

# **POLAND**

## **Overview**

The sweeping economic and political changes that have occurred in Poland since 1989 have had significant effects on Polish defense sector, on both the government and industry sides. In a few short years, Poland's enemies of the last forty years are close to becoming its allies. Free market reforms have forced companies to consider the bottom line in production of military items and, to improve their financial situation, defense manufacturers have been shifting more resources into the production of non-military goods. Four separate governments have come to power in five years. These factors have created a defense industry that is, at best, disorganized and lacking guidance from the government.

Poland's gross domestic product (GDP) grew by 3.8 percent in 1993 and the government projects GDP growth of 4.5 percent for 1994. While overall unemployment remains high (about 2.8 million jobless), the unemployment rate began to edge down in early 1994. After peaking at just over 16 percent in February, the rate fell to 15.5 percent in May. The rate of inflation in Poland, which was almost 600 percent in 1990, continues to decline and the annual inflation rate for 1993 was 35 percent. The government forecasts an annual inflation rate of 27 percent for 1994.

The sweeping changes in Poland create opportunities for U.S. companies. Poland's desire for membership in NATO should lead to opportunities for upgrades and adjustment. Defense firms, reeling from free market reforms, are now seeking western partners. Opportunities for American firms exist mainly in investment, technology transfer, and co-production work, as neither the Polish Government nor Polish companies have the funds to make large equipment purchases. Receptivity to American companies is high, though, due to a belief in the high quality of American products and the generally positive attitude towards the United States.

## **Defense Industry Environment**

Within the 1997 Polish budget, the Ministry of Defense was appropriated \$2.2 billion, of which \$300 million was earmarked for equipment purchases. Within the procurement budget, only \$404 million was allocated for foreign equipment purchases. The defense budget represented about 6.9 percent of all government expenditures and approximately 2.3 percent of the Polish Gross Domestic Product for 1997.

Regarding Polish industry capabilities, the production of tanks, fighter aircraft, anti-aircraft guns, and communications stations were the "specialties" assigned to Poland within the Warsaw Pact. Worsening relations with the Soviet Union in the 1960's curtailed production and arms plants began diversifying towards civilian goods. During the 1970's and 1980's, a modernized arms industry began producing newly designed T-54 and T-55 tanks, aircraft, and tactical missiles. The Polish defense industry contracted again, with the advent of perestroika in the late 1980s.

Defense firms in Poland, deprived of preferential government investment and saddled with outdated technology and an underemployed work force, have been struggling to survive. The collapse of the Warsaw Pact market, which accounted for 80-90 percent of defense sector output, and shrinking world arms markets, particularly for the generally low-technology weapons produced in Poland, all but destroyed the long-term prospects for weapons production. In 1993, defense production as a percentage of total industrial output dropped from eight percent in the late 1980's to around 1-2 percent. Moreover, defense goods reportedly account for less than half the total output of the 31 plants deemed by the government to constitute the core of the defense manufacturing sector.

In addition to these challenging conditions, ambitious plans to preserve a diversified but smaller defense sector have been hampered by inflation and a shortage of capital for civilian goods. Polish defense firms, many in the throes of bankruptcy, continue to cut costs by laying off workers and slashing production levels.

The Polish defense industry, however, still looks to the government for massive assistance.. Successive cabinets have cited defense industry restructuring as a key element of both industrial and national security policy. Arms manufacturers believe that if their products are made compatible with NATO standards, they could again become competitive, particularly if quality remains high and the price of finished products remains low.

Polish arms manufacturers are eagerly seeking investment from the west. The 1994 arms show at Kielce attracted exhibitors from France, Sweden, Israel, Germany, and South Africa, as well as the U.S. Polish firms are actively negotiating with U.S., Swedish, Israeli, and South African firms that produce high technology items and upgrades for equipment, such as basic vehicles and aircraft that heretofore have been Polish "specialty" products.

Because of their precarious financial situation, Polish defense firms have shown little interest in importing foreign equipment. The defense industry is searching for new export markets, particularly in the Third World and Middle East, hoping that the relatively low cost of Polish products, particularly tanks, armored vehicles, artillery, ships, aircraft, and helicopters will be attractive to potential customers.. Under existing present regulations, the Foreign Ministry maintains a closely held "black list" of countries to which Polish firms may not export. The list is modified regularly to reflect the government's perceived political interests. As a result, manufacturers claim they have lost contracts worth \$75 million in Iraq and Yugoslavia alone.

## **Defense Opportunities**

Although military budgets have been stagnant or have shrunk in recent years, there are defense opportunities that do exist for U.S. firms. The Government of Poland has identified membership in NATO as its top foreign policy goal. Recent Partnership for Peace exercises have been held in Poland and increased visibility for the Polish military, and it is certain that Poland will continue efforts to join NATO. Obviously, much work will be needed to upgrade Polish military equipment to meet NATO standards, but the Government of Poland has not yet made public any policies or plans for such upgrades. Pending NATO membership has already had

implications for other equipment related decisions, however: In one recent example Defense Minister Piotr Kolodziejczyk refused to buy the L-22 Iryda aircraft, because it is outdated, too expensive and does not comply with NATO standards.

Information on new systems is not available, as the Government of Poland is not open about its plans for future weapons systems. Until recently, the Polish Government also has not been forthcoming with information about its plans for future procurement and modernization.

In August 1994, the Polish Government announced that it will finance three strategic military programs. The government will provide several hundred billion Polish zloty (approximately \$10 to 25 million) to the Scientific Research Committee for research aimed at the development and modernization of the "GORYL" tank, the "HUZAR" helicopter, and anti-aircraft guns. The MOD is also debating whether to add anti-tank missiles and torpedo systems to this program.

Currently, Polish manufacturers produce only the HUZAR and several are currently in service within the Polish Air Force. In the future, the HUZAR will be equipped with "intelligent" anti-tank missiles with a range of 8 km and a new direction system. The Army has indicated it will require approximately 100 aircraft. In addition, Polish experts are currently working on an updated version of the GORYL tank, called the TWARDY, which is comparable to the Russian T-80 or the German Leopard 2.

The Government of Poland has also announced plans to modernize its air fleet. Although domestic manufacturing interests pressured the government to buy a modernized version of the Polish model known as Iryda (made by the WSK PZL Mielec S.A.), the Supreme Court has ruled that the Ministry of Defense may procure the products it believes best fulfill its requirements. The Air Force, therefore, is currently looking at the F-16, Mirage 2000 and the Saab Gripen fighter aircraft.

PZL Mielec, in the meantime, is attempting to generate support for the upgrade of the Iryda, a training and fighter jet. A number of foreign firms have been involved with various aspects of the project, but it seems unlikely to be funded.

## **Defense Procurement Process**

Currently, military equipment purchases are often based on the needs of Polish industry. Purchases of foreign equipment tend to be done on a "sole source" basis, without a formal tendering process. Foreign equipment sales in Poland frequently include co-production or joint venture agreements. The following is a list of useful contacts regarding the procurement process.

Ministry of Defense  
ul. Klonowa 1

Warszawa

Minister Stanislaw Dobrzanski

Deputy Minister Jan Kuriata - Armaments  
and Infrastructure

A1. Niepodleglosci 218

Warszawa

Tel: 011-48-22-25-13-75

Fax: 011-48-22-25-21-52

Col. Boguslaw Smolski  
Director, Research & Development  
Office of the Minister of Defense  
A1. Niepodleglosci 218  
Warszawa  
Tel: 011-48-2-684-46-07

A new public procurement law went into effect on January 1, 1995. This law will apply in all cases where public money is used to procure commodities, services and construction works. The law's procurement procedures need not be followed for purchases less than approximately \$25,000.

An amendment for defense procurement is in the drafting stages, as are a number of other procurement regulations. Although the Polish Government is making efforts to tender bids fairly and transparently, the lack of regulations, and the recent change in procedures, continue to make selling to the Government a challenge. Allegations of unfair practices occasionally surface. The U.S. Embassy continues to encourage transparency in Poland's procurement practices.

If the law passes, the purchasing agency can request that the commodity to be purchased contain at least fifty percent Polish content. In the case of services, the use of Polish labor can be required. An open tender procedure will be used as the standard. This office will have the authority to exempt purchases over \$250,000 from the open tender procedure. A two-stage tender (request for offers and negotiations with targeted potential suppliers) would be used only in justified cases, such as a natural catastrophe.

In the past, major governmental projects and contracts in Poland have been reopened for examination and expanded bids. Governmental and quasi-governmental committees and consultants were set up to analyze and review major projects and consider bidders and their proposals. Revisions to proposals were requested. This often caused considerable questions and delayed projects.

## **Diversification/Commercial Opportunities**

The government holds, and plans to retain, majority ownership in Poland's main defense manufacturers and there are no plans to ever fully privatize them. While these companies account for about 70 percent of the needs of the Polish armed forces, none of them currently produce defense articles only. Several of these plants have already entered into co-production ventures with foreign firms, including U.S. firms, for the production of defense articles and could be expected to be open to similar arrangements with other U.S. firms.

As mentioned above, no Polish defense manufacturers produce defense articles only.

These plants also manufacture a wide range of equipment, including aircraft engines and components, automotive/diesel engines and subassemblies, forgings, air traffic control and navigation related equipment, electronics, tools, golf carts, appliances, agricultural equipment, and wheel chairs.

Many of these areas are also best prospects for the Polish market. US&FCS/Warsaw has identified the following defense-related industries as best prospects for the Polish market:

Aircraft and Parts  
Telecommunications Equipment  
Computer Software  
Medical Equipment  
Automotive Parts  
Laboratory and Scientific Equipment  
Broadcasting Equipment  
Pollution Control Equipment

The following is a list of contacts in key non-defense Ministries for dual/use and or commercial goods.

Ministerstwo Wspolpracy Gospodarczej z  
Zagranica  
(Ministry of Foreign Economic Relations)  
Pl. Trzech Krzyzy 5  
00-507 Warszawa  
Tel: 011-48-2-693-58-58  
Fax: 011-48-2-628-68-08

Contact: Mr. Zbigniew Kubacki  
U.S. Desk Officer

Ministerstwo Spraw Zagranicznych  
(Ministry of Foreign Affairs)  
Al. Szucha 23  
Warszawa  
Minister Dariusz Rosati  
Tel: 011-48-2-628-16-78

Ministerstwo Przemyslu I Handlu  
(Ministry of Industry and Trade)

Department Wspolpracy z Zagranica  
(Foreign Cooperation Department)  
ul. Wspolna 4

00-926 Warszawa  
Tel: 011-48-2-628-21-41  
Fax: 011-48-2-628-17-58

Contact: Mr. Janusz Zgorzynski, Director  
00-926 Warszawa

Mr. Roman Czerwinski  
Deputy Minister for Defense Affairs  
Tel: 011-48-22-29-06-52

Col. Jerzy Kade, Director  
Department of Defense  
Room 5083, 5th Floor, ext. 8609  
Tel: 011-48-22-29-84-37

Ministerstwo Przekształcen Wlasnosciovych  
(Ministry of Privatization)  
ul. Krucza 36  
00-950 Warszawa  
Tel: 011-48-2-628-02-81, 628-11-90  
Fax: 011-48-2-625-11-14

Ministerstwo Transportu I Gospodarki  
Morskiej  
(Ministry of Transportation and Maritime

Economy)  
Department Transportu Samochodowego  
(Motor Transport Department)  
ul. Chalubinskiego 4/6  
00-928 Warszawa  
Tel: 011-48-22-24-04-00  
Fax: 011-48-22-30-00-62

Ministry of Health  
Miodowa 15  
00-251 Warsaw  
Tel: 011-48-22-31-34-41  
Fax: 011-48-22-26-09-66

Ministerstwo Gospodarki Przestrzennej I  
Budownictwa  
(Ministry of Physical Planning and  
Construction)  
Department Urbanistyki I Gospodarki  
Miejskiej  
(Department of Town Planning and  
Municipal Engineering)  
ul. Wspolna 2  
00-926 Warszawa

Tel: 011-48-2-661-80-35  
Fax: 011-48-2-628-40-30

Contact: Mr. Henryk Jedrzejewski, Director

Ministerstwo Ochrony Srodowiska,  
Zasobow Naturalnych I Lesnictwa  
(Ministry of Environmental Protection,  
Natural Resources and  
Forestry)  
Department Wspolpracy z Zagranica  
(Foreign Cooperation Department)  
ul. Wawelska 52/5400-922  
Warszawa  
Tel: 011-48-22-25-11-33  
Fax: 011-48-22-25-33-32

Contact: Mr. Leszek Banaszak, Director

Ministry of Telecommunications  
Department of Technology and Development  
ul. Chopina 1  
Warsaw  
Tel: 011-48-2-628-53-11  
Fax: 011-48-22-21-71-09

## **Doing Business in Poland**

Because the market is young, diverse and rapidly developing, no factor or single set of factors will consistently influence a company's ability to sell its product in the Polish market. Certain patterns, however, are becoming apparent about the Polish business person and consumer.

The Polish market consists of a number of regional, and local markets. For example, Poles living along the Baltic and to the West, closer to Europe, have different views and are influenced differently than Poles in the industrial south of the country.

Letters, faxes, and packages of product literature will introduce a Polish company to a product or service. However, a Polish customer generally will not consider making a final purchase until he has met with the vendor face-to-face about the product. Product demonstrations are also effective. This underscores the fact that in order to be successful in Poland, a U.S. company must have a representative in-country, whether it is an agent, distributor, or representative office. The Polish customer will want to discuss the technical parameters of the product, explain his needs, and negotiate the price. In addition, the product may not be sold in the first meeting, as the customer will want some time to further consider the points discussed and to try to arrange financing. Small, single first orders are usually the result, as major initial orders are unlikely due to limited amounts of working capital and high rates of interest on credit.

Polish customers are generally enthusiastic about U.S. products and, if seriously interested, will travel across the country to meet with a U.S. representative who may be visiting Warsaw. This is an important point and should be recognized. If a customer has driven five hours from Krakow to Warsaw to meet with a U.S. company, the potential for a sale is good. If the proposal is well thought out, the pricing is flexible (or assistance with locating financing is offered), and servicing and customer support are part of the package, chances are good that a contract will ultimately be written. Doing business in Poland is built upon personal relationships and trust. U.S. companies still have an advantage in Poland, as the U.S., its people, and its products are held in high regard.

### *Foreign Investment/Privatization*

Laws on privatization, customs, taxes, and foreign investment are in place in Poland, and follow-up amendments have theoretically reduced bureaucracy and government interference, modified tax incentives, and terminated restrictions on profit repatriation. Past needs for permission to establish operations, representative offices and joint ventures with Polish private partners have been reduced or eliminated. Where a permit is still necessary, the application process, though still cumbersome and tedious, has been simplified.

Customs duties apply to all products imported into Poland. Tariffs range from 0 (zero) to 90 percent, with the average between 8-12 percent. A 5% import tax is levied on all imports, and a general 22 percent Value Added Tax (VAT) is levied on all transactions. Significant excise taxes apply to certain luxury and strategic (satellite dishes, automobiles) products as well.

## *EU Association Agreement*

The March 1, 1992, enactment of the trade provisions within Poland's association agreement with the European Union lowered or eliminated tariffs on many EU products imported into Poland, while tariffs on U.S. products remained unchanged. This immediately placed U.S. firms at a competitive disadvantage with their EU competitors.

In general, the trade of goods and services is not restricted in Poland. In some areas, including imports of strategic goods (e.g. police and military products, radioactive elements, weapons, transportation equipment, chemicals), a license or concession is required.

Certain goods are subject to import quotas in Poland. These include gasoline, diesel fuel and heating oils, among others. Imports of some products are prohibited. These include two stroke engine cars; automobiles, racing cars and vans older than ten years and trucks older than three years.

## *Export Licenses*

A U.S. export license is required on shipments of certain commodities to Poland, as provided under the Commerce Department's Bureau of Export Administration's Commodity Control List. Import documentation in Poland is compiled under a "Single Administrative Document" (SAD), and includes a customs declaration and certificate of origin. The SAD asks about 60 questions regarding the goods, importer, place of origin, and method of payment. A completed customs value declaration is attached to the SAD. An original invoice or pro forma invoice proving the value of the goods is also required. The Ministry of Foreign Economic Relations issues import permits and concessions, and regulates quotas. However, other Polish ministries have special jurisdiction over products such as tobacco (Ministry of Agriculture), permits related to air, sea, or road transport (Ministry of Transportation), or natural resources (Ministry of Environmental Protection). The list of products requiring import certification in Poland is always subject to change, and appears to be growing. U.S. exporters should ascertain whether their products require import certification in Poland before shipment.

In most cases, before an issuing ministry grants import permission for a product, the product must be reviewed and recommended for import into Poland by one or more inspectorate or technical associations, depending on the nature of the product. This can be a costly, lengthy and confusing process for the U.S. exporter and the Polish importer alike. It is often necessary to submit samples of products or equipment for testing, regardless of the issuance of previous U.S. or international certificates. The presentation of detailed documentation on a product is a must, and all requests by relevant inspection agencies should be strictly adhered to, in order to speed-up certification procedures.

When satisfied, the inspecting agency will make a positive or negative recommendation for the import to the appropriate Polish ministry. Once a specific product is approved for importation, further import of that product are free from additional regulation. U.S. companies with several lines of similar products (e.g. pharmaceutical, food preparation, or chemical



products) should begin the approval procedure on all products they expect to export to Poland as early as possible.

Standards for imported products vary widely. Basically, imported goods are required to meet not only international standards, but specific Polish standards as set forth (and sometimes published) by the appropriate Polish government inspectorate. Conformity with ISO 9000 procedures is, as yet, relatively rare, though a number of Polish companies are, in fact, certified.

Some products, once imported, also require registration. This is particularly true of products that come into contact with, or can affect the health of the consumer. In the case of hazardous materials, the importer must receive permission to use the product before applying for a concession to import the product into Poland.

## **U.S. Government Points of Contact**

The following is a list of useful contacts for U.S. firms interested in the Polish market.

### **U.S. Embassy**

U.S. & Foreign Commercial Service  
Maria Andrews, Senior Commercial Officer  
Rebecca Mann, Commercial Officer  
Unit 1340  
APO, AE 09213  
-or-  
Al. Jerozolimskie 56 C  
00-803 Warsaw  
Tel: 011-48-2-625-4374  
Fax: 011-48-2-621-6327

Security Assistance Office  
LTC. George Kuk, U.S. Army  
Chief  
SSG Thomas Nowak, U.S. Army  
Operations NCO

American Embassy Warsaw  
Unit 1340  
APO, AE, 09213  
-or-

Al. Ujazdowskie 29/31

Warsaw  
Tel: 011-48-2-628-3041 ext. 2237  
Fax: 011-48-2-625-3478

Eastern Europe Business Information Center  
U.S. Department of Commerce  
Washington, DC 20230  
Tel: 202-482-2645  
Fax: 202-482-4473

### **Host Country Trade Associations:**

American Chamber of Commerce in Poland  
36 Swietokrzyszta  
Entrance 1 Room #6  
Warsaw 00-116  
Tel: 011-48-22-209-867, ext. 222/223  
or 011-48-22-209-962, ext. 222/223  
Fax: 011-48-2-622-5525

POLSPACE Ltd.  
ul. Bartycka 18a  
Warsaw  
Contact: Prof. Janusz B. Zielinski  
Tel: 011-48-22-40-37-66  
Fax: 011-48-22-40-31-31

AFCEA  
Armed Forces Communications and

Electronics Association

Polish Section

ul. Czackiego 3/5

Warsaw

Tel: 011-360-90-50

Fax: 011-36-94-44

Contact: Prof. Dr Habinz.

Marek Amanowicz - President

Polish Chamber of Commerce

ul. Trebacka 4

Warsaw

Tel: 011-48-22-26-00-17, 26-01-43