundacja NSZZ Solidarnosc)
Waly Piastkowie 24
80-855 Gdansk
tel. (58) 584-412; telex. 513-160;
fax. (58) 384-219

The Business Foundation
ul. Wspolna 1/3,
Warsaw
tel. 219-993; telex. 817-088;
fax. 280-549

The Foundation for Polish Export
(Fudacja Polska Eksportuje)
ul. Krolewska 27, Warsaw
tel. 276-810

Poland's foreign trade falls within the mandate of the Ministry of Foreign Economic Relations (*Ministerstwo Wspolpracy Gospodarczej z Zagranica*). To perform its functions, it cooperates with several other Polish institutions. The Central Customs Office (*Glowny Urzad Celny*) is the highest customs authority in Poland. The Central Office for Quality Inspection (*Centralny Inspektorat Standaryzacji*) controls and inspects goods traded both domestically and internationally. The Institute of Foreign Trade Research (*Instytut Koniunktur i Cen Handlu Zagranicznego*) carries out research on Poland's foreign trade, as well as on world trade in general (see sidebar for addresses). Also noteworthy is the increasing number of special-interest foundations which have been established to aid western companies develop contacts with Polish enterprises. Many of these organizations are staffed by persons who possess business expertise in a particular sector. They may also maintain data banks on Polish businesses.

Figure 6.8
Foreign Trade Commissions to be Charged by Agents
(as of August 1990)

Type of goods or service	Average charge (% of total turnover)
Imports from Poland:	
All Goods and Services	1.5 - 5
Exports to Poland:	
All services	8 - 12
Fuels and energy	2 - 4
Metallurgical products	3 - 5
Machines and parts	5 - 6
Medical equipment and parts	5 - 6
Pharmaceuticals	5 - 7
Chemical products	5 - 7
Construction materials	6 - 8
Food	6 - 8
Fabrics	5 - 6
Cars	6 - 8
Audio-visual equipment	6 - 8
Clothing and footwear	6 - 7
Furniture	6 - 7
Other products	6 - 10

Source: Polish Ministry for Foreign Economic Relations.

The Polish Chamber of Foreign Trade *(Polska Izba Handlu Zagranicznego, PIHZ)* is an association of Polish enterprises active in foreign trade. Part of the Polish Chamber of Commerce, it represents members' enterprises vis-a-vis the government, and is also an important source of assistance on foreign trade matters for both Polish and foreign enterprises. The PIHZ plays an important role in promotional activities such as exhibitions, trade fairs and missions. Bilateral chambers of commerce have been created to act as focal points for trade between Poland and various countries of the world with which it has extensive dealings.

Prior to the reform period, Poland's foreign trade was managed entirely by a small number of Foreign Trade Organizations (FTOs) which were the only institutions legally entitled to deal with foreign firms. Recent reforms have made it legal for any Polish enterprise (or private individual) to engage in foreign trade or to establish offices or joint ventures abroad. Furthermore, all joint ventures with foreign firms receive automatic permission to engage in foreign trade when they are registered.

These legislative changes have increased the number of organizations dealing with foreign trade. Many companies circumvent the FTOs entirely and deal directly with foreign clients. Despite their declining importance, FTOs still provide a useful liaison between the Western partner and the end-user. The new privatization law will transform the FTOs from state-owned institutions to private-sector organizations, but the trade infrastructure they provide will remain in place (see sidebar).

Reliance on the FTOs is already fading as more ventures look for ways to target end-users more directly. Agents have become one of the avenues used by western investors to gain effective access to Polish markets. The potential investor should be aware, however, that even in this sphere, the government continues to exert its regulatory influence. Agents representing foreign companies in Poland must maintain commission fees which are no lower than the nominal charges set by the Ministry of Foreign Economic Relations (see Figure 6.8).

Privatizing a Foreign Trade Organization

As the first of these state-owned organizations to be 'marketized', the Polish FTO Uniwersal serves as the model for subsequent trade organization restructurings. Uniwersal trades mainly in consumer durable goods and sports items. Since 1983, it has been a limited liability company owned jointly by the Treasury and several state-sector enterprises. In May 1990, the government opened a public subscription of 100 million *zlotys* worth of shares in Uniwersal. At first, Uniwersal offered 31% of its shares to foreign investors, and the Polish Treasury retained 51%. When sales fell below initial expectations, the government offered Polish citizens an opportunity to pick up shares, and increased the amount available to foreign participation to 65.66%. The measure did not stimulate capital accumulation. Instead of an expected 150 billion increase, Uniwersal's assets peaked at only 859 million *zlotys* at the end of 1989. One of the reasons most often cited for both Polish and foreign reluctance to take advantage of state enterprise divestiture appears to be their greater interest in pursuing private-sector opportunities.

VII. Investment

Investment and Joint Ventures

The Legal Framework for Foreign Investment in Poland

As a result of a series of recent reforms, Poland now has a remarkably liberal investment regime. Some of the most important legal aspects of investing in Poland are:

- no minimum investment required from a foreign partner;
- no official permission needed for the establishment of a joint venture, except those involving the operation of sea ports and airports, real estate agencies, wholesaling of imported consumer goods, or the defence industry;
- no limits on transfer abroad of after-tax revenues, income from the sale of shares, income from the liquidation of a company, or salaries for foreign employees;
- no turnover tax on supplies or equipment for investments;
- no limits on how much of a Polish joint venture can be foreign-owned;
- no permission needed to buy shares in privatized Polish enterprises;
- tax exemptions on reinvested earnings;
- tax exemptions on funds set aside to buy shares in privatized Polish enterprises;
- tax exemptions possible on investments amounting to more than 2 million ECUs;
- customs exemptions in case of in-kind contribution to the capital of a company in Poland;
- guarantee of automatic compensation for damages resulting from expropriation or similar actions by the government;
- losses can be carried forward for three years; and
- accelerated depreciation.

Poland welcomes foreign investment that supports economic reform and the privatization program. The country needs this investment in the form of capital, technology, managerial expertise, and marketing know-how. It is especially interested in long-term commitments from foreign investors willing to build on the advantages of Poland's lower labour costs and skilled human resources. Investment by western companies is seen to be a way of restructuring and modernizing Polish industry, improving overall working conditions and increasing the competitiveness of Polish exports. In particular, joint ventures between western and Polish companies are seen as a means of stimulating higher value-added and competitive production in Poland.

In 1986, the Polish government passed a Foreign Investment Law that encouraged joint ventures between foreign companies and state-owned Polish firms. This legislation, however, restricted foreigners to no more than 49% of the venture and stipulated that up to 25% of all foreign exchange earnings had to be resold to the Polish government at the official exchange rate. A new law approved in December 1988 allowed western partners to own up to 100% of a proposed venture and permitted them to repatriate those profits derived from exports.

The Legislative Framework

Since 1986, the legislative framework governing foreign investment has undergone drastic reform. Legislative changes, introduced in the middle of 1991, have given the country a remarkably liberal investment regime. Most significant restrictions on foreign investment have been lifted, and efforts are being made to establish an investment regime that approximates those in the advanced industrialized countries (see sidebar). At the same time, the tax system has been modernized and simplified. Many exemptions have been abolished in order to create a level playing field for both foreign and Polish companies.

Despite these levelling measures, Poland still maintains some incentives intended to facilitate and encourage foreign investment. For example, reinvestment in a company, or donations to social projects, can earn reductions of up to 10% in the tax rate. Expenditures on capital improvements, whether on construction and modernization of buildings or purchase of pollution control equipment, are also tax deductible.

Foreign shareholders in a joint venture are subject to an income tax of 30% on company dividends if those dividends are taken out of the country. In 1989, however, Poland signed an agreement on the avoidance of double taxation with more than twenty nations, including the US, Canada and the UK. As a result, the taxes payable in Poland may be significantly lower.

Foreign joint ventures are also entitled to certain import duty exemptions. For example, machinery and equipment, raw materials and intermediary products, imported as part of the initial assets of a company, are treated as contributions in kind to the initial capital if they will be used by the company or its subcontractors for business purposes during the first three years of operation. Virtually all quantitative and licensing restrictions on imports have been eliminated, and the average import tariff is now about 14-18%. While a small number of goods are subject to export tariffs and quotas, the great majority of such export restraints have also been eliminated, and those that remain are negligible.

Any stay of more than six months in Poland is regarded as permanent residence for tax purposes. Income tax cannot exceed 40% of total Polish income. Foreigners employed in joint ventures pay a maximum of 30% of their salaries. Payments for employee overtime, special allowances and bonuses are not taxable.

Foreign investors are required to submit tax declarations and payments on a monthly basis, as well as an annual return for the period ending March 1 of each year. Any outstanding balance on tax revenue is due at that time. A final tax report is mandatory within 10 days of the annual audit being completed. Appeals for delays, reconsideration and renegotiation of claims are required by law to be settled within two months. After three months without settlement, tax payments are suspended automatically. Delinquent tax accounts are charged a stiff daily interest. Overpayments accrue interest at this same rate.

Investment Protection

The Polish government guarantees the safety of investments in Poland. The new law on foreign investment explicitly states that, in the event of government actions such as nationalization or expropriation, investors will receive compensation from the Minister of Finance, based on the value of the company's assets.

There are, moreover, additional stronger guarantees. Poland has joined the International Finance Corporation (IFC) and the International Development Agency (IDA), and it has signed bilateral investment protection agreements with several countries. These include Canada, China, Germany, Great Britain, Austria, France and Italy. A similar agreement was signed with the United States, whose Overseas Private Investment Corporation (OPIC) is now authorized to operate in Poland. OPIC writes political risk insurance against currency inconvertibility, expropriation, and political strife. It finances smaller projects up to $US 6 million, and can guarantee loans of up to $US 50 million. These bilateral agreements have been strengthened as a result of Poland's joining the Multilateral Investment Guarantee Agency (MIGA) in June of 1989.

Tax Reform

During 1990 and 1991, the Polish Government undertook a thorough reform of the country's tax system. The key objectives of the reform were to support the program of economic transformation, to create a "level playing field" for all enterprises, whether domestic or foreign-owned, and to introduce a system of personal income tax. This latter tax replaces the revenues foregone by the state as a result of privatization. The key reforms were:

- elimination of various special taxes and tax exemptions in order to simplify the system;
- elimination of various tax holidays including the three-year holiday previously offered to foreign joint ventures;
- creation of a discretionary tax holiday which may be offered by the Minister of Finance in the case of investments worth more than 2 million ECUs, where the investment is in a region threatened by structural unemployment, where at least 20% of the company's sales come from exports, or where the investment introduces advanced new technologies;
- introduction of accelerated depreciation schedules for companies investing in new equipment;
- introduction of options to permit carrying forward of losses for up to three years;
- measures to align personal and corporate tax rates;
- standardization of the turnover tax and its gradual transformation into a value-added tax modeled on the European Community's method;
- abolition of taxes on salary increases in private and privatized companies, except those in enterprises which are more than 50% state-owned; (the tax had been a key measure in the war against inflation, but its removal from the private sector encourages privatization);
- simplification and standardization of local and municipal taxes; and
- introduction of a universal personal income tax.

Figure 7.1
Significant Sources of Foreign Investment in Poland
(as of October, 1991)

Country of Origin	Total Number of J.V.s	% of Total Number	Total in $US 1000	% of Total Capital	Average Investment in $US 1000
Germany	1483	30.3	157,138.4	22.8	105.9
United States	406	8.3	56,827.7	8.3	139.9
Sweden	345	7.0	52,633.3	7.6	152.6
Austria	322	6.6	37,664.3	5.5	116.9
Holland	282	5.8	46,987.2	6.8	166.6
Multinational	277	5.7	48,961.3	7.1	176.8
France	254	5.2	65,850.2	9.5	259.3
Great Britain	252	5.1	35,388.3	5.1	140.4
Italy	224	4.6	32,853.4	4.8	146.7
Switzerland	144	2.9	25,335.0	3.7	175.9
Soviet Union	132	2.7	8,295.5	1.2	62.8
Oenmark	130	2.6	19,852.4	2.9	152.7
Belgium	103	2.1	15,992.9	2.3	155.3
Canada	84	1.7	6,513.2	0.9	77.5
Australia	59	1.2	9,584.7	1.4	162.5
Other	405	8.2	69,757.5	10.1	172.2
Total	**4902**	**100.0**	**689,635.3**	**100.0**	**140.7**

Source: Polish Foreign Investment Agency.

Intellectual Property

Poland has ratified the two fundamental international conventions on the protection of intellectual property: the 1883 Paris Convention regulating the transfer and use of industrial property; and the Berne Convention of 1886 governing the protection of literary, scientific and artistic properties. Poland has also passed a series of domestic laws which supplement the provisions of these international agreements. These measures provide western investors with strong protection of intellectual property. Trademarks and patents of foreign companies are protected provided that reciprocal rights are granted to Polish companies in the country concerned. Moreover, the Law Against Dishonest Competition discourages any actions which would mislead either customers or business partners, or which would disclose confidential information or falsify data about an enterprise. Redress of individual rights in these matters is addressed in the 1965 Polish Civil Code. Further information can be obtained from the Patent Office in the Polish Chamber of Commerce.

The Inflow of Foreign Investment

The liberalization of Poland's investment legislation has encouraged some western companies to set up joint ventures with Polish partners. As of October 1991, a total of 4902 such joint ventures had been reported (see Figure 7.1). In almost 60% of all joint ventures, foreign capital held more than 60% of the shares. Moreover, the number of joint ventures is accelerating. About 1000 joint ventures were approved in the first half of 1991 alone. Companies that initially adopted a "wait and see" attitude have been convinced of the depth and permanence of Poland's economic transformation and are now moving to take advantage of new business opportunities.

Even so, it should be noted that, at just under $US 700 million, the total amount of capital inflow remains small. It does not approach the amount needed to transform an economy as large as Poland's. Investments exceeding $US 3 million constituted only about 0.5% of the total number of joint ventures. In 70% of the cases, the equity investment was at a minimal level, between $US 50,000 and $US 60,000. As a consequence, the average joint venture in Poland brings in only about $US 140,000 from overseas investors - an investment characteristic of smaller enterprises. Ironically, the highest average investments were recorded by smaller investor countries. For example, Irish investors have placed an average of $US 1,242,600 per investment in five joint ventures. The Norwegians have put $US 566,300 per joint venture into 40 investments. And companies registered in Liechtenstein have invested $US 269,300 per joint venture in 47 investments. Of the major investors, the French have brought in the most capital, averaging $US 259,000 per venture.

A large proportion of the first outsiders to invest in Poland were individuals who brought little more than a car and some office equipment. Many of them were Poles living abroad and operating in the service sector, transportation, construction, consulting, or translation - areas that do not require huge investments. Nevertheless, these types of investment do modernize Poland's infrastructure. They help to create a business climate that facilitates the activities of larger investors such as those with interests in hotels, communications, machinery, clothing, or chemicals. Indeed, a significant and growing number of large western firms operating in these sectors has established a presence in Poland (see Figure 7.2).

Predictably, a disproportionate share of external investment has come to Warsaw, the national capital, which has attracted almost one third of all foreign joint ventures (see Figure 7.3). Another third is distributed through Poland's next six largest cities. The remaining third is scattered throughout the rest of the country. The city of Szczecin belongs to this third category. Szczecin has taken advantage of its location on the German border and on the Baltic Sea to attract significant investor interest.

Figure 7.3
Regional Distribution of Joint Ventures in Poland, 1990 and first half of 1991

Warsaw	1470	32.8
Gdansk	294	6.6
Katowice	286	6.4
Krakow	173	3.9
Lodz	193	4.3
Poznan	389	8.7
Wroclaw	163	3.6
Others	1517	33.7
of which Szczecin	(284)	(6.3)
Total	**4485**	**100.0**

Source: GUS.

Figure 7.2
Major Companies Operating in Poland

United States:	General Motors, Johnson & Johnson, Coca Cola, Proctor & Gamble, RJ Reynolds Tobacco, TRW, Philip Morris, Marriott, Hyatt, Hewlett Packard, Unisys, DHL International, Levi Strauss, United Parcel Service, Central Soya
Great Britain:	Imperial Chemical Industry, Trusthouse Forte, ICL-STC, Eastman Kodak
Germany:	Krupp Maschinenbau, Dolomitewerke (Thyssen Hoechst), Siemens, Adidas, Philip Holzmann
France:	Thomson, Alcatel, Pullman, L'Expansion, Socpresse (Hersant)
Japan:	Sony, Minolta, Mitsubishi, Toyota, Nissho Iwai
Sweden:	IKEA, Alfa Laval
Austria:	Billa, Reifeisen Sparkasse
Canada:	Northern Telecom
South Korea:	Hyundai Electronics
Switzerland:	Asea Brown Boveri
Holland:	Philips
Lichtenstein:	Hilti

Source: Polish Foreign Investment Agency, 1991.

Foreign companies can establish joint ventures in Poland on their own, without the participation of Polish partners. Even so, partnering between foreign and Polish firms holds some obvious benefits for both sides (see Figure 7.4). Western businesses can employ Poland's strengths — a strategic geographic position, cost-effective human resources and superior technical training — to build a profitable export base in Central Europe. For their part, Polish firms can acquire the technology, capital, and business expertise they need to modernize their operations and compete in the global economy.

Establishing a Joint Venture

The process for establishing a joint venture in Poland begins with the identification of a promising business opportunity and possibly the identification of an appropriate Polish partner. A number of institutions such as the Polish Chamber of Commerce or the Polish Association of Employers can provide good initial points of contact. Foreign companies considering Poland for the first time, can get help from a variety of companies whose speciality is bringing Polish and western partners together. These mediators may scout for opportunities, find potential partners, prepare feasibility studies, provide representation with Polish authorities, and

Figure 7.4
Potential Benefits of a Joint Venture

For Western Partners

- increases influence or control over joint production;
- secures access to Polish market;
- uses Polish location to improve trade with other West and East European countries;
- takes advantage of lower labour costs;
- increases profitability.

For Polish Partners

- increases exports and improves market access to home country of venture partner and other western countries;
- provides a source of capital;
- provides technology transfer and modemization of production;
- enables contribution of western partner to be used as a substitute for other imports and thus saves money;
- overcomes domestic shortages and bottlenecks;
- trains personnel and improves labour productivity;
- increases profitability.

assist in contract negotiations. The most efficient of these companies maintain operations in Poland and in one or more western countries and employ staff who are familiar with both western and Polish business practices. They serve as an bridge during the initial period while a business relationship is being created and solidified.

Once an opportunity has been identified, foreign investors must decide on the legal form their Polish activity will take. Under Polish law, a firm can take the form of a limited liability company or a joint stock company. The limited liability company is by far the most common. It requires less rigid incorporation procedures and allows the parties more latitude in shaping the firm's internal structures and operations. The limited liability company is comparable to the private limited company under English law. The joint stock company, on the other hand, offers greater latitude in the treatment of capital, and has the ability to collect capital from the public through the issuing of shares. This form is comparable to the public limited company in English law.

The major difference between the limited liability company and the joint stock company lies in the relationship of their members to corporate ownership and control. Polish law refers to the members of the limited liability company as partners, and to the members of a joint stock company as shareholders. Partners are assumed to be directly involved in the day-to-day operations of a company whereas shareholders exercise their voice through the company's annual general meetings. Under Polish law, it is possible to incorporate a limited liability company with only one partner but a joint stock company must have at least three members.

Though joint ventures are the most common method of investing in Poland, there are several other ways to establish a presence in the country. Figure 7.6 offers a quick summary of some alternatives based on the actual practices of companies currently operating in Poland.

Financing Investments

Poland has pioneered many of the dramatic changes now sweeping Eastern Europe. This role has attracted considerable support from the advanced industrialized nations. Recognizing the size and critical strategic importance of Poland in the new European order, various nations and international institutions have offered financial assistance to help the country maintain its ambitious pace of transformation.

Figure 7.5
Establishing a Joint Venture in Poland

- identify a Polish partner;
- negotiate the terms of the joint venture;
- engage a neutral intermediary to prepare a feasibility study in order to verify project assumptions;
- prepare a valuation of the contributions of the respective partners;
- draft the terms of the agreement, using both western and Polish legal help;
- secure necessary project funding, and western government guarantees, or credits;
- open a Polish bank account and deposit initial capital;
- notarize the company's charter;
- register the joint venture in a court of law;
- commence operations.

Figure 7.6
How Foreign Firms Invest in Poland

- Establishment of a new joint venture with 100% foreign ownership.
- Creation of a new joint venture with Polish partners: no permission is required. The venture must be legally registered.
- Purchase of shares in privatized Polish enterprises.
- Creation of a joint venture based on the liquidation of a Polish enterprise with the liquidated assets used as the Polish side's contribution to the venture: no permission required.
- Creation of wholly-owned Polish subsidiary of a large multinational corporation: no permission is required, but the company must be legally registered.
- Creation of a foreign-owned bank or insurance company, either as a joint venture or as a wholly-owned subsidiary.
- Establishment of a non-operational representative office: no permission required.
- Outright purchase of a state-owned enterprise: (has only been done a few times). Requires the permission of the Ministry of Ownership Transformation, the Ministry responsible for the enterprise, the Anti-Monopoly Office (where relevant), the company's management and workers. Usually a public auction is announced so competing bids can be submitted. In extraordinary cases the Prime Minister may decide to waive the public auction if the investment promises to be particularly favourable to Poland.

A key element in this process has been Poland's commitments to the International Monetary Fund and its agreements with some of its western government creditors. This has opened the way to fresh credits and guarantees. As a result, the World Bank has committed $US 2.5 billion in new credits for specific restructuring projects (see Figure 7.7). These credits were conditional on the Polish government meeting spending targets agreed upon with the I.M.F Around the middle of 1991, however, it became apparent that the state budget deficit would exceed the limits set in the Agreement. Further credits were suspended pending passage of a new budget bringing the annual state deficit back under a cap of 5 % of GDP. The budget was finally passed in the spring of 1992.

At the same time, an additional $US 3.5 billion worth of credits has been secured through bilateral agreements with various countries (see Figure 7.8). Many western governments support the direction of Poland's reform efforts and they acknowledge that the country will need continuing concrete assistance for those efforts to succeed. West Germany, Poland's biggest trading partner, has promised a $US 1.2 billion package of assistance. The United States Congress has approved allocations of some $US 430 million for East European economic aid. France, Italy, and the United Kingdom have announced similar programs, as have some of the Scandinavian countries. Canada has assembled a program worth $CDN 42 million consisting of food aid, credits and technical assistance, and the European Community has offered Poland some 10 billion ECUs in food aid, investment credits and trade incentives.

Figure 7.7
World Bank Projects in Poland

The World Bank is an important pillar of Polish economic reform. World Bank loans and credits constitute a prime source of financing for investment projects geared to structural changes in the Polish economy. The following are the most important on-going and future programs financed by the World Bank in Poland.

Name of Project	Amount ($US million)	Responsible Authority
Industrial Export Development	$260	National Bank of Poland
Agro-industries Export Development	$100	Bank for Food Economy
Environmental Management	$ 18	Environmental Protection Ministry
Transportation Restructuring	$ 4.8	Ministry of Transportation
Railway Modernization	$145	Polish State Railways (PKP)
Energy Resource Development	$250	Polish Oil and Gas Mining Company
Structural Change	$300	Ministry of Finance
Telecommunications	$120	Polish Post Telegraph and Telephone
Privatization of Agriculture	$100	Ministry of Agriculture
Employment Offices	$100	Ministry of Labour & Social Welfare
Financial Institutions	$200	Ministry of Finance
Privatization	$280	Ministry of Ownership Transformation
Modernization of Heating Industry	$340	Wielkopolski Credit Bank

Source: The Warsaw Voice, September 29, 1991, p.B2.

Figure 7.8
Bilateral Credits Available to Poland

Poland has bilateral agreements with a number of countries which have offered credits to Polish purchasers of goods and services in their countries. Though some of these credits are trade-related, many of them can be used to support investment in Poland. In some cases, restrictions on the purpose to which the credits can be applied has limited their exploitation by Polish partners. Some of the most important of these agreements are described below:

Country	Amount ($US million)	Purpose
Germany	1,260	Import of German goods related to investment
	300	Short-term credits
Austria	244	Austrian investments in E. Europe
Australia	156	Import of Australian leather and wool
Belgium	5.5	Consumption goods, equipment, spare parts
Canada	17	Short term import of Canadian goods and services
Denmark	6	Investment in Polish-Danish joint ventures
Eur.Investment Bank	120	Various projects
Finland	unspecified	Export promotion, environmental protection, energy
France	115	Polish-French joint ventures
	490	Import of French investment-related goods
Italy	72	Investment projects in Poland
	451	Micro-tractor production, Italian-Polish joint ventures
Norway	22	Import of Norwegian investment-related goods
South Korea	50	Korean investment in Poland
	400	Import of Korean goods
Spain	70	Alcatel telecommunication project in Poland
Switzerland	unspecified	Import of Swiss investment goods
United States	20	Eximbank credit
	52	Import of foodstuffs
	240	Polish-American Enterprise Fund

Source: Gazeta Wyborcza, Special Supplement, June 5, 1991, p.3.

Initially, Poland's economy was not ready to take advantage of these western credits. In 1989 only $US 226 million were used and in 1990 that increased to $US 428 million. Poland's absorptive capacity is rising however, and it is estimated that some $US 800 million worth of these credits were used in 1991.

The European Bank for Reconstruction and Development

The stated purpose of the European Bank for Reconstruction and Development (EBRD) is to foster transition towards open market-oriented economies and to promote private and entrepreneurial initiatives in the countries of Central and Eastern Europe. The Bank assists recipient countries to implement economic reforms, including demonopolization, decentralization and privatization. Bank support is available for measures to promote private sector activity, to mobilize capital, foster productive investment, provide technical assistance, stimulate development of capital markets, support projects involving more than one recipient country, promote environmentally sound activities, and undertake any other activities that further these functions.

The Bank offers loans, equity investments and guarantees, up to the limit of its subscribed capital. It may not provide more than 40% of its total committed funds to the state sector. It will not seek a controlling interest or assume responsibility for managing an enterprise. It may not issue guarantees for export credits or undertake insurance activities. It may not undertake any financing where alternatives are available on reasonable terms.

The establishment of the EBRD makes it easier for western investors to take up opportunities in Poland. The agreement establishing the EBRD was signed in Paris on May 29, 1990 by 42 founding members, 40 countries, plus the European Community and the European Investment Bank (EIB). Each member is represented on the Board of Governors. Headquartered in London, the Bank has 23 directors, of whom EC member states elect nine, the EC and EIB, one each; the eight recipient countries in Central and Eastern Europe four; the eleven other European countries, four; and the nine non-European countries, including Canada and the US, the remaining four.

The EC member states, together with the EC and the EIB, contributed 51% of the Bank's authorized capital of 10 billion ECUs. Canada contributed $CDN 50 million and the United States offered $US 70 million. Contributions were also received from Australia, Egypt, Japan, South Korea, Mexico, Morocco, and New Zealand.

Doing Business in Changing Times

Poland's profound political changes are reflected in the country's laws. As reform efforts continue, many laws and regulations are being rescinded, revised, or re-interpreted. At the same time, some government departments or agencies are being eliminated, and new institutions established. Companies entering Poland should pay close attention to government relations and to the political network. Good contacts at both the political and administrative levels are essential sources of information for outside companies. For example, they provide intelligence about what legislation is being planned and how it is likely to be applied in practice. Such contacts can also facilitate negotiations and help to close deals faster.

The government has already legislated the deregulation and privatization of large parts of the Polish economy. Until this process is completed, however, government departments and agencies will continue to play major roles in all aspects of business. It makes sense, then, to understand the government's priorities and policies, and to be familiar with its personnel. Figure 7.9 lists a few of the most relevant ministries.

Figure 7.9

Government Contacts in Poland

In order to facilitate quick access to business information in Poland, various ministries have established their own business consulting units. Listed below are their areas of expertise and Warsaw telephone numbers.

I. Ministry of Foreign Economic Relations

1. Statistical data and documents used in foreign trade, tel. 290-112
2. Import and export licenses, tel. 219-075
3. Representatives of foreign firms, tel. 294-337
4. Cooperation with Eastern European countries, tel. 290-068, 282-123

II. Central Customs Office

(Information) tel. 694-35-87, 694-55-96

III. National Bank of Poland

1. Banking business, tel. 263-093
2. Commercial credits, tel. 269-344

IV. Ministry of Communications

1. Business licenses, tel. 285-311
2. Investments, tel. 244-454
3. Legal and economic counsel, tel. 261-071, ext. 593, 244-130

V. Ministry of Industry and Trade

1. Environmental and safety standards, tel. 210-351, ext. 806
2. Manufacturing licenses, tel. 214-630, 210-351, ext. 772
3. Materials and products used in the construction industry eligible for tax reductions, tel. 294-901, 210-351, ext. 708
4. Loans available from the Fund for structural change in Industry, tel. 256-963, 211-394

VI. Ministry of Finance

1. Corporate taxes, tel. 694-46-68
2. Individual taxes, tel. 694-34-2
3. Agricultural and municipal taxes, tel. 694-54-19
4. Transfer of ownership, tel. 262-339
5. Foreign currency transactions, tel. 694-49-87

VII. Ministry of Agriculture

1. Cooperation with foreign firms, tel. 282-351
2. Food industry, tel. 283-475

VIII. Ministry of Transport

1. Air transportation, tel. 244-122, 284-393, 244-037
2. Sea transportation, tel. 288-515, 298-242

VIII. Opportunities

Construction and Building Materials

Electronics and Components

Agriculture and Food Processing

Textile and Clothing Industry

Chemical and Paper Industry

Ship Building

Household Consumer Goods

Transportation Equipment

Industrial Machinery

Environmental Protection

Eastern Markets

Leasing Arrangements

Special Economic Zones

Opportunities

Investment opportunities abound in the highly fluid Polish market. The privatization of former state monopolies has opened entire sectors of the economy to both Polish and foreign business ventures. But long-term business relationships require more than just the sale of western goods to Poland. The Poles want to develop and modernize their own industrial base. They therefore seek partners who can sell them know-how as well as products. Many companies are combining the export of products, components, technology or know-how with an investment in production at the Polish end. The following is a partial list of promising areas which are currently attracting investor interest.

Construction and Building Materials

Since the Second World War, Poland has endured a chronic shortage of housing. On a per capita basis, it has one of the lowest rates of hotel accommodation in Europe. And it is difficult to find modern office space in larger centres such as Warsaw. These shortages of housing, office space and hotel space constitute one of the biggest bottlenecks in the Polish economy. Housing is scarce everywhere in the country (see Figure 8.1), and this makes labour force mobility — one major condition of a free market economy — practically impossible to achieve. If Poland is to succeed in its reforms, the construction sector requires major reorganization as well as a substantial amount of capital investment.

Essential to this reorganization is the introduction of new more efficient building techniques. Traditional house construction in Poland is expensive and time consuming. The typical building cycle is two-years for multi-family homes, and three years for single-family homes. Polish house construction typically uses up enormous amounts of materials, to produce energy-wasteful homes. Western architectural models, insulation, windows, plumbing, electrical systems, and heating can all contribute to a more efficient industry. Some of these models are already in evidence, as Poles take a greater interest in western model homes and pre-fabricated units. The key to success will be price. The company that can make western style housing accessible to average Poles will sweep the marketplace.

Figure 8.1
The Housing Crisis in Poland, 1989

Number of households	10,898,700
Number of separate rooms	37,039,700
Average no. of rooms per household	3.4
Average area of a household	59.4 square metres
Area per person	17.4 square metres
Average no. of people per household	3.41
Average no. of people per room	1.0

Source: Polish Statistical Year Book, 1990.

Some major problems must be overcome to unblock the housing bottleneck. Poland still lacks a developed system of accessible mortgages. The situation is further complicated by the lack of clear title of ownership to a good deal of the land. As well, there are laws that protect the occupants of a dwelling from eviction, even if they have ceased paying rent or loans. Much housing remains heavily subsidized, and the overall housing cost picture is therefore severely distorted. Finally, the cost of even modest housing puts it beyond the reach of most Poles.

Some half a million homes are currently under construction, but building methods are slow and many projects are stalled because funds have run out. To improve the situation, a Housing Construction Development Bank (*Bank Rozwoju Budownictwa Mieszkaniowego*) has been established, and the construction of housing will be subsidized from the central budget. Several joint ventures are already importing building materials or manufacturing them in Poland. Others aim to build western-style, pre-fabricated housing. The Central Planning Commission predicts that the share of the GNP spent on housing construction may double by the end of the 1990s, as Poles strive to end a housing crisis that has lasted for half a century. Anticipating the increased demand, several Polish builders and housing cooperatives are actively seeking partnerships with foreign investors. Major priorities are manufacture of finishing equipment for public buildings, metal plumbing, plastic products, finishing and insulating products, sanitary equipment, and measuring equipment for energy, water, and gas.

Electronics and Components

Poland's existing electrical and electronics industry is blessed with a large, trained, and experienced labour force, and has many achievements to its credit. Nevertheless, the industry requires modernization through capital investment and installation of the latest technology.

Warsaw is the country's largest electronics centre. Its factories produce electric lamps, radios, cassette recorders, semi-conductors, television sets, measuring devices, minicomputers, telephones, telecommunications equipment, and cathode-ray oscilloscopes. Poland produces its own computers from facilities located in Wroclaw. The town of Dzierzoniow specializes in radios sets and radio equipment. Radio and television receivers are also produced in Bydgoszcz, Lodz and Wrzesnia. The city of Radom is a centre for the manufacture of telephone equipment.

Predictably, a good deal of the electronic industry located along the Baltic coast is connected with ship building and the production of electrical systems for ships. Similar industry-oriented sub-sectors of the electrical industry are concentrated around the country's mining and textile centres.

Personal Computers: Personal computers are worth special attention, because Poland is undergoing rapid computerization. About 50,000 personal computers were purchased in 1991 alone, and estimates suggest that there are now some 200,000 computers in the country. Within the not-too-distant future, Poland will begin to produce personal computers, using its already developed electronics industry to replace imports of western computers. The company that helps the Poles accomplish this goal will establish a commanding presence in the Polish marketplace. A significant and growing market also exists for all the infrastructural and peripheral hardware and software that goes with computers: cables, systems, software programs, optical cables and the like.

Telecommunications: The Polish telephone system has long been the object of complaint and ridicule. It is clear that Polish industry cannot hope to achieve world standards of productivity without an appropriate telecommunications infrastructure. It has been estimated that it will cost $US 15 billion to modernize the country's telecommunications systems. Several major western telecommunications manufacturers, among them Canada's Northern Telecom, have already secured contracts for modernization of certain parts of the system. Others will undoubtedly follow. For further details, see Section IX.

Office and printing equipment: Accelerated computerization and the improvement of telecommunications are directly linked to the efficient administration and operation of business. Better office systems and machinery are important to such improvements. The use of modern office machines like photocopiers and telefaxes is growing steadily. Imported business machines are currently in heavy use, but almost any of them could be manufactured in Poland under licence from Western patent holders.

Agriculture and Food Processing

The agricultural sector is a continuing bulwark of the Polish economy. The food processing industry alone accounts for 10% of the industrial work force, 9% of all fixed assets, and 20.3% of total production (second only to electro-engineering). Numerous business opportunities may be found in areas such as food production, harvesting, processing, packaging, marketing, and distribution. Poland needs modern machinery and equipment as well as process know-how in all these areas.

The industry has suffered from declining levels of investment since 1975. As well, earlier investments were concentrated in huge new food processing complexes, rather than the upgrading of existing plants or the creation of smaller local facilities. As a result, a significant regional imbalance has been created. It is characterized by too much plant with too little food production in western Poland, and too little plant with too much food production in the East and Southeast. These large plants require inputs to be transported from remote parts of the country leading both to a deterioration in food quality and a rise in costs.

Most food processing equipment is outdated, and its technical condition is poor. Limitations in processing capacity are noticeable in grain milling, edible oil, sugar, potatoes, vegetables and fruits, baking and dairy products. There are also shortages of cold storage capacity.

Given the country's enormous food production capabilities and the needs of its population, it is easy to identify priority areas. They include the production of baby foods and dietary products, protein concentrates, and animal feed additives, and the processing of potatoes, fruits, vegetables and herbs.

Another issue is the availability of proper packaging made of metal, paper, cardboard, plastic, or glass. Shortages of these materials and their associated technologies affect Poland's ability to export food products. Poland also needs better freezers and other food storage facilities at the local level. It will be necessary to rationalize the entire network in order to match the capacity of processing facilities to local food production. The necessary projects in these areas do not require large amounts of capital, and they can be completed quickly so that pay-back is also relatively quick.

Textile and Clothing Industry

Poland's textile industry is scattered throughout the country. Despite the presence of several large factories in the sector, many establishments employ only a handful of people. Even so, there are regions, like central and southwestern Poland, where the textile and clothing industry is somewhat more concentrated. A good deal of the industry can be found in the Silesian industrial heartland around Katowice where there are retail outlets serving a large market of two million people.

The Polish city most closely associated with textiles and clothing is Lodz. In the 19th century, Lodz built its reputation and its prosperity on the production of textiles and clothing. It came to be known as the Polish Manchester, supplying not only Polish markets, but those of the other Central and East European countries as well. Unfortunately, the industry has not kept pace with the times. Its current industrial base is outdated and in urgent need of modernization.

Chemical and Paper Industry

Poland's chemical industry represents about 12% of industrial production, but suffers from under-investment. Its main products include carbide, fertilizers, plastics, dyes, and synthetic fibers. Priority sectors for investment include the manufacture of concentrated fertilizers, crop protection products, polyester, styrene, epoxy, polyurethane and paper. The country's natural resources and geographic location make this sector an attractive investment possibility. Poland is a major producer of minerals and chemical products. It produces 6% of the world's coal, 6.2% of its silver, 9.1% of its sulphur, 4.1% of its copper and 2.8% of its zinc. The country also boasts rich deposits of rock salt, limestone, gypsum, ceramic clay and barite. Poland does perform some high value-added processing in the case of dyes and medical products, but they play a limited role, and production is often restricted by shortages of imported raw materials.

Investment in the industry fell dramatically during the 1980s. As a result, machinery and production facilities are now working at only 60% of capacity, and only 30% of factories and other buildings are being fully exploited. The number of production lines has remained unchanged since 1980. Only 15% are automated, although in cellulose-paper the degree of automation has increased to 55%. The industry consumes about one fifth of all the energy used by Polish industry.

Approximately 400 large chemical plants employ 100-500 workers each, while a dozen very large facilities each employ more than 2000 workers. Some factories use outdated technology and are environmentally destructive. A relative few, like the oil refinery in Gdansk, the nitrogenous fertilizer plant in Pulawy, and the oxy-alcohol plant in Kedzierzyn are technologically advanced.

The future will no doubt witness increased production of inorganic minerals (sulphur, sodium chloride), extensive processing of products like fluorspar, anhydride and barite; and an expansion of oil refineries and other petrochemical plants. These developments will cause attendant increases in the production of plastics, polyolefines, polystyrene and copolymers. Poland will also need to expand its production of fertilizers, pesticides, synthetic fibers, and pharmaceuticals. Coke chemistry and coal gas production is another promising area, given Poland's huge coal deposits.

Of special importance is the production of small quantities of highly processed and refined chemicals for the electronics industry. Also growing in significance are special pharmaceutical products; medical diagnostics; water and sewage purification equipment; food and animal fodder; catalysts; inhibitors; special glues; photochemicals; textiles; rubber; refined lubricating oils; anti-knock compounds for unleaded gasoline; and biopolymers. A characteristic of these specialized chemical products is the relatively low cost of investment and the relative ease of access to universal, multipurpose reactors and facilities. Poland is suited to such production because it has a large and absorptive market, highly qualified engineers, and a skilled work force. Water for industrial purposes is plentiful, as is transportation.

Pharmaceuticals: Poland's population of 40 million constitutes a significant market for pharmaceuticals and medical devices. Indeed, pharmaceuticals constitute one of the country's leading import items. Poland has already developed an embryonic pharmaceutical industry which can make effective and profitable use of foreign investment. Development of this sector will be stimulated by a World Bank project to improve Polish health care.

Ship Building

Poland is one of the world's leading ship building nations. In 1988, it was the world's fourth largest ship builder. The country's shipyards have considerable capacity and can customize ships to meet the requirements of any purchaser. The yards manufacture many types of vessels, including oceanographic ships, ferries, medium-sized bulk carriers, fishing vessels, and tankers. There are also ship repair yards which can handle major overhauls and refits. Ancillary industries serving the ship-building sector are well established, and the shipyards themselves operate a network of training centres which upgrade employee qualifications and train foreign workers. Two technical universities train naval architects and marine engineers.

Household Consumer Goods

The Polish market harbours a tremendous, pent-up demand for basic household items. These include domestic appliances as well as home entertainment equipment such as television sets, satellite receiving equipment and VCRs. There is also a noticeable increase in the demand for various foreign foods which had not previously been part of the Polish diet.

Transportation Equipment

There is a strong demand for personal automobiles, trucks, vans, railway rolling stock, buses, and aircraft. With the exception of aircraft, Poland manufactures most types of vehicles, but its transport-related industries urgently require upgrading and modernization. A tremendous inflow of foreign-made automobiles between 1989 and 1991 eventually provoked government action to restrict these imports and protect the domestic industry. Negotiations are currently in progress with FIAT, General Motors Europe and Volkswagen to allow improved import quotas in return for investment in the Polish automotive industry.

Industrial Machinery

Poland needs a wide assortment of industrial machinery for woodworking, metalworking, knitting and sewing. Plastics, agriculture, leather, textiles, food and fish processing have similar requirements.

Environmental Protection

Poland is one of the most polluted countries in Europe. A heightened sensibility to the threat of global pollution, as well as the reality of a united Europe in 1992, has made western nations willing to help Poland curb industrial pollution. Financial guarantees have followed. The World Bank has pledged $US 18 million for research and implementation of cleanup techniques and equipment. European Community funding for the Central European Environmental Protection Centre reached ECU 25 million in May 1990. And numerous other funds and lines of credit have been created specifically to finance investment in Polish environmental clean-up (see Figure 8.2)

Eastern Markets

Poland lies close to the most important economic zones in Ukraine, Belarus, and Russia. Since much of Polish industry was geared to satisfying the needs of the former Soviet Union, Polish producers and exporters have considerable experience in this market. They are familiar with how business is done. They understand the economic situation, and they know the people responsible for economic activity in these newly emerging countries. Polish producers will be invaluable allies for western enterprises seeking to penetrate these evolving markets.

Leasing Arrangements

The new law on privatization grants improved latitude to investors who wish to build new plants under foreign ownership. Special arrangements are afoot to allow Western firms to build and lease superior office and commercial space in high-quality industrial parks situated along the German-Polish border. The objective is to attract capital from western investors who favour some alternative to formal joint-venture agreements with Polish partners.

Special Economic Zones

The creation of special economic zones for western investors is another interesting development proposed by the Polish government. Although details have not been finalized, the zones are expected to provide preferential treatment and special tax breaks to companies operating within such areas. The first zone has been established in the Szczecin area, with similar zones tentatively designated for Slupsk, Gdansk-Gdynia, Poznan, Krakow, Warsaw, Malaszewice and Gliwice.

Figure 8.2

Sources of Foreign Financing for Polish Environmental Projects

European Community: The EC has earmarked 22 million ECUs by the end of 1991 for Polish environmental projects. The fund will cover technical expertise, as well as technology and project evaluations and the costs of training and maintaining experts in Poland.

Sweden: Sweden has offered Poland 300 million Swedish Kronor over 3 years, 270 million for concrete technologies and 30 million to support the activities of Polish and Swedish non-governmental institutions working on common environmental issues.

Denmark: A special fund of 150 million Danish Kroner supports Polish-Danish environmental cooperation. Danish funds will train Polish experts in the treatment of waste water. The two countries are also cooperating on energy conservation and the development of alternative sources of energy.

Finland: Poland and Finland have discussed cooperation in the production of submersible pumps to be used in waste-water management and treatment. The Finnish government is considering converting part of Poland's debt to Finland into environmental projects supplied by Finnish contractors and partners.

Germany: Germany may donate a 50 MW electrical heating plant to Gliwice. The plant would use Germany's own "clean" coal burning technology. Germany may also participate in cleaning up the waste-water produced by the city of Szczecin and in training Polish environmental specialists.

Nordic Investment Bank: A joint effort by Denmark, Finland, Iceland, Norway, and Sweden, the Bank finances Scandinavian projects in third countries. It will cover up to half of a project's costs over a period of no more than 15 to 20 years. Though not specifically focused on environmental projects, the Bank does extend its normal limits of between $US 7 and 43 million per individual project to a maximum of $US 72 million for environmental projects.

Nordic Environmental Finance Corporation (NEFCO): NEFCO was created at a meeting of Nordic ministers in March of 1990. Its founding capital was $US 30 million with a possibility of additional funds being committed. It will assist in financing important environmental investments in Central Europe.

World Bank: The World Bank has offered Poland an unspecified amount of grants and credits to help finance environmental projects such as waste-water treatment or disposal of solid wastes from cities and factories. In addition, the World Bank has lent Poland $US 18 million to improve environmental management through regulatory changes, feasibility studies and training, as well as demonstration projects in air and water protection.

Investment Fund for Central and Eastern Europe (IFCEE): This fund was created by the Danes in December of 1989. Its purpose is to support environmental investments in Central and Eastern Europe. The Fund supports projects in industry or agriculture. Intended as seed funding, initial capitalization was 100 million Danish Kroner.

IX. The Infrastructure

Human Resources

Banking

Insurance

Transportation

Telecommunications

Business Services

Retail and Wholesale Trade

Human Resources

Wages

Under the communist regime, Polish wages were low compared to those paid in western European countries. This relationship remains true today, even following the recent bout of inflation. Wages adjusted for exchange rates are highly competitive, even after adjustments are made for Poland's poor productivity. In December of 1991, average monthly earnings, exclusive of bonuses and profit-sharing, was about 2.2 million *zlotys* (equivalent roughly to $US 200 a month). Western investors, however, cannot count on paying such low wages if they hope to get skilled workers. A good executive assistant with a knowledge of western languages and working for a western private company will expect significantly more than the average wage for workers in a state-owned enterprise. Even so, that monthly salary will still be highly competitive by western standards. Polish wages are likely to remain below western rates for a long time to come. This differential offers investors an opportunity to hire well-educated workers for a fraction of the cost payable elsewhere.

Figure 9.1
Public Education in Poland, 1988/9

Level	No. of Institutions	Students Enrolled
Primary	18,501	5,276,400
First Level Vocational	3,356	836,000
Secondary		
General	1,334	493,600
Vocational	5,190	795,000
Post-Secondary Vocational	893	108,300
Higher Educational Institutions	96	394,300
Higher Education:		
Universities	11	141,000
Schools of Engineering	18	75,700
Medical Schools	11	37,500
Agricultural Academies	9	36,400
Academies of Economics	5	24,000
Institutes for Teacher Training	10	47,600
Academies of Art	17	8,200
Other	15	23,900

Source: Rocznik Statystyczny, 1991.

Education and Skills

Poland's highly trained labour force is one of its greatest assets, but it is badly under-utilized. In 1987, 30% of those employed in state enterprises had a secondary education, 28% had vocational training, and 10% had completed a post-secondary degree. Moreover, the country excels in certain scientific and technical disciplines. For example, Poland has produced some of the best mathematicians in the world. The country's economic performance is not due to any lack of skilled people. Instead, low productivity is the result of systemic problems which inhibit the full utilization of the country's human capital.

Poland's skilled workforce is the product of a well developed system of public education (see Figure 9.1). Of particular interest is the large number of vocational and trade schools which offer both secondary and post-secondary levels of instruction. Vocational institutions include trade, technical, and professional schools which provide 4 to 5 years of highly specialized practical education. About 60% of Poland's workforce has completed some form of secondary, technical, or vocational education. This makes Polish workers a rich potential resource for employers.

In the school year 1989-90 there were 7,795,000 students attending schools at all levels, with 378,000 of this number enrolled in institutions of higher education. Approximately 10% of Poland's workforce holds the equivalent of a university degree, with the preponderance of these in scientific and technical disciplines. Of the 49,400 students who graduated from university in 1988/89, 22.8% were in technical disciplines, 9.5% were in mathematics or natural sciences, 11.9% were in economics, and 10.1% were in medicine. More than half (52%) of the graduates were women, reflecting women's determination to participate fully in the education system.

The educational attainment of the Polish labour force combined with its size and its cost-competitiveness lends a particular edge to certain kinds of business opportunities. Obviously, labour-intensive production will enjoy cost advantages. In addition, the country's well educated population suggests an opportunity for ventures requiring vocational skills or for others needing technical sophistication. Given the general movement of labour out of state-owned enterprises, western companies will find it easy and cost-effective to attract workers into their enterprises.

Figure 9.2
Educational Levels Achieved by Working-Age Population
(in percent)

	25-29	30-44	45-59	60-64	65+
Completed Higher Education	7.9	10.3	8.3	5.0	2.8
Completed Secondary	37.7	32.5	21.3	14.4	10.9
Basic Vocational	40.0	32.0	14.9	7.6	5.0
Primary	13.9	24.5	49.7	59.2	55.1
Incomplete Primary	0.5	0.7	5.8	13.8	26.2

Source: Rocznik Statystyczny, 1991.

Science and Technology: Polish scientific and technological development is focused in three types of institutions. Basic research is conducted by the Polish Academy of Sciences, a national institution with specialized divisions addressing each of the scientific disciplines. The Academy employs more than 10,000 people, some 40% of whom are researchers or scientists, and 30% of whom are engineers. Applied research is performed by more than 150,000 persons working at institutes, laboratories, and development centres attached to various industrial sectors. Both basic and applied research are also conducted in Poland's universities and polytechnics by many of their 46,000 faculty members.

Poland's scientific and technical efforts tend to be concentrated in the manufacturing sector. Of the 162,000 scientific and technical personnel active in industry in 1987, almost two-thirds worked in the manufacturing sector. Coordination of Poland's scientific and technical development is performed by the Office for Scientific Technical Progress and Implementation which is headed by a minister of the government.

New Trends in Education: The opening to the West and the related drive to marketize the economy, has fostered several significant new developments in the Polish education system. One is a strong interest in foreign (especially western) languages. In 1991, 55 different language departments were active in Polish universities. Where once Russian was compulsory, now the most popular foreign language is English.

At the same time, new types of learning are being sought after. Several western countries including Canada, have provided funding for training in western-style business management. Poland's first business school has been established in Warsaw, and a National School for Public Administration has also been launched .

A renewed interest and commitment to education has appeared in Poland. The number of general high-schools grew from 931 in 1989 to 1091 in 1991. A dramatic increase has also been realized in the number of students attending these schools, from 131,100 (22.8% of elementary school graduates) in 1990 to 152,000 (25.4% of elementary school graduates) in 1991. The significance of these statistics lies in the fact that fewer students are leaving school and more are opting for the kind of general high school that can lead to post-secondary education. Vocational schools have also experienced an increase in enrollments.

A growing movement is afoot to reform the academic curriculum, introduce new teaching methods, decentralize educational administration, and encourage private institutions to offer schooling. In 1991, there were already 190 private elementary schools and 173 private high-schools serving a total of 26,000 students. There are also numerous private institutions offering courses for adults in foreign languages, accounting, and management.

Medical Care

Since the Second World War, every citizen of Poland has had the right to free medical care and free or subsidized prescription drugs. In practice, however, the quality of medical care has been uneven and in the late 1970s, the country's health care system entered a period of crisis from which it has not yet recovered. Despite steady growth in the numbers of medical facilities and personnel, the quality of medical care has remained below western standards. Hospitals are poorly equipped, many medicines are unavailable, and the overwhelming demand for medical services often renders them inaccessible, though they are nominally free. It is common for patients to offer gifts and even "tips" to medical personnel as a means of securing care that would otherwise be unavailable.

According to the government's own assessment, standard indicators such as the number of doctors or hospital beds place Poland in the mid range of developed countries (see Figure 9.3) Specialized indicators such as the use of ambulances or sanatoria are comparable to the richest developed countries. In terms of overall spending on health care, however, Poland ranks among the poorer industrialized nations. In 1991, the state budget for health care reached 41.7 trillion *zlotys* or 1.2 million *zlotys* per person (equivalent to $US 110 at the current rate of exchange). This compares with average health care expenditures of $US 700-1200 in the

Figure 9.3
Indicators of Health Care in Poland

	1991	Increase/Decrease over 1989	Rate per 100,000 of population
General hospitals	677	+2	—
Hospital beds	218,560	+1,753	57.2
Doctors	81,641	+2,394	21.4
Dentists	18,205	+253	4.8
Pharmacists	15,110	-850	4.0
Nurses	207,767	+9,887	54.4

Source: Raport o Stanie Panstwa, 1991.

wealthier industrialized nations. It should be noted as well that these countries enjoy a per capita GDP that is 8 to 10 times greater than that of Poland.

Poland's medical care system, along with the rest of the economy, is being severely tested as constrained financial resources make it impossible to maintain let alone modernize the existing medical infrastructure. The government is addressing the problem through measures designed to transform the system from an exclusively state-run model to a more decentralized and flexible structure run by members of the medical profession. The government would like to finance medical care not from the state treasury but from a nation-wide system of health insurance similar to that in many West European countries. But these are long-run objectives. Over the short term, efforts will be made to rationalize and economize, eliminating unnecessary services and procedures and focusing on essential priorities.

Employee Benefits

Poland's workers have access to a wide range of benefits and social services. The most important of these are social insurance, free medical care, maternity leave, and old age pensions.

Social Insurance: Social insurance is funded out of contributions made from workers' income. In the case of state employees, these contributions are deducted automatically from the funds the state assigns to its enterprises. In the case of private sector employees, contributions are paid into the social insurance fund by the workers themselves. In 1989, the average retirement or disability pension paid to former employees or their dependents amounted to roughly 50% of the expected average earnings of those working in the public sector. The figure for 1988 was 52.2%.

Unemployment Insurance: Created recently to deal with the growing number of unemployed, the Labour Fund is a national unemployment insurance pool. Initially funded directly from the State Treasury, the fund is increasingly supported by a system of payroll deductions. It is expected that the system will eventually be self-financing.

Maternity Leave: Women have the right to 16 weeks of paid maternity leave for their first child, 18 weeks for the second and later children, and 26 weeks for multiple births. They may also receive state allowances to cover additional leave for child rearing and for the care of sick children. Special assistance is available for low-income families with children, and for disabled children.

Pensions: Various types of state pensions are provided to individuals who have retired for age or disability, as well as to war veterans and invalids. Individuals who work in especially difficult conditions are entitled to earlier retirement. Current statistics indicate that there are only 17.5 spaces available in retirement homes for every 10,000 Polish citizens, compared to 22.3 in Canada.

Other Benefits: Other social benefits provided by the state include scholarships and a guaranteed income, or stipend, for students, reflecting Poland's commitment to higher education. Out of the total funds available to the student population, 10.6% go to those in vocational training courses, 5.4% is given to high school students, and 63.2% is disbursed to full-time university students.

Holidays: Workers are entitled to 14 days of paid vacation after one year of work, 17 days after three years, 20 days after 6 years, and 26 days after ten years of work. The period spent studying at a university can be counted as work time for the purpose of determining holiday eligibility. Many enterprises own holiday resorts for the use of their employees.

Work Week: Until the mid-1970s, Poland had a 46-hour work week, which included Saturday as a working day. The number of free Saturdays in a year was gradually increased, notably in 1981 when Solidarity negotiated three free Saturdays a month from the government. In practice, most Polish workplaces now operate a forty-hour work week with most Saturdays off.

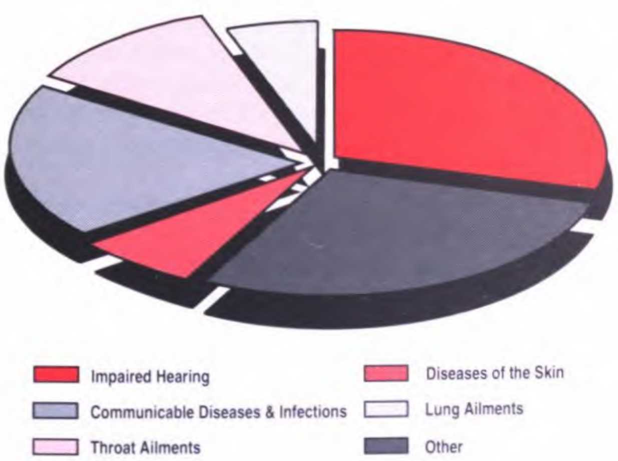
Workplace Safety

It is estimated that some 1.3 to 1.5 million Poles work in unhealthy or unsafe conditions (see Figure 9.4). During the first three quarters of 1991, 82,123 people suffered work-related accidents, of which 526 were fatal and 3,602 resulted in permanent injury. Significant improvements in the short term appear unlikely, because Polish industry lacks the capital to invest in workplace health and safety. Nevertheless, the Government has adopted a number of workplace health and safety regulations:

- each enterprise must maintain a health and safety unit;
- workplace hazards must be identified and assessed;
- workers must be provided with medical examinations;
- workers must be informed of the risks associated with a given job;
- workers must be issued with appropriate safety equipment; and
- students are prohibited from performing certain dangerous tasks.

The Minister of Labour and Social Welfare has published a set of standards defining the maximum allowable exposure to harmful chemicals and emissions. In addition, the Minister regularly reviews the levels of compensation for work-related injuries.

Figure 9.4
Work-related Illnesses
(percent)



Source: Raport o Stanie Panstwa, 1991

Strikes

Despite a remarkable 40% drop in the standard of living between 1989 and 1990, there was initially little popular support for strikes and walkouts as an avenue of protest. The number of strikes and strikers in 1990 was one third that in 1989. Statistics for the first half of 1990 recorded only 87 strikes in which a total of 24,500 people participated. Only about a quarter of the workers in enterprises affected by unrest actually participated in the strikes.

Nevertheless, it is clear that the recession has hit Poland's workers hard. Recently, railway employees in northern Poland staged an unsuccessful strike for higher wages. A vocal contingent of Poland's 2.5 million farmers launched a protest, demanding protection against rising capital costs which far outstrip the prices they receive for their produce. Silesian miners walked off their jobs to protest the abolition of wage subsidies which had been rendered unsustainable by low production. And workers in factories threatened by closure regularly stage protests and sit-ins in attempts to save their jobs or improve their incomes.

Most of the recent strikes in Poland have occurred against a backdrop of poor financial conditions in the enterprises where the strikes occurred. The Government's own assessment is that, given the current recessionary situation, these and similar causes will continue to provoke strike action. In the first three quarters of 1991, some 188,900 workers participated in strikes, although these actions produced only a modest loss of working time - about 478,200 working days, an average of 2.5 days per worker. This figure is somewhat lower than the average for 1990, and suggests that most stoppages were of relatively short duration and were intended as "warning strikes." Many strikes in 1991 represented worker efforts to secure guarantees that their enterprises would continue operating.

A new law on trade unions and the resolution of industrial disputes became effective in 1991. It provides for negotiation and mediation in the resolution of industrial disputes. Tripartite discussions are underway to establish accepted rules of conduct during such disputes. Efforts are also being made to create an institution that would select and train professional industrial mediators, and finance their endeavours.

Banking

Reconstruction of the Polish banking system began in earnest in 1988. It was then that nine commercial banks were separated from the National Bank of Poland (NBP), and the country began moving toward a two-level banking system with the central bank at the apex and a series of commercial banks below it. The NBP and the Finance Ministry have been imposing market-oriented behaviour on the nine commercial banks. They are being converted to joint stock companies and will eventually be privatized. As part of this process, the National Bank has completed an in-depth study of each of the nine banks and encouraged each to enter into a cooperation agreement with a leading Western commercial bank. The aim is to encourage the western banks to act as strategic partners and even assume an equity position in the Polish partner bank. This will assist in modernizing the Polish bank and bringing it up to western financial standards. *Wielkopolski Bank Kredytowy* and *Bank Slaski* are the first two candidates slated for privatization some time in 1992. The remainder will be privatized within two or three years.

When economic reform began, Poland's banking sector was comprised of the National Bank of Poland, the nine commercial banks spun off from it, five specialized banks, a small development bank, and nearly 1,700 cooperative banks. The new Banking Law has made it possible to accelerate planned changes in the banking system. As a result, some 60 additional banking licenses have been granted to new banks. Foreign banks are also being courted, and seven of them already have licenses to operate in Poland (see Figure 9.5). Several others are negotiating license arrangements. The financial sector is rapidly becoming more competitive, and altogether, the Polish market is now served by some 80 commercial banks.

A new state-owned Polish Development Bank, partially capitalized by Credit Nationale of France and Invest Kredit of Austria, has recently been incorporated and has begun operations. The bank, with initial capital of $US 85 million, will provide credit to enterprises being restructured prior to privatization and to the emerging private sector. It will also provide venture capital in the form of equity.

Since Poland's new banks will operate according to western banking conventions, they will serve as an important channel for foreign investment while modernizing Polish banking practices. Similarly, the entry of foreign auditing and accounting firms will upgrade Polish methods to western standards.

In July of 1990, the government granted a limited branch license to the American Express Company for the introduction of its credit cards into Poland. It was the first ever agreement of its kind. American Express has opened a branch office in Warsaw to specialize in travel and tourism services. If this pilot project succeeds, a full-service bank may follow.

Figure 9.5
Foreign Banks in Poland

These Polish banks include the participation of foreign capital:

- American Bank in Poland Inc.
- Raiffeisen-Centrobank (Warsaw)
- Scan-Bank (Polish-Swedish Credit Bank - Warsaw))
- The First Commercial Bank (Lublin)
- Creditanstalt Bank (Warsaw)
- The International Bank in Poland (Warsaw)

American Express and the NMB Bank have branches in Poland.

These foreign banks have representative offices in Poland:

- Banca Commerciale Italiana
- Credit Industriel et Commercial de Paris
- Banque de l'Union Européenne
- Société Générale de Paris
- Centro Internationale Handelsbank AG Vienna
- Pekao Trading Corporation (New York)
- Deutsche Bank AG (Frankfurt)
- Dresdner Bank AG (Frankfurt)
- Mitteleuropaische Handelsbank AG
- Scandinavian Banking Partners
- Citibank
- Banque Nationale de Paris

Source: Polish Ministry of Finance, Dept. of Banking and Financial Institutions.

Insurance

Over 90% of Poland's domestic market for insurance used to be dominated by two state-owned enterprises, the Polish Insurance Company (PZU), and Warta, which handled claims on behalf of foreign insurance firms. Now the government is in the process of privatizing the insurance industry. The law governing insurance has been changed to approximate practices in the EC, and it is noteworthy that law applies equally to Polish and foreign companies.

Applications to set up an insurance company must be made to the Ministry of Finance. Regulations stipulate that the founding capital should be equivalent to 200,000-600,000 ECUs, the same sum provided in EC regulations. The application should include details of management qualifications, a bank statement, information about former business ventures and profits, if any, and a simulated balance sheet for first three years of operation. It takes two to four months to review applications. The only restriction in the new law is that life insurance and other forms of insurance cannot be sold by the same company.

These reforms had encouraged the creation of some 16 new private insurance companies by the end of 1991, four of them joint ventures with large western partners. French insurance companies have been especially active in seeking a market advantage in this sector. For foreign nationals, there are already a number of companies whose operations are scheduled to begin in 1990. For example, the Assurances Générales de France/AGF has concluded a letter of intent with the Mazowsze Foundation to establish a joint business insurance company in Warsaw to offer life insurance both to individuals and to businesses.

Transportation

Inflation and the deregulation of the economy took its toll on the transport industry during 1990. The movement of passengers by railway declined by 11.9%. Bus transportation decreased by 10.4%, and air passenger transport fell by 25.7%. Recognizing the gravity of the problem, several western investment sources issued credits to support needed improvements. In May 1990, the Polish-West German Credit Committee allocated DM 135-160 million to upgrade Polish railways and to manufacture railway wagons at the Cegielski plant in western Poland. The World Bank set aside $US 4.75 of a $145 million loan for the Ministry of Transport & Maritime Economy to improve the shipping industry.

Air: Poland's national airline is LOT (*Polskie Linie Lotnicze*). It handles direct air connections between Poland and thirty countries, including most West European capitals, as well as New York, Chicago, Montreal and Toronto in North America. Poland's home airport is at Okecie near Warsaw, but the airport at Gdansk also takes a few international flights. LOT also provides domestic service on a daily basis between Warsaw and eleven Polish cities. The airline maintains a network of offices and representatives around the world.

Rail: Poland transports a considerable amount of its output by rail, much more than most other countries (see Figure 9.6). In part, this emphasis on rail traffic reflects the fact that the highway system is less well developed than in other countries. Transport services by rail are handled by Polish State Railways (*Polskie Koleje Panstwowe, or PKP*). The relatively dense railway network connects all larger cities, industrial centres and major ports. Nevertheless, the current recession has caused a severe decline in the movement of freight by rail.

Marine Traffic: Poland has 524 km of coastline on the Baltic Sea. Its largest sea ports are Gdansk, Gdynia, and Szczecin-Swinoujscie. The port of Gdansk handles regular traffic from North Africa, Asia and the Mediterranean, and has ferry links with Scandinavia. The Port of Gdynia, in the south-western part of Bay of Gdansk, has connections with major ports all over the world. A large container terminal is under construction there. The port of Swinoujscie specializes in the handling of bulky goods.

There are also close to 3,983 km of navigable inland waters on Poland's main rivers. In 1987, these waterways carried over 14.7 million metric tons of freight. Four companies specialize in this traffic: Navigation on Oder, Bydgoszcz Navigation Co., Szczecin Navigation Co., and Gdansk Navigation Co.

Although declines were noted for this sector as well, the shipping industry fared better in 1990 than any other part of the transport industry. The Polish merchant fleet moved 14.2 million tons of freight in the first 6 months of 1990 — only 1.6% less than in the previous year, reflecting a general increase in cargo movement between foreign ports in this region. Polish ports, however, handled only 19.8 million tons of freight in the first 6 months of 1990, down 19% from 1989. Poland's merchant fleet numbered 247 vessels in 1990, compared to 304 in 1988.

Highways: Because of Poland's underdeveloped highway network, road transport suffered the most from the combination of higher prices and tighter money supply in 1989-1990. For the first half of 1990, road haulage totalled 120.2 million tons (or 58% less than the previous year).

There are only 156,500 km of public roads and highways in Poland. International freight transportation by road is mainly handled by PEKAES Auto Transport (*Panstwowa Komunikacja Samochodowa*), a member of the International Road Haulage Carriers Association and the International Road Transport Union. In 1990, there were 5,260,000 cars and 1,044,600 trucks registered on Polish roads.

Pekaes Auto-Transport SA
Skrytka Pocztowa 425
00-950 Warszawa
Tel: 20 49 48
Telex: 813 509, 813 655
Cable: Warszawa-Zagrod

International Freight: Poland's main forwarding agent for international transport of goods by air, rail, road, sea and inland water is C. Hartwig, with offices in Warsaw, Katowice, Gdansk, Gdynia and Szczecin. This agent handles both conventional and unit-load shipments, such as containers and pallets.

PSM C. Hartwig
Skrytka Pocztowa 375
00-950 Warszawa
Tel: 29 60 31 to 9
Telex: 814 601 to 7, 816 516, 813 610
Cable: Cehartwig Warszawa

Sea cargo is carried by several companies with different areas of expertise. Polish Ocean Lines (*Polskie Linie Oceaniczne*) connects Polish and western European ports with the rest of the world. The Polish Steamship Company (*Polska Zegluga Morska, or PZM*) specializes in cargo carried on irregular lines and

Figure 9.6
Transportation Infrastructure

	1980	1985	1989
Railway track			
(in thousand km)	27.2	27.1	26.5
(per 100 sq km in km)	8.7	8.7	8.5
Electrified track as percentage of total standard-gauge track	28.2	36.5	45.6
Public roads			
(in thousand km)	147.7	154.0	158.0
(per 100 sq km in km)	47.5	49.2	50.8
Passenger airline routes operated by LOT Airlines	56	50	67
(of which international)	43	39	56

	1980	1985	1989
Length of airline routes			
(in thousand km)	92.8	85.2	135.2
(of which international)	87.6	80.7	130.7
Inland navigable waterways (in km)	4040	3997	3997
Merchant marine fleet			
vessels capacity	331	278	249
(in thousand DWT)	4524	4171	4061
Power plants			
number	404	407	401
capacity (in megawatt)	25292	30107	32000

Source: *Poland in Figures, GUS 1990.*

the transport of bulk and liquid cargo. The Polish Baltic Steamship Company (*Polska Zegluga Baltycka, or PZB*) operates ferries in the Baltic and North Seas.

PP Polskie Linie Oceaniczne
Skrytka Pocztowa nr 265
81-366 Gdynia
Tel: 20 19 01
Telex: 054 231 pol pl
Cable: Polocean Gdynia

Polska Zegluga Morska
Skrytka Pocztowa 527
70-515 Szczecin
Tel: 30 50 11, 350
Telex: 042 2136 PZM pl
Cable: Polsteam Szczecin

Telecommunications

Communications remains the weak link in Poland's overall infrastructure. The country will have to spend billions during the coming decade to bring its systems in line with those of the advanced industrialized countries. But the situation is already improving because foreign governments, international financial institutions, and investors have recognized the opportunity. For example, part of the $US 620 million in French government export credits will support sales of Alcatel telephone equipment and services in Poland. Other western companies have expressed similar interest in helping Poland meet its telecommunications requirements.

Telephone Services: Telephone penetration in Poland remains significantly below that in the industrialized countries and is among the lowest in Europe. According to one estimate, in 1985 the waiting list for telephones contained 1.7 million names, and it took the average person 13 years to get a new telephone installed. The situation was somewhat better for businesses, particularly if they were willing to pay for telephone installation in hard currency, but according to the World Bank, connecting a business telephone still can cost around $US 600.

Existing telephones are unreliable and antiquated. Every fifth telephone exchange is over 30 years old. In the late 1980s, about half the exchanges still used the antiquated Strowger switch and a third used cross-bar technology. Only about 5% were connected to digital switches and a tenth of the exchanges were hand operated. As a result, repeated attempts are often needed to make a connection; connections are dropped, or background noise impairs voice clarity. To compound these difficulties, there is an inadequate supply of telephone directories which are only updated every 4 years. And except in hotels, telephone operators rarely speak a foreign language.

Public telephones are few in number, and because of inflation, have been set to use special jetons rather than devalued coins. There are no phone-card or credit-card operated phones and no technical possibility of arranging reverse charge calls or charging calls to a third party. Calls to the West from hotels are usually very expensive.

Telexes are the easiest and most reliable form of telecommunications in Poland and this accounts for their tremendous popularity. There are some 40,000 of them registered. Clearly, however, the future lies with faxes. These are now coming into more general use because of recent improvements in the telephone system, especially in transmissions to the West. There are now some 5000 faxes in operation in Poland and their numbers are growing exponentially. Other office devices such as photocopiers, remain in short supply. Companies in need of such equipment must import it from the West.

Efforts are now under way to modernize Poland's telephone system. New telephone exchanges are being installed in Warsaw and Katowice, and a new undersea cable is being laid to link Poland with Denmark and thus to western telephones. Negotiations are also under way between the Polish government and western suppliers for licenses to produce modern digital exchanges.

Traditionally, the Polish Post, Telegraph and Telephone Company (PPTT) has held a monopoly over all aspects of telecommunications: local, long-distance, international, cellular and data transmission. The radical deregulation planned for Poland's telecommunications industry will end this monopoly.

The government is seeking foreign capital to assist in the the deregulation and modernizing of the network. Thanks to a World Bank loan, a digital network of trunk lines is being installed. As part of this project, 17 cities will be connected by optical fibre or radio waves, and 12 others will get digital exchanges. The system will be connected to European satellites, and 70,000 new telephones will be available for business at a cost of $US 1000 each for initial hook-up. The system should be functioning by 1993.

Another government initiative has been the formation of *Telefony Polskie* (Polish Telephones), a non-profit foundation. TP will attract investment to boost telephone penetration in rural areas from one telephone per 33 rural inhabitants to only one in four or five. Funded by an EC grant of some $US 6 million, the plan is to build modern local telephone networks and telephone exchanges in three outlying districts of 20-25,000 people. The foundation hopes to draw another $1 million to begin plans for a Telephone Design Centre. The Centre will furnish system design and other technical assistance to other rural regions.

Polish private companies are also taking advantage of the deregulated environment. The Polish enterprise *RP Telecom* plans to build local telephone networks. Its rival, *TESA*, plans a long-distance and international network. Already under construction, is a network called Polpak, which will provide efficient data communications to industry. Further World Bank loans to support similar projects are expected over the next few years.

The Polish government is encouraging foreign companies to form joint ventures with the Polish manufacturers of digital switches and other electronic equipment. Alcatel CIT of France already has an arrangement with Teletra to make E10 switches. Other Polish producers are negotiating with Canada's Northern Telecom, Siemens of West Germany, Alcatel Sesa of Spain, and Ericsson of Sweden. The Spanish government has expressed its willingness to make a loan of $40 million for Alcatel Sesa to supply switches to the Polish market. Dishes for receiving satellite broadcasts of television programs are very popular.

Television: Polish Television operates on two channels. Channel 1 reaches 98% of the population, and Channel 2 is watched by 70%. There is no cable TV in the country, but several foreign companies are considering introducing the concept in larger cities. There is a private television station in the city of Wroclaw.

European Communications Industries (ECI) and Polish Television completed a joint feasibility study in May 1990 on the sale of 30% of the Polish second channel to UK investors. The strategy involves ECI's investment of up to £3.70 million to commission and broadcast programs from abroad on Polish television. Profits for the first five years would then be invested in the creation of a new third channel. The study projects advertising revenue at between $US 6 and 40 million in the second year of operation and $US 53 to 68 million in the third. The project is still on hold, owing to objections of Solidarity members at Polish Television.

Radio: Four national state-owned radio broadcasting networks exist in Poland. Radio Solidarity, a clandestine operation during the imposition of martial law, was subsequently launched as Poland's first commercial radio station. Its on-air operation is made possible by the assistance of two investment trusts managed by Aberdeen Fund Managers, a subsidiary of Aberdeen Trust Holdings. Several other privately-owned radio stations are either already broadcasting or preparing to air.

Computerization: When the Polish government announced its intention to introduce a western-style income tax, it invited tenders from western firms to design and implement a computerized tax collection system for the country. Groupe Bull was finally chosen from more than 200 competitors, including Siemens and IBM, to supply 367 DPX computers with Unix software to some 49 local Treasury offices. The French company will also train the three hundred computer specialists and technicians who operate the network.

Training and Consulting: The Polish demand for training is huge, especially training in western languages and business techniques. Several new business schools have been created, some of them by transforming the old state planning schools. Many of these initiatives involve cooperation between Polish institutions and western partners. The first graduates have already emerged from some of these programs, and it can be confidently predicted that the business skills of Polish managers will improve significantly in the near future.

A number of western companies have set up offices to provide technical consulting and training as part of their investment in Poland. An example is Groupe Bull of France, which will provide full informatic support for the Polish Treasury, as well as training its employees. The Centre de Formation Professionelle Bancaire of France, in cooperation with the National Bank of Poland, will train approximately 5,000 bank employees a year at a centre in the city of Katowice. And IBM is setting up six information centres in Poland, including one at Warsaw University.

Most of the large international accounting firms have set up operations in Poland, to participate in the privatization drive. With some 7000 enterprises to be assessed, evaluated, and packaged for sale, these firms have found a rich business opportunity.

Agency Representation: Business success requires a sensitivity to and knowledge of Polish business practices. Experienced firms can offer valuable practical advice about day-to-day business operations. For this reason, increasing numbers of consultants, lawyers, and agents are providing a wide range of services to foreign companies entering the Polish market. Some of these consulting firms already have several years of experience under their belts and have grown to a significant size. Others are strictly one-man operations with limited resources.

Polish citizens can now represent foreign companies in marketing and sales, following amendments to the law on economic activity, designed to permit such operations. Agents for foreign companies must register with the Ministry of Foreign Economic Relations.

Private agencies are empowered to serve potential investors in a wide range of services, from preparing applications, performing feasibility studies and advising on technical and legal questions, to drafting joint venture contracts. The agencies afford additional advantages to western investors besides providing the same services as government departments. Private agencies are smaller, and thus more cost-effective and less bureaucratic than their state-run counterparts. Moreover, they have more incentive to do a thorough job for their foreign clients.

Because this area of activity is relatively new, companies seeking such assistance should obtain appropriate references from other firms, from the Polish Foreign Investment Agency, or from Polish trade offices located in their home country. There are now many resources to choose among for such assistance, but the choice requires due care and deliberation.

Advertising: The advertising of foreign merchandise in Poland has been traditionally carried out by AGPOL, a foreign trade organization specializing in publicity and publishing. The company still handles advertising in the press, radio and television, outdoor advertising, organization of symposia and conferences and displays. Other agencies that handle advertising for foreign products include the Polish Advertising Agency (REKLAMA) and the Polish Radio and Television Advertising Agency (ARTEL).

With the opening to the west, numerous domestic advertising agencies have been created. Foreign firms have also become more active in the Polish market. The Saatchi & Saatchi Advertising Agency is opening an office in Warsaw in conjunction with the Polish firm Marco.

It is also possible for foreign companies to advertise their goods through the Polish firms which handle their imports. As trade opens up, it is becoming easier to advertise products in Poland.

Advertising practices in Poland are similar to those outlined in the Code of Advertising Ethics of the International Chamber of Commerce. Polish law generally forbids any advertising that exaggerates, misleads, makes fraudulent comparisons, offers goods that are not available, or offends public morals. Advertising may not encourage the consumption of alcoholic beverages or tobacco products or other items deemed harmful to health. The advertising of pharmaceutical products used as prescription drugs is also prohibited.

Trade Fairs and Exhibitions: Poland's premier trade fair is the Poznan International Fair which commences every year on the second Saturday in June. In 1991, the Fair celebrated its 70th anniversary and attracted 2,300 exhibitors from 38 countries. An estimated one million visitors attended. The fairgrounds in Poznan are Poland's only permanent professional exhibition facilities. They are managed by Poznan International Fair Limited, a new company owned 60% by the Polish government and 40% by the city of Poznan.

Travel and Tourism: This promises to be one of the fastest-growing sectors of the service industry. In 1988, 6.2 million tourists visited Poland. Of these just over one million were from the West. Total tourist revenue for that year came to $US 136 million. Figures for 1989 indicate a 12.6% increase in tourist volume, and visits have continued to increase in 1990 and 1991, as purely tourist traffic is supplemented by a growing number of business visitors.

Tourism harbours a great potential for development. The Warsaw Airport Authority has awarded the US Westinghouse Electric Company a $US 10.8 million contract for upgrading of the air traffic control system to handle increased traffic volume. The West German

Annual Trade Fairs

(and approximate time of year)

Trade fairs are an excellent means of making contacts and assessing windows of opportunity in the Polish market. The best known and most important trade fair in Poland is the Poznan International Fair which is held every year in June. A number of other specialized shows and exhibitions are held annually.

Spring Domestic Trade Fair [March]

Infosystem [April]
International Fair of Electronics, Telecommunications and Computer Engineering

Poligrafia [April]
International Exhibition of Printing Machines

Polskie Meble [May]
Export Promoting Exhibition of Polish Furniture

Poznan International Fair [June]

Autumn Domestic Trade Fair [September]

Simmex [September]
Katowice International Trade Fair for Mining, Power Industry and Metallurgy

Polagra [October]
International Agro-Industrial Fair

National Horticultural Exhibition [October]

Taropak [October]
International Packaging, Storage and Handling Exhibition

Kooperacja [October]
International Trade Fair of Small Industry and Handicraft

Poleko [November]
International Ecological Fair

Interart [November-December]
International Art Fair

For further details and exact dates, contact AGPOL Foreign Trade Publicity and Publishing Enterprise, 00-010 Warszawa, ul. Sienkiewicza 12, Poland: tel. 26-49-83; telex. 813567 agpol pl.; or fax. 40-56-07. There are also enterprises such as POLEXPO that can help foreign companies design, construct stands, and organize their participation in these exhibitions.

firm Hochtief is building a new international terminal at Okecie to absorb almost 3 million new passengers a year. The DM 300 million contract is due for completion by early 1992. Several airlines have already increased their services to Poland. Beginning in July 1990, Hungary's Malev Airlines began two weekly flights between Warsaw and Budapest. American Airlines has opened a sales office in Warsaw and now offers weekly flights to Chicago. And Japan Air Lines is negotiating details of an upgraded service with Polish authorities. Western expertise and investment is particularly encouraged in hotel construction and development. In 1988, total tourist accommodation was 843,000 beds. In that year in Warsaw alone, there was a shortfall of more than 5000 beds. Several international hotel chains have taken advantage of the opportunity. Marriott opened its first hotel in Warsaw in October 1989. The French companies, Pullman International Hotels and Compagnie Générale de Batiment et de Construction, have a joint venture agreement with the Warsaw Development Enterprise to construct at least two hotels in Poland within the next year. The Hyatt and Trust House Forte chains have also contracted to open hotels in 1992.

Retail and Wholesale Trade

The retail and commercial sector has probably been the most deeply transformed by the reforms of 1990 and 1991. Poland had one of the weakest retailing sectors among the countries of the former CMEA. While East Germany had 540 m^2 of store space per 1000 inhabitants, and Czechoslovakia had 500, Poland had only 355. Shopping for even the simplest items was time consuming and frustrating.

These domestic deficiencies presented golden business opportunities to entrepreneurs. When controls on travel and commercial activities were lifted, large numbers of Poles travelled to the west on shopping expeditions and then resold their purchases on Polish city streets. Warsaw came to resemble a gigantic bazaar where virtually any western product could be bought in the city's teeming street-stalls.

Some of this commercial activity has now moved indoors. When the government privatized the retail sector, it leased most of its outlets to private bidders. People who had accumulated sufficient capital through private import and street sales could now locate in a proper store instead of a market stall. Several shopping centres are now being built to accommodate this flood of activity. The huge space in front of Warsaw's Palace of Culture was used by the communist authorities for parades and political rallies. With the collapse of communism, the square quickly filled up with petty traders and market stalls. In future, the square will be the site of a new commercial and retail centre.

During 1990, the number of retail outlets almost doubled, from 250,000 at the beginning of the year, to 470,000 at its close. At the same time, the number of private firms active in retailing grew to 340,000. By the end of the year, 73.6% of Poland's retail trade was in private hands.

The private retail sector was chiefly responsible for the recent boom in imports into Poland. At the beginning of the reform era, the key selling point was simple availability of a product. Private retailers, seeking to stock their shelves and attract customers, looked to foreign goods as a good way of making up for past deficiencies. This boom abated somewhat after the middle of 1991, as the most immediate consumer demands were satisfied, and as problems with product quality, guarantees, and after-sales service became evident.

A year later, price had replaced simple availability as the main consumer criterion, and Poles began to shop around for the best deal. Now, quality and after-sales service are featured selling points. The poor quality of many early imports has led to demands for agencies to monitor and enforce quality standards, and the beginnings of a Polish consumers' movement can be discerned.

Western business people will be most interested in the growing wholesale area of this sector as a point of entry. The collapse of state-owned wholesaling has left the field wide open to private merchants. At the beginning of 1991, there were some 35,600 private wholesalers registered in Poland. Through purchase or lease, many of them have acquired the warehouses and other facilities of the previous state-run organizations and are quickly establishing themselves as key links between producers and retailers.

X. Doing Business In Poland

Standards

Housing and Commercial Space

Health Insurance

Debt Collection and Arbitration

Business Travel

Doing Business in Poland

Poland offers an attractive environment for international investment. The main advantages of the Polish market include low labour costs coupled with a highly skilled and educated workforce, and a strong internal demand for consumer goods and services. Prospects for a further increase in foreign capital involvement become more likely as international investment organizations like the World Bank and the IMF commit increased financial assistance to Poland's reform process.

Nevertheless, the logistical difficulties faced by foreign business should not be underestimated. Many of the chief problems — administrative procedures, banking, production bottlenecks, underdeveloped service groups, unfamiliar tax regulations — have already been mentioned.

Companies entering Poland should also pay close attention to networking and to relations with government. The current intensification of reforms means that laws, regulations, and rulings are subject to ongoing change. Only good contacts at both the political and administrative levels can keep a company informed of what legislation is being planned and how it is likely to be applied in practice. Such contacts can also facilitate negotiations and help to close a deal faster.

Foreign companies seeking to do business in Poland should provide themselves with a Polish language capability. One way of doing this is through the large number of expatriate Poles and other Polish speakers living outside Poland. Emigration from Poland has been high, especially during the 1980s when many highly skilled and professional people left the country. As a result, many Poles have learned English, German, or French as a second language. Familiar with both the Polish language and Polish business conditions, these individuals can be an invaluable resource in penetrating the Polish marketplace.

Perhaps most important, foreign business people should recognize the heightened role that warm personal contacts play in the Polish business environment. Long lunches are seen as a way of getting acquainted and establishing personal rapport. And there may be invitations to participate in social occasions or family gatherings. Such social intercourse is usually more important to the conduct of business in Poland than in North America. As well, attention to Polish social conventions can boost the credibility of the foreign investor and facilitate business relations. One good example is the practice of giving flowers to women whether they are prospective business partners, the spouses of a business associate, or the latter's secretary — as a friendly gesture at an initial meeting.

Standards

As a general rule, Polish national standards are applied to imported goods. Standards are defined and supervised by the Polish Committee for Standardization, Measures and Quality (*Polski Komitet Normalizacji, Miar i Jakosci*) which publishes all standards in its catalogues. Its standards are obligatory within Poland, and imported goods must conform to them. Increasingly however, Polish standards, reflect international norms. Poland is a member of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEO).

Machinery and equipment usually conform to specifications set by the buyer or carry guarantee periods specified by mutual agreement, but international standards are applied in some cases. Pharmaceuticals, foodstuffs, new consumer goods, consumer electronics, and certain types of machinery are also required to conform to health regulations or safety standards. Diagnostic equipment, drugs, and medical equipment for which there are no standards may be imported only if approved by the Ministry of Health and Social Aid. Control of agricultural and food products is compulsory and is performed by the Central Office for Quality Inspection (*Centralny Inspektorat Standaryzacji*). Packaging and labelling requirements in Poland resemble those in other countries, but imported products in individual wrappings, which are destined for direct sale without repackaging, should carry Polish labels bearing metric sizes and measurements.

A Step-by-Step Approach to the Polish Market

Though every business transaction is unique, the following general guidelines may be helpful to those contemplating entering the Polish market for the first time.

■ Step 1. Scout the Opportunity

Succeeding in the Polish market demands careful preparation. For those who are unfamiliar with the country, a good place to start is by finding someone with business experience who speaks the language. Some companies may already have a Polish-speaker on staff. There are also intermediaries of Polish descent who specialize in introducing western companies to the Polish market. There are several bilateral business councils and chambers of commerce in western countries that bring together companies interested in Poland. And there are now numerous consulting firms, agencies, and intermediaries that have sprung up in Poland itself to help western companies enter the market. Regardless of the source, a Polish-speaking adviser or assistant can go a long way toward gathering information, identifying opportunities, and making contacts.

■ Step 2. Analyze the Market

Once a source of assistance has been identified, the next step is to prepare an analysis of the Polish market for your product or service. The best approach is to combine the capabilities of someone in Poland familiar with the situation and someone familiar with your company. Be warned that western methods of market analysis are only just beginning to be introduced into and understood in Poland. It may take several tries to assemble the kind of information you need to make an effective strategic decision. Above all you should be looking for information about the size of the market, who supplies it (domestic and foreign), characteristics of your competitors, the possibilities of turning a competitor into a partner, supply and distribution mechanisms, and the possibility of local sourcing.

■ Step 3. Prepare a Strategic Plan

Once you have assembled a complete picture of the Polish market for your product or service, you are in a position to decide on your entry strategy. Is your preferred approach direct export and sale? Do you need a Polish distributor? Would a Polish joint venture be advantageous? Are you in a position to benefit from establishing production in Poland? Each of these options characterizes a completely different type of business activity and each has a different set of steps associated with it.

■ Step 4. Find a Partner

Regardless of your preferred means of entry, you will do well to find a suitable Polish partner. Even if you are a direct exporter, you will need someone on the Polish side to assist with receiving and selling your goods. You may need a Polish distributor or a joint venture partner. You may even need to find a partner to run production inside the country. Whatever your need, get your Polish-speaking "scout" to assemble profiles of several potential candidates. Be warned, however. It is difficult to get the type of business-related and corporate information in Poland that companies are used to in the West. Many common performance measures were simply not used in Poland until recently. You should also keep in mind that many people in Poland are eager to do business with foreign companies though not all of them are qualified to do so.

■ Step 5. Negotiations

Whatever arrangement you make with the Polish side must be formalized in a clear agreement. Negotiations are apt to be long and full of misunderstandings. Often you may find that the Polish side will understand a business concept in a completely different way from what you intend. A trusted intermediary familiar with the Polish situation can be invaluable in helping you conduct the negotiations and arrive at a satisfactory agreement.

■ Step 6. Arrange Your Financing

Initially, at least, financing your deal may be problematic. Poland's external debt remains a problem and many commercial banks will be reluctant to lend anything toward a Polish venture. Export credits are available from many western governments and there is also some financing available through international agencies such as the World Bank. Be prepared for delays in getting paid or repatriating any profits since the Polish banking system remains under-developed and inefficient by western standards. Build payment delays into your strategic planning and your cash flow projections.

■ Step 7. Shipping Goods

If you are exporting goods to Poland, exercise some caution in the arrangements you make. Make sure that they will be received by a trustworthy associate at the Polish end and that storage and transportation will be appropriately secure. The uncertainties associated with Poland's current transition are such that goods can easily be lost or stolen if they are not attended to properly.

Housing and Commercial Space

Western business people coming to Poland may have problems securing suitable housing and commercial space, particularly since space is in such short supply in the larger cities. Much of the office space in buildings currently under construction is already allocated, and average costs run anywhere from $US 25.00 to $40.00 per square metre (m2). Several private agencies lease or sell accommodation, although such transactions require a permit from the Ministry of the Interior. Organizations that can provide assistance in this regard include:

- Intraco, ul Stawki 2, Warsaw, telex. 812-341, is a major Polish office construction firm;

- LIM Center, ul Nowogrodzka 62b. 02002 Warsaw, tel. 210-557, telex. 816-569, is a joint venture of the Polish airline company LOT and the US Marriott hotel chain;

- Dipservice, ul. Swietokrzyska 36-38, 00950 Warsaw, tel. 209-960. Dipservice specializes in finding apartments and/or villas suitable for office purposes.

Special arrangements are in the works to allow western firms to lease superior office and commercial space, particularly warehouses, in high-quality industrial parks. Such leases would not require the existence of formal joint-venture agreements with Polish partners, and could be negotiated without special permits from the Ministry of the Interior.

Health Insurance

Although it is advisable to have individual health care coverage, citizens of countries with which Poland has signed bilateral agreements can receive free medical aid during their stay in Poland. Visitors invited to Poland by Polish institutions or social organizations are entitled to free emergency treatment during their stay.

Phone Calls

Business people travelling in Poland should note that long distance calls can be placed from hotels or from the post office. It is advisable to check the surcharge if placing the call from a hotel, as it can sometimes double the basic price of the call. Telephoning in Poland, especially long distance, and especially if there is no direct dialing connection, can be frustrating and time consuming. For international calls, service is better after midnight.

Debt Collection and Arbitration

Disputes arising from contracts covering the sale, transportation and insurance of goods, and from all types of commercial activities in which at least one of the parties is Polish, are handled by the Court of Arbitration at the Polish Chamber of Commerce (*Kolegium Arbitrow przy PIHZ*) in Warsaw.

Disputes related to marine and inland navigation are handled by the International Court of Arbitration for Marine and Inland Navigation (*Miedzynarodowy Sad Arbitrazowy d/s Zeglugi Morskiej i Srodladowej*) located in Gdynia.

The Court of Conciliation at the Gdynia Wool Federation (*Izba Welny w Gdyni*) settles disputes arising from wool transactions. Similarly, the Court of Conciliation at the Gdynia Cotton Association (*Izba Bawelny w Gdyni*) deals with disputes in the cotton trade.

Arbitration

Court of Arbitration at the Polish Chamber of Commerce
(*Kolegium Arbitrow przy Polskiej Izbie Handlu Zagranicznego*)
Warsaw, ul. Trebacka 4 tel. 27 47 54; telex. 814 361 pihz pl

Court of Conciliation at the Gdynia Wool Federation
(*Izba Welny w Gdyni*)
Gdynia, ul. Kielecka 7
tel. 20 95 01; telex. 054 328 wfed pl

Court of Conciliation at the Gdynia Cotton Association (*Izba Bawelny w Gdyni*)
Gdynia, ul. Derdowskiegp 7
tel. 20 77 78; telex. 054 491 hart pl

International Court of Arbitration for Marine and Inland Navigation
(*Miedzynarodowy Sad Arbitrazowy d/s Zeglugi Morskiej i Srodladowej*)
Gdynia, ul. Pulaskiego 6
tel. 21 33 85; telex. 054 504

Business Travel

Visas: In addition to valid passports, both business travellers and tourists from North America require a visa to enter Poland. These are available from Polish Embassies, Polish Consulates, through the offices of Poland's national travel agency, ORBIS, or through local travel agents. The application fee is approximately $CDN 50.00 for a one-time visa and $CDN 160.00 for a multiple-entry visa. To apply for a visa, the traveller's passport must be valid for at least nine months after the date of application. A completed application should be accompanied by two passport photos.

Travel Arrangements: ORBIS, Poland's state-owned Travel Office, formerly arranged most foreign travel to and from Poland. Now, arrangements may be made with one of the numerous new private travel agencies established in Poland or with any reputable western travel agency. Information and advice on travel in Poland is available from the *Centre for Tourist Information*, ul. Krucza, Warsaw.

Currency: No limits are placed on the amount of currency travellers may bring into Poland, but visitors will be asked to report all such amounts. On departure, visitors may not take out more currency than they originally brought with them. Apart from this rule, visitors may dispose of their money as they wish without restriction, and no reports on its expenditure are required. The most widely used foreign currency is the US dollar, but the Deutsch Mark and some other currencies are also common. Western currencies can be exchanged for Polish *zlotys* at an exchange office (*kantor*), hotels, and banks. Major credit cards and travellers' cheques are increasingly accepted by the larger hotels, stores, and restaurants.

Customs Formalities: Personal belongings may enter Poland duty free. They may include sports equipment, musical instruments, a typewriter, radio, cassette recorder, two cameras with ten rolls of film each, ten rolls of film for one movie camera (16 mm); two litres of wine and half a litre of spirits, 250 cigarettes or 50 cigars or 250 grams of tobacco. Guns and ammunition require a Polish permit.

As of July 12, 1990, visitors to Poland can also import duty-free one personal computer plus 10 diskettes; one video camera and one video cassette recorder (VCR), plus 10 cassettes; and one television set. Gifts up to a value of $US 100 are also exempt from duty. A blanket duty of 10% is applied to all gifts and other goods valued at $US 100-300 brought to Poland for non-commercial reasons.

Articles not exceeding $US 100 in value can be taken out of Poland duty free, but there are restrictions on certain items such as precious metals and furs. The nominal value of duty free items is frequently amended to match the inflation rate, so travellers are advised to check with ORBIS or tourist shops regarding current regulations and restrictions. Goods bought with foreign currency in Poland are not subject to duty, but receipts must be shown at customs control. No works of art produced before May 9, 1945 or books published before that date may be taken out of Poland.

Climate: Poland has a moderate climate with four distinct seasons. Summer average temperature is between 16.5 C and 19 C, and can reach 30 C. Winter temperatures range between 0 C and -4.5 C, and can fall as low as - 20 C. The weather in spring and autumn is often unpredictable, and can change suddenly in the course of a day. Warm clothing is recommended from November to the end of March, and rain gear is advised for spring and autumn.

Time Zones: Poland is six hours ahead of Eastern Standard Time and one hour ahead of Greenwich Mean Time. Local time changes twice a year in summer and winter. In the summer, clocks are moved forward one hour, so that the country is seven hours ahead of Eastern Standard Time and two hours ahead of Greenwich Mean Time. In winter, they are moved back.

Hotel Accommodation: There is currently a shortage of hotel rooms in Poland, so travellers should book well in advance. Poland's national tourist agency, ORBIS, operates its own chain of hotels. Regional tourist agencies operate in several parts of Poland. International hotel chains with facilities in Poland include Marriott, Holiday Inn, Intercontinental, and Novotel. Reservations for the major hotels can be made through ORBIS or a travel agent.

Transportation: Taxis are the best means of moving about Warsaw or other major cities, since public transportation tends to be crowded. Travellers should be warned that rates shown on taxi metres are multiplied by an appropriate factor to cover inflation. Taxis can be hailed on the street, but are easy to find at the many taxi ranks located throughout Poland's cities. Specially marked taxis, taken from some hotels, will double the charge to cover the cost of a return trip to the hotel. At present, the cost of a taxi in Warsaw is comparable to that in most western countries.

Air travel is the most efficient means of travel between cities, where available, and can be booked in advance through foreign travel agents. Twelve Polish cities are connected by domestic flights.

The railway is a good alternative, especially for travel to cities not served by air. Tickets should be reserved in advance to ensure a seat, especially in the summer months. A first-class rail ticket offers greater comfort and easier availability, and is still relatively inexpensive by western standards.

Cars may be rented through a travel agent or directly from car-hire companies. A deposit may be required. Intercity car travel may be painfully slow, however. The speed limit is 90 kph on main roads and 50 kph in built-up areas. There are, as yet, few expressways or four-lane highways.

Business Hours: Grocery stores are open from 6 a.m. to 7 p.m. Most other stores open from 11 a.m. to 7 p.m. Big department stores are usually open between 9 a.m. and 8 p.m. Newspaper kiosks open from 6 a.m. to 9 p.m. Offices are generally open from 8 a.m. to 4 p.m. Offices are closed on most Saturdays and on Sundays.

Holidays: The most important Polish holidays are:

New Year's Day	January 1
Easter Monday	Moveable
Constitution Day	May 3
Corpus Christi	Moveable
All Saints' Day	November 1
Independence Day	November 11
Christmas	December 25 and 26.

The main vacation season in Poland is July and August, but the tourist season begins in April and lasts until October.

Appendix

Useful Addresses

Useful Addresses

Polish Diplomatic and Commercial Posts Abroad

CANADA

Embassy of the Republic of Poland
443 Daly Avenue
Ottawa, Ontario
Canada K1N 6H3
Tel. (613) 236-0468, Fax: (613) 232-3463

Trade Commissioner's Office of Poland in Canada
3501, avenue du Musée
Montréal (Québec)
Canada H3G 2C8
Tel. (514) 282-1732, Fax: (514) 282-1784

Polish Trade Commission, Toronto Branch
3300 Bloor St. W., 8th Floor
Toronto, Ontario
Canada M8X 2W8
Tel. (416) 233-6571, Fax: (416) 233-9578

BELGIUM

Embassy of the Republic of Poland
Office of the Commercial Counsellor
33, Avenue Jules Cesar
1150 Bruxelles, Belgium
Tel. 02/771-67-54, Tlx. 21562 morhan,
Fax: 02/771-18-39

DENMARK

Embassy of the Republic of Poland
Office of the Commercial Counsellor
Ryvangs Alle 46
Copenhagen - 2900 Hellerup, Denmark
Tel. 31-62-26-33, Tlx. 19264 polhan dk,
Fax: 31-62-25-54

FRANCE

Embassy of the Republic of Poland
Office of the Economic and Commercial Counsellor
86, rue de la Faisanderie
75116 Paris, France
Tel. 45-04-10-20, Tlx. 611029 morhan paris,
Fax: 45-04-63-17

EUROPEAN COMMUNITY

Mission of the Republic of Poland
to the European Community
18, Avenue de l'Horizon
1150 Bruxelles, Belgium
Tel. 02/771-32-62, Fax: 02/771-49-10

FEDERAL REPUBLIC OF GERMANY

Embassy of the Republic of Poland
Office of the Commercial Counsellor
An der Alteburger Muehle 6
5000 Hoeln 51, Marienburg
Federal Republic of Germany
Tel. 0221/38-02-31, Tlx. 8885382, Fax: 0221/38-38-91

Branch of the Commercial Counsellor's Office
in Berlin
Unter den Linden 72/74
1080 Berlin, Federal Republic of Germany
Tel. 220-21-72, Tlx. 114006 morha dd

GREAT BRITAIN

Embassy of the Republic of Poland
Office of the Commercial Counsellor
15, Devonshire Street
London W1N 2AR, Great Britain
Tel. (071) 580-5481, Tlx. 28193, Fax: (071) 323-01-95

GREECE

Embassy of the Republic of Poland
Office of the Commercial Counsellor
1, Kondoleondos Street
GR-154 52 Psychico, Athens, Greece
Tel. 67-26-176, Tlx. 215882 ampl gr, Fax: 1-6721952

IRELAND

Polish Trade Representative
29 Nutley Avenue
Dublin, Ireland
Tel. 69-13-70, Tlx. 30623 ptri ei, Fax: 69-76-62

ITALY

Embassy of the Republic of Poland
Office of the Commercial Counsellor
Via Olona 2/4
00198 Roma, Italy
Tel. 06/854-11-28, Tlx. 610325, Fax: 884-34-49

Consulate General of the Republic of Poland
Commercial Section
Via Sporting Mirasole 2, Noverasco di Opera
Milano, Italy
Tel. 02/57-60-22-41, Tlx. 316472 polhan,
Fax: 02/57602245

NETHERLANDS

Embassy of the Republic of Poland
Office of the Commercial Counsellor
Van Lennepweg 51
2597 LG the Hague, Netherlands
Tel. (070)350-27-81, Tlx. 31359 morhan nl,
Fax: (070) 354-3966

PORTUGAL

Embassy of the Republic of Poland
Office of the Commercial Counsellor
Praca de Alvalade 17-7
1700 Lisboa, Portugal
Tel. 80-86-50, Tlx. 13393, Fax: 80-87-03

SPAIN

Office of the Commercial Counsellor of Poland
Av. del Dr. Arce, 25
28002 Madrid, Spain
Tel. 261-51-00, Tlx. 22652 telpo e, Fax: 261-51-08

UNITED STATES

Embassy of the Republic of Poland
2640 16th Street
N.W. Washington, D.C.
United States
Tel. (202) 234-3800, 234-0626, Fax: (202) 328-6271

Consulate General of the Republic of Poland
233 Madison Avenue
New York, N.Y. 10016
Tel. (212) 889-8360, Fax: (212) 779-3062

Polish Government Institutions

Ministry of Foreign Economic Relations
(Ministerstwo Współpracy Gospodarczej z Zagranica)
00-507 Warszawa
Pl. Trzech Krzyzy 5
Tel. 693-50-00, Tlx: 814501 mhz pl, Fax: 28-68-08

Ministry of Finance
(Ministerstwo Finansów)
00-049 Warszawa
ul. Swietokrzyska 12
Tel. 694-52-00, Tlx. 815592, 814386 min. fin. pl

Ministry of Industry
(Ministerstwo Przemyslu)
00-505 Warszawa
ul. Wspólna 4
Tel. 21-03-51, Tlx. 814267, 814261 mp pl

Ministry of Ownership Changes
(Ministerstwo Przekształcen Wlasnosciowych)
00-496 Warszawa
ul. Mysia 5
Tel. 28-32-61, Fax: 21-33-61

Ministry of Telecommunication
(Ministerstwo Lacznosci)
00-066 Warszawa
Pl. Malachowskiego 2
Tel. 26-14-11, 26-10-71, Tlx. 813001, Fax: 26-48-40

Ministry of Physical Planning and Construction
(Ministerstwo Gospodarki Przestrzennej i Budownictwa)
00-926 Warszawa
ul. Wspólna 2
Tel. 21-03-51, Tlx. 814411, 814416, Fax: 25-58-87

Ministry of Environmental Protection,
Natural Resources and Forestry
(Ministerstwo Ochrony Srodowiska, Zasobów Naturalnych i Lesnictwa)
00-922 Warszawa
ul. Wawelska 52/54
Tel. 29-35-53, Tlx. 817225, Fax: 21-84-27

Foreign Investment Agency
(Agencja d/s Inwestycji Zagranicznych)
ul. Chopina 1
00-559 Warszawa
Tel. 29-35-53, Tlx: 817225, Fax: 21-84-27

Business Associations

Canadian-Polish Chamber of Commerce
#3301 -1155 boul. René Levesque ouest
Montréal (Québec)
Canada H3B 3T1
Tel.(514) 866-4301, Fax: (514) 879-0626

Canada Poland Business Council
c/o Pekao Trading Co.
1610 Bloor Street W.
Toronto, Ont.
Canada M6P 1A7
Tel. (416) 588-1414, Fax: (416) 588-2703

Polish Chamber of Commerce
(Polska Izba Handlowa)
Andrzej Arendarski, President
00-074 Warszawa
ul. Trebacka 4
Tel. 26-02-21 to 2, Tlx. 814361 pihz pl,
Fax: (48-22) 27-46-73

Legal Information and Service Centre of the Polish Chamber of Commerce
00-074 Warszawa
ul. Trebacka 4
Tel. (48-22) 26-18-42, Fax: (48-22) 27-46-58.

Court of Arbitration at the Polish Chamber of Commerce
00-074 Warszawa,
ul. Trebacka 4
P.O. Box 361
Tel. (48-22) 27-47-54), Fax. (48-22) 27-46-73.

Polish Association of Private Businessmen
(Polski Zwiazek Prywatnych Kupcow i Przemyslowcow)
ul Spokojna 7
01-044 Warszawa
Tel. 38-22-31, 38-56-83; Tlx. 817389 pl.

Foreign Investors' Chamber of Industry and Commerce
(Izba Przemyslowo-Handlowa Inwestorów Zagranicznych)
Krakowskie Przedmiescie 47/51
00-071 Warszawa
Tel. 39-19-03, 27-22-34, Fax: 26-85-93

The Warsaw Business Chamber
(Warszawska Izba Gospodarcza)
00-508 Warszawa
Al. Jerozolimskie 27
Tel. 28-70-01 to 7 ext. 205

UNIDO Industrial Cooperation and Investment Promotion Service
(Biuro UNIDO w Warszawie)
ul. Stawki 2 (14th floor)
00-193 Warszawa
Tel. 635-60-86, 635-71-12, Tlx. 817916, Fax: 635-12-60

Polish Foundation of the Club of Rome
(Polska Fundacja Klubu Rzymskiego)
ul. Wspólna 1/3
00-529 Warszawa
Tel. 28-40-71 ext. 421, 456, 21-84-20, 21-99-93,
Tlx. 817008

Foundation for Economy NSZZ Solidarnosc
(Fundacja Gospodarcza NSZZ Solidarnosc)
Waly Piastowskie 24
80-855 Gdansk
Tel. (0-58) 38-44-12, Tlx. 51460, 513170,
Fax: (0-58) 31-67-22, 31-01-17

Polish Foundation
(Fundacja Polska)
ul. Górnoslaska 9/11
00-443 Warszawa
Tel. 21-56-08, Tlx 817245, Fax: 28-16-66

Foundation for Polish Export
(Fundacja Polska Eksportuje)
ul. Królewska 27
00-060 Warszawa
Tel. 27-68-10

TWIG Data Bank
(Bank Informacji Gospodarczej TWIG)
ul. Mazowiecka 13
00-052 Warszawa
Tel. 27-53-15, 26-76-32, Tlx. 814738, Fax: 27-51-51

Institute for Industrial Chemistry
(Instytut Chemii Przemyslowej)
ul J. Rydygiera 8
01-793 Warszawa
Tel. 38-80-21, 38-92-81, Tlx. ICHP 813586.

"ORGMASZ" Institute for the Organization of Machine-Building Industry
Bureau for the Organization of Cooperation with Foreign Capital
(Instytut Organizacji Przemyslu Maszynowego "ORGMASZ"
Biuro Organizacji Wspólpracy z Kapitalem Zagranicznym)
ul. Zelazna 87
00-879 Warszawa
Tel. 24-09-18, 24-60-61, Tlx. 813747

"PROMASZ" Bureau for Study and Economic Consulting
(Biuro Studiów i Doradztwa Gospodarczego "PROMASZ")
ul. Barbary 1
00-686 Warszawa
Tel. 28-31-59, 29-26-16, Tlx. 813815, 813923

Business Promotion Centre Ltd.
(Centrum Promocji Handlu Zagranicznego)
ul. Armii Czerwonej 2
40-956 Katowice
Tel. 58-60-71, 58-90-81, Tlx. (0) 315658, Fax: 514968.

Eastern Placement Inc.
Warsaw Division
ul. Krzywickiego 34
02-078 Warszawa
Tel. 20-27-53, 20-34-83, 20-16-46, Tlx. 817201,
Fax: 20-11-78

Business Information Agencies

Bureau for Domestic Promotion
PIHZ - Promotion Centre
(Biuro Promacji Krajowej PIHZ - Centrum Promocji)
00-074 Warszwa
ul. Trebacka 4
Tel. 26-73-76, 27-40-88, Tlx. 814361,
Fax: 27-46-73; 63-51-37

Infocredit
00-920 Warszawa
ul. Smolna 40, pok. 220
Tel. 26-61-78, 26-81-84, Tlx. 817841

Accounting Firms Approved by the Ministry of Finance

For Audits of Joint Ventures

Arnold Hill Sp. z o. o.
ul Skrzetuskiego 35
02-726 Warszawa

Baltic Accountants and Consultants Ltd. Sp. z o. o.
ul. Jankiela 8
Warszawa

Financial and Economic Consultants
(Biuro Ekspertyz Finansowych i Consultingu PRO-INVEST Sp. z o. o.)
ul. Mokotowska 13 m. la
00-640 Warszawa
Tel. 25-48-86, 25-55-03

"Book-Keeping-Services" Sp. z o. o.
Al. Jerozolimskie 65/79
Hotel Marriott
00-697 Warszawa

CAM Sp. z o. o.
ul. Kopernika 30
00-328 Warszawa

"DRT Poland" Sp. z o. o.
Al. Ujazdowskie 6 A
00-461 Warszawa
Tel. 29-32-85, 29-32-81 ext. 215, Fax: 29-01-07

Ernst and Young TKD S.A.
ul. Wspólna 62
00-687 Warszawa

Eureka-Consulting, Poznan Issuing House
(Eureka-Consulting, Poznanski Dom Emisyjny sp. z o. o.)
ul. Marcinkowskiego 22
61-827 Poznan
Tel. 52-81-21, Tlx. 413780

Ginter Janaszek Silesian Auditor Counsellor Sp. z o. o.
ul. Marchlewskiego 5
40-129 Katowice

International Business Consulting Sp. z o. o.
Al Jerozolimskie 65/79
Hotel Marriott
00-697 Warszawa
Tel. 29-72-32

KPMG - Reviconsult Sp. z o. o.
Al. Jerozolimskie 65/79
Hotel Marriott, Suite 3603
00-697 Warszawa
Tel. 30-63-06 ext. 36-03, Tlx. 817745, Fax: 30-72-34

Moore Stephens Sp. z o. o.
Al. Jerozolimskie 65/79
Centrum LIM
00-697 Warszawa
Tel. 30-65-04, 30-65-05, Tlx. 825366, Fax: 30-65-78

Price Waterhouse Poland Sp. z o. o.
ul. Bagatela 14
00-585 Warszawa

Export-Import Enterprise for Production, Trade and Services "Abex"
(Przedsiebiorstwo Eksportowo-Importowe Produkcji, Handlu i Uslug "Abex" Sp. z o. o.)
ul. Urszuli 18
65-147 Zielona Góra

Co-operative Enterprise for the Promotion of Scientific-Technological Progress and Economic Consulting
(Spóldzielcze Przedsiebiorstwo Promocji Postepu Naukowo-Technicznego i Doradztwa Gospodarczego "ORTEP")
ul. Sienkiewicza 85/87
90-057 Lódz
Tel. (0-42) 36-83-83, 36-56-00 ext. 446, 447,
Tlx. 886780

Customs, Inspection and Forwarding Companies

Central Customs Office
(Glówny Urzad Cel)
ul. Swietokrzyska 12
00-049 Warszawa
Tel. 20-02-11, Tlx. 814427

Patent Office of the Republic of Poland
(Urzad Patentowy Rzeczypospolitej Polskiej)
Al. Niepodleglosci 188
02-555 Warszawa
Tel. 25-80-01, Tlx. 813716 cint pl

Quality Inspection Office
Centralny Inspektorat Standaryzacji (CIS)
ul. Zurawia 32/34
00-515 Warszawa
Tel. 21-64-21, Tlx. 813653

Polcargo Consulting, International Supervision and Testing Services
(Rzeczoznawstwo i Kontrola Towarów w Obrocie Miedzynarodowym - Polcargo)
ul. Zeromskiego 32
81-369 Gdynia
Tel. (0-58) 20-53-71, Tlx. 54257, Fax: (0-58)21-68-19

Shipcontrol Export Supervision Services
(Shipcontrol - Przedsiebiorstwo Rzeczoznawstwa i Kontroli Ilosciowej)
ul. Polska 21
81-334 Gdynia
Tel. (0-58)20-70-96, Tlx. 54271

C. Hartwig Gdansk
International Forwarding
(Przedsiebiorstwo Spedycji Miedzynarodowej)
ul. Na Zaspie 3
80-546 Gdansk
Tel. (0-58) 43-10-31 to 39, Tlx. 0512213 to 18

C. Hartwig Gdynia
International Forwarding
(Przedsiebiorstwo Spedycji Miedzynarodowej)
ul. Derdowskiego 7
81-369 Gdynia
Tel. (0-58)27-90-22, Tlx. 054491, Fax: 20-48-25

C. Hartwig Katowice
International Forwarding
(Przedsiebiorstwo Spedycji Miedzynarodowej)
ul. Slowackiego 37
40-093 Katowice
Tel. (832) 53-92-41 to 49, Tlx. 0315761,
Fax: (832)59-99-11

C. Hartwig Szczecin
International Forwarding
(Przedsiebiorstwo Spedycji Miedzynarodowej)
ul. Malczewskiego 5/7
71-616 Szczecin
Tel. (0-91)24-00-51, Tlx. 0422111, Fax: (0-91)89-666

C. Hartwig Warszawa
International Forwarding
(Przedsiebiorstwo Spedycji Miedzynardowej)
ul. Poznanska 15
00-680 Warszawa
Tel. 29-60-31 to 39, Tlx. 814603, 813610, Fax: 29-14-01

Canada