Finding market opportunities in





## POLAND





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#### **About International Business**

International Business (IB) is an annual Project carried out by students attending the Norwegian University of Science and Technology (NTNU), the Norwegian School of Economics and Business Administration (NHH) and the Norwegian School of management (IB). The main purpose of the project is to study potential markets for international business ventures, and support Norwegian enterprises entering these markets. Since its beginning in 1984, IB has visited all continents. Every year, with the support from the Norwegian Trade Council, IB selects a foreign emerging market to focus on.

Events and developments beyond our borders are essential to a small country like Norway. Globalisation pulls foreign markets and the opportunities they offer closer to us. To take advantage of these opportunities, information and knowledge is essential. IB's primary goal is to provide information on all these areas that are important to enterprises wanting to set up business or invest in a foreign market.

IB also develops the participating students' international awareness and skills, and is a forum for contact with the business sector. The findings of the report are based on meetings with companies and institutions in the country focused on, in addition to extensive research prior to our stay abroad. The whole project is finaced through advertisements in our report. We would like to thank all our sponsors for their support, which is essential for IB to accomplish our goal of producing a usefull report.

In addition to the paper-copy, the report is also available on our web-page: http://www.ib.no. Some previous year's reports are on these pages as well and further information about the IB project.

International Business is an independent student organization, and is fully responsible for the content in this report.



#### **FOREWORD**

I welcome this in-depth study of market opportunities in Poland - a country with which Norway has close political, military, economic, cultural and commercial relations.

Both countries are members of inter alia NATO, OECD and WTO. The Norwegian Government supports the expansion of the European Union and has initiated

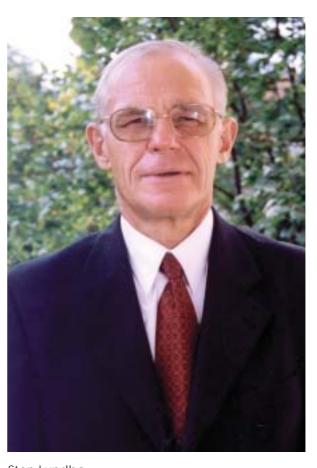
a Plan of Action with a view to developing further co-operation with the candidate countries. Within the framework of this plan a number of joint projects have been launched in Poland in the fields of fisheries, environment, health, gender equality and local democracy. Once Poland will be a member of the European Union; she will also be part of the European Economic Area (EEA), of which Norway is a part. The EEA Agreement ensures free trade in industrial products and free movement of capital, services and persons by means of joint legislation.

Maritime affairs are important to Norway. We have one of the world's largest merchant fleets. On Norwegian ships there are more than 3,700 Polish seamen, including 1,600 officers. Currently there are twelve Norwegian ships that are on order or being built at Polish shipyards.

More than 30 per cent of the Norwegian exports to Poland consist of fish, mainly herring, mackerel and salmon. A large part of the Norwegian fish is being processed at Polish factories and thus creates jobs. With a view to promoting further contact and dialogue a Joint Commission on Fisheries has been established.

Norway presently exports 0.5 billion cubic metres (bcm) of natural gas annually to Poland. On 3 September 2001, the Polish Oil and Gas Company and five companies operating on the Norwegian continental shelf signed a long-term agreement according to which Norway will supply Poland a total of 73.5 bcm over a period of 16 years as from the year 2008. This agreement paves the way for the building of a dedicated pipeline from the North Sea to Poland. Norway is the 17th biggest investor in Poland. Among the biggest ones are (in alphabetical order) Borgested Fabrikker, Det Norske Veritas, Hydro, KLIF, Norgips, Orkla, Qubus, Rema 1000, Statoil, Telenor and Ulstein Holding. With Poland as a member of the European Union, the Norwegian interest in investing in this country will probably increase.

The Norwegian Government sees culture as an integral part of the country's foreign policy. Therefore, art and trade go together. The Embassy is involved in a number of Norwegian cultural projects in Poland in the areas of music, literature, theatre and art exhibitions.



Sten Lundbo

Ambassador of Norway to Poland

## Acknowledgements



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Regional Director
Central/Eastern
Europe & Affica
Norwegiarråde
Council

Poland is an important market for Norwegian companies and the interest has increased substantially over the last years. The total trade in year 2000 was 5,7 billion NOK, up 16% from the previous year. Norwegian Trade Council (NTC)in Warsaw which operates as the Commercial Section of The Royal Norwegian Embassy reports also that

Norwegian investment in Poland has increased over the last years. Fish makes up roughly 35 percent of Norwegian export to Poland and gas is expected to come up as a good number two in the future. Apart from this Norwegian export and business activities in the Polish market are quite varied and comprehensive. Norwegian Trade Council in Warsaw encourages in particular companies working with information- and environmental technology, construction and building materials as well as real estate to have a closer look at the Polish market.

Poland is expected to become an EU member in the nearest future, which entails easier market access and lower risks. Poland with 40 million people, is situated in the heart of Europe and may become a key European business arena and a transit country.

NTC looks at Poland with great enthusiasm and optimism. For Norwegian companies the Polish market is a market of opportunities and we wish and hope that NTC Warsaw with its presence will continue to support the successful establishment and growth of Norwegian business in Poland.





It is a great pleasure for me as Ambassador of Poland that this/next year annual International Business project will focus on Poland. Norway and Poland share not only common history dyring the last century but are close allies in NATO and cooperate politically and economically in creating a new Europe.

The recent decade has been particularly dyna-

been particularly dynamic and favourable for the development of wegian economic relati-

increased Polish-Norwegian economic relations, especially in the areas of shipbuilding, seafood and fish-processing industri, retail trade and ecological technologies.

A special aspect of our economic cooperation is a gas contract planned to start delivery in 2006.

The timely choice of Poland as the theme for this/next year's International Business reflects great opportunities of the growing economic relations between Poland and Norway. opportunities of the growing economic relations between Poland and Norway.

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## POLAND'S FUTURE IN UNITED EUROPE

Poland took a course for European Union at the beginning of the previous decade, as the process of transition started. The successive stages were marked by the preferential bilateral agreement on cooperation and the European Treaty of 1992, bringing Poland closer to accession negotiations, which started in March 1998. At that time accession negotiations were also started by Cyprus, the Czech Republic, Estonia, Slovenia, Hungary (The Luxembourg Group), and in 2000 by countries of the Helsinki Group: Bulgaria, Lithuania, Latvia, Malta, Rumania, Slovakia. As at 31 December 2001, countries of the Vysehrad Group are most advanced in negotiations, having closed respectively: Hungary - 23, the Czech Republic - 22, Slovakia - 20 and Poland -20 of the 29 chapters.

The rules were made clear at the Laaken summit – the countries that will have completed the negotiations by the end of 2002 will join the Union in 2004.

Of the chapters negotiated by Poland, the most difficult, most important and socially sensitive are agriculture as well as regional policies and coordination of structural instruments, followed by free movement of capital and people, and the policy of competition.

The process of harmonisation and implementation of the European Law is well advanced in Poland, even though public support for membership (ca. 57% - 31 Dec., 2001) is lower than in the Czech Republic or Hungary (66 and 77 per cent respectively). The intensive negotiations in Brussels are accompanied by EU information at home – of the costs and benefits, where the micro- level is most essential. The costs and benefits of enlargement are also an issue for the EU and its recession-stricken member countries.

The European Union is a success story. What kind of Union will Poland become a member of? In the wake of enlargement the Community must determine its priorities and future course of development. The

future of Europe will be debated on 28 February 2002 by the Convention, who will have one year to complete its task of drafting the EU institutional reform. The forum is composed of representatives of both, EU members and applicant countries (from Poland: secretary of the European Integration Committee Danuta Hubner, Józef Oleksy, MP and senator Edmund Wittbrodt). The Polish delegates are to present proposals and ideas enjoying public support in Poland, and to stress the significance of Poland as a country that will soon be among the six largest members of the EU.

The debate on the future of the EU and of Europe is closely connected with the terms of our membership; it is also a national debate on our part in the European integration. The accession is a measure of Polish patriotism today – it is in our European interest.

EU countries should be able to see further than the immediate budgetary interests and think about the future of the Union after the enlargement, seeking a way of strengthening the economies of new members. In reforming EU institutions the gist is to bring them closer to the people and make them more efficient, in order to deal with the "deficit of democracy." In the longer run, what should the Union be: the United States of Europe, a federation or a Europe of Homelands?

The EU enlargement by 10 new members planned for 2004 is the greatest challenge to date. The Union should certainly remain functional. As much diversity as possible – as little uniformity as necessary.





# Part 1

- Politics
- Economy
- Society
- Technology

## Politics

#### **POLITICAL SYSTEM**

#### PARLIAMENTARY SYSTEM

The republic of Poland is a democratic state ruled by law. The constitution passed on 2 April 1997 implements the principles of the supreme law of Poland. The government is based on the separation of and the balance between legislative, executive and judicial power. Legislative power is vested in the Sejm and the Senate, executive power is vested in the President and the Republic of Poland and Council of Ministers, and the judicial power is vested in the courts and tribunals.

#### **NATIONAL ASSEMBLY**

The name of the National Assembly in Poland is the Sejm. In accordance with the Constitution the Sejm and the Senate of the Republic of Poland have the legislative power. The Seim is elected to a four-year term in general elections. It consists of 460 deputies. The highest control organ in the state is the Control Council, which reports to the Sejm. The bodies of the Sejm include the Presidium of the Sejm, the Council of Seniors and parliamentary committees. Deputy clubs are the main forms of the political organization of deputies within the Sejm. The Senate is also elected to a four-year term in general elections. It is composed of 100 senators. The constitution specifies major issues on which the Sejm and Senate debate jointly at sessions presided over the Speaker of the Sejm acting as the National Assembly.

## THE PRESIDENT AND THE COUNCIL OF MINISTERS

The President of Poland is elected to a five-year term in general elections, and can only be re-elected once. Since 23 December 1995, Aleksander Kwasniewski has been President. He is the supreme representative of the state, monitoring the observance of the Constitution and the security of the state. The President appoints the Prime Minister, and Leszek Miller was appointed after the election in September 2001. The executive body for the President is the Chancellery. The Council of Ministers includes the chair of the Council of Ministers (the Prime Minister) as its head, vice-premiers of the Council of Ministers, and ministers. The

Government is responsible for the domestic and foreign policy of the state. The Sejm extends a vote of confidence for the government [FTRI].

#### **REGIONAL ADMINISTRATION**

Since 1 January 1999, a three-tier territorial division of the state has been in force. This divides Poland into voivodships (provinces), land powiats (administrative districts) and gminas (districts). In all there are 16 voivodships, 308 land- and 65 urban powiats (towns having the right of districts) and 2 489 gminas.

The gmina is the principal unit of territorial division. The constitution guarantees the priority of the gmina in the management of local affairs. The gmina is responsible for things such as primary schools, kindergartens, libraries, and local transportation, water supply and health protection.

The powiant is the second-tier unit of territorial division, comprising a number of gminas. The authorities of the powiat include the powiant council, elected in local-government elections, and the board of the powiant. Powiants are responsible for such matters as protection of public order and security, flood and fire protection, social security and maintenance of general hospitals. The voivodship is the largest territorial unit. Its authorities include the Sejmik, the voivodship parliament chosen in local-government elections, and the board of the voivodship. The marshal of the voivodship heads the Sejmik and the board. The voivodship is responsible for matters related to regional development. It prepares and implements strategies, creates conditions for economic development in the region. Acting within the framework of regional cooperation it can maintain contacts with communities from other countries [FTRI].

#### TEN YEARS OF ECONOMIC TRANS-FORMATION

The June 1989 parliamentary elections constituted a breakthrough in the postwar political history of Poland, even though communists guaranteed themselves a formal majority in the Sejm ("Solidarity" gaining an absolute majority in the Senate) as a result of the "round table" talks. In the autumn of that year, the first postwar noncommunist government was established. That government

inherited a distorted economic structure from the previous system. The domination of state ownership and the prevalence of heavy industry as well as poor development of consumer goods production and that of the service sector being typical characktristics. The mechanism of economic planning and of central economic decisions, particularly in the field of investments, led to a high degree of concentration and monopolization of production which made development of the competitive environment very difficult [FTRI]. After the large-scale changes in 1989/90, a period of three to four years was needed for consolidation before rapid growth started.

#### **POLITICAL FORCES AND PARTIES**

In general, it is quite hard to understand the Polish political landscape. At every general election held in the last ten years, new parties and alliances have appeared and others have disappeared. This was a result of many politicians changing opinion and creating new strategic alliances, as well as some new entering. When it comes to the positioning of the parties in either the left or right wings, the picture is not as clear as in other countries. All this seems to be the signs of a new political system becoming more settled. The only party that has been stabile regarding political direction and representation in

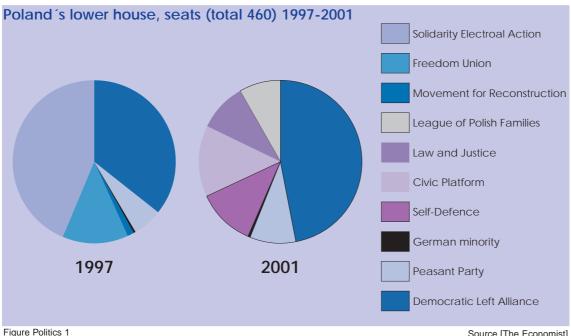
the Seim has been the Democratic Left Alliance (SLD).

The landscape of the social partners reflects the same development in the system. Many small trade unions are found in all industries, and they play a relatively important role both in national politics and at the enterprise level. There are some federations of sectoral trade unions and the most powerful are those in large state-owned enterprises.

After the election to the legislature in September 2001 no party won an outright majority. A coalition government was formed by the SLD and the Labour Union Party (UP). Here, the former communist party SLD became the party with most representatives in the Seim. Leszek Miller of the Democratic Left Alliance tries to mould politics for Poland based on social democratic thought. The second largest party in Poland is the Liberal Party, PO. The nationalistic Self-Defence Party under the leader of Andrezej Lepper has also grown to be a party of influence after the election in 2001.

#### POLITICAL ISSUES

The issue of most concern in Polish politics is the high unemployment rates. As in all other former communist countries this is due to privatization and downsizing. Especially in the agricultural sector many



Source [The Economist]

people have lost their jobs, and additional efficieny measures are expected in future EU membership. The high number of young people entering the labour market is increasing the extent of this problem, and Prime Minister Miller has promised to "prepare legal solutions and economic encouragement which should facilitate the employment of school and university graduates and setting up their own business" [WV1]. The regional differences in unemployment rates are enormous. This reflects regional differences in general. In short it seems like the areas around the largest cities and in the southwest are the most prosperous whereas the northeast is suffering low growth. The government has announced labour market reforms with the goal of making the labour force more mobile.

Crime is also a hot issue in Polish politics. Over the last years few organized crime and corruption have increased, according to the officials. It is high priority to fight both, and this has been done through strengthening the police and making the system more transparent. The government and the World Bank have put down an anti-corruption group. This group has stated four strategic objectives, which the government is to implement in it's politics; limiting the influence of the state on the economy; reduce public tolerance for corruption; effectivze institutions and public administration; and raise the effectiveness of the detection of corruption crimes and strengthen anti-corruption control functions of state institutions. When it comes to other kinds of criminal activity, the largest problems are drugs, prostitution and human trafficking. One of the methods the authorities are using in their fight against these problems is making the banking system more transparent.

#### **FOREIGN POLICY**

#### **CHANGING RELATIONS**

Basically all the foreign contact Poland had in the period from 1945/49 to the 1980s was with other communist countries in Eastern Europe and the Soviet Union. As NATO was formed in the West, the Warsaw Pact bounded the East in terms of defence, and COMECON was the eastern EC/EU that was established to coordinate economic planning. In reality, the

Soviet Union was in power, and the other members were placed hereunder. However, among these states Poland was allowed most independence, opening up for some minor contact with the West. As communism lost its strength in the eighties, international organizations like the International Monetary Fund (IMF) and the World Bank (WB) were soon welcomed, and they played a central role in supporting the country after the fall of the Iron Curtain in 1989. When the Warsaw Pact was dissolved in 1991, Poland applied for NATO membership, showing their willingness to integrate with the West. In 1999, Poland became a full member of NATO. Poland is also in the Organization for Economic Cooperation and Development (OECD) and has taken part in a partnership with the EFTA. In general as the Poles are turning westwards, relations with the East have somewhat deteriorated, especially with Belarus and Ukraine following the imposition of tighter border controls.

#### **EU MEMBERSHIP**

EU membership has been one of the major goals of Poland after 1989. As the Maastricht treaty was signed in 1993 the EU opened up for the enlargement of the union, and at the same time offering total integration between its members. This gives a membership additional advantages: better access to a large market; easier imports of equipment and technology; greater opportunities for cooperation with foreign businesses and a likely rise in living standards. These are major reasons for about 50 per cent of the Polish people being positive to a Polish accession into the union. After having applied in 1994, the goal was membership by 2002. A referendum on Polish membership in the Union is planned to be held in 2003. At the moment Poland will enter the union at the earliest in 2004 together with nine other applicant countries. Already in 1992 a transition agreement concerning trade between the EU and Poland became effective. The Association Treaty (following the 1992 agreement) aims at establishing a free trade zone between Poland and the EU, and is at the moment only restricting imports of five strategic categories of textiles and agricultural products.

Although the new government in Poland is split in two with the SLD being for the EU

and the PSL (the farmers party) being against the EU, the majority is succeeding in stressing the importance of membership in the Union. In the negotiations with the EU, 20 out of 29 chapters have been closed (January 2002), and the rest must be closed during 2002 for accession in 2004. A European Commission report on Poland in December 2001 identified the dismal state of public finance as one of the main problems in Poland, and concluded that reforms in administration and agriculture are urgently needed. Another problem is corupption. The membership status report 2001 from the EU declared; "corruption is a serious matter of consern" [EMB].

The state of agriculture seems to be the hardest to improve. The dependency on governmental support and the inefficiency of the sector is in conflict with the EU's Common Agricultural Policy (CAP). Modernizing the Polish farming will bring enormous costs to the EU and for the farmers to reach the CAP efficiency level many jobs will be lost. Still, changes have been put through in all aspects of economy and politics: The eastern borders of the country have been strengthened as they will be the borders of the Schengen area; environmental protection laws are being implemented at EU standards; corruption and other crimes are being fought.

Concerning bilateral agreements, negotiations on the sale of land to foreigners and the freedom of employment for Poles after joining the EU have been the toughest ones. Although Germany will not accept Polish labour into their market for 7 years, other agreements with restrictions only for 2 years have been signed with Denmark, Sweden, Ireland and the Netherlands. Initially, the Polish negotiators were hoping to keep other EU citizens out of the Polish real-estate market for 18 years, but they have now accepted a 12-year transition period.

The Polish people at the moment are spilt in two equally sized groups for and against the EU, with the "pros" losing some support. The government does not consider this as a very serious matter, as it is expected that the Catholic Church once again will state its wish for Polish integration when the referendum draws near.

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## Economy

#### **ECONOMIC HISTORY**

In the autumn of 1989, the first post-war non-communist government was established headed by the Prime Minister Tadeusz Mazowiecki. The economic system during the command economy prior to 1989 was characterized by the domination of state ownership, prevalence of heavy industry and poor development of consumer goods production and that of the service sector. The former system has also created high degree of concentration and monopolization of production with the domination of large industrial plants. Central planning of the command economy did not allow for proper resource allocation which resulted in market shortages such as for consumer goods. Moreover exports were underdeveloped and there was a lack of foreign investement and production links with the external world.

The beginning of the new times for Poland in 1989 witnessed the appearance of hyperinflation of over 1 500 per cent which resulted in the "empty shelves" phenomenon. In this situation the new government adopted a package of laws and economic policy measures called the "Balcerowicz Plan" after the finance minister Leszek Balcerowicz at the end of 1989. This "shock therapy" changed the economic system and the economic policy of the state. It put an end to the system of central planning in Poland.

Stabilization steps consisted of the following three lines of action:

- 1. Prices were liberalized.
- 2. Fiscal policy was adopted to decrease the state budget deficit.
- 3. Nominal interest rate was raised to reduce credit expansion.

These actions resulted in almost overnight departure from the economy of shortages to a balanced market; not only for consumer goods, but also for capital goods and production inputs. The "shock therapy" has been criticized for its negative social consequences. However, it contributed to the fact that Poland suffered least among the post-socialist countries in terms of economic growth, being the first country in Central and Eastern Europe to overcome recession induced by the consequences of the transformation and enter a stable path of economic development.

Transition to the market economy implied the following:

- 1. Opening of the economy to new domestic and foreign entrepreneurship.
- 2. Widespread privatization.
- 3. Radical limitation of the role of the state in the economy.
- 4. Continuation of the reforms in the banking system started in the 1980s.
- 5. Opening of the economy to the world in terms of trade and foreign investment.
- 6. De-concentration and demonopolization of production.

It is interesting to note that this transformation in Poland took place in a complex socio-political context that sometimes is referred to as the "Solidarity Paradox". Unlike other former post-communist countries, the transformation in Poland was to large extent encouraged by the political opposition embodied in the form of the "Solidarity" social movement. "Solidarity" had its roots in the working class of the large socialist production enterprises, such as the shipyards and mines.

Concerning more recent developments, in early 1999 the government initiated four large systemic reforms:

- 1. Administrative reform of the country aimed at giving more administrative power to the districts.
- 2. Reform of the pension system.
- 3. Reform of the health care system.
- 4. Reform of the educational system.

These reforms are accompanied by a restrictive fiscal policy and reduction in the share of the budget in the gross domestic product. Finally the government has abandoned the fixed rate policy in favour of a "crawling devaluation" in relation to a basket of currencies.

## ECONOMIC REFORMS AND THE EU MEMBERSHIP NEGOTIA-TIONS

#### **COPENHAGEN CRITERIA**

Poland opened membership negotiations with the EU in March 1998. Two economic criteria are most central for assessing the progress of the economic reforms in Poland. These are referred to as "Copenhagen criteria" the first one being the degree to which a country has a

functioning market economy. The second one is the capacity to cope with competitive pressure and market forces within the Union.

When it comes to the first criterion the last report of the European Commission from November 2000 has concluded that:

- Poland continues to improve its functioning as an open market economy through prudent macroeconomic policies and implementation of various types of structural reforms.
- There is, nevertheless, divergence concerning the speed at which reforms should be conducted, e.g. the government has delayed decisions on the final liberalization of capital inflows under Poland's OECD commitments.
- The very significant widening of the current account deficit constitutes the most pressing challenge for Poland's economic policy.
- The high level of unemployment represents another significant policy challenge.
- Progress in reducing inflation from moderate to a lower level is proving difficult
- Significant progress has been made in the area of tax reform.
- The privatization programme is being implemented forcefully and successfully.
- Prices have been largely liberalized, with the exception of electricity and central heating, which are still subject to direct regulation.
- There are no significant legal or institutional barriers to the establishment of new firms in Poland.
- Barriers still remain on the closing down of firms, especially in the case of bankruptcies.
- Property rights are clearly established and transferable.
- The financial sector is developing and the banking sector has remained fundamentally sound since the middle of the 1990s.
- The advanced stage of privatization in the banking sector is one of the key features of the Polish economy, and one of its major strengths.

The conclusion is that Poland is a functioning market economy. It has maintained an adequate degree of domestic and external macroeconomic stability and its growth performance has been impressive. Yet some of the challenges mentioned above remain to be tackled.

When it comes to the second criterion, the European Commission has concluded the following:

- Poland's now well-entrenched market economy continues to allow agents to make decisions in a climate of stability and predictability.
- Poland needs to continue building a high quality infrastructure to enhance its competitiveness and avoid bottlenecks (notably in the transport infrastructure) to sustained growth in the medium term.
- Foreign direct investment inflows are significant and play a major role in the progressive upgrading of Poland's exports and overall competitiveness.
- In general, Poland's markets have become highly contested and open to competition, reflecting trade liberalization and growing market access by its preferential trade partners.
- The Polish economy needs to further develop its ability to absorb the shocks of industrial restructuring, building upon its level of infrastructure and human capital.
- Active labour market policies appear to have a mixed record in the creation of new employment opportunities, with training being clearly more effective than various forms of subsidized jobs.
- Trade integration with the EU is extensive and advancing. However, products with higher added value (machine and electrical engineering goods) represent less than one third of the exports of goods in Poland's trade with the EU.
- The small and medium-sized enterprise (SME) sector is thriving, even though SMEs still continue to face difficulties in accessing finance.

The Commission's conclusion is that Poland should be able to cope with competitive pressure and market forces within the Union in the near term provided it continues and completes its present reform efforts.

## CONSEQUENCES OF THE POLISH EU MEMBERSHIP FOR NORWEGIAN COMPANIES

Polish accesssion to the EU implies full integration of the country into the European Union. While the extent of integration along certain dimensions is still not clear, e.g. free movement of labour between Poland and the EU, the following aspects will have consequences for Norwegian

companies operating or planning to operate in the country. The most central implications of the EU membership are free movement of goods, freedom to provide services, free movement of capital, harmonized company law, taxation and competition policy with the rest of the EU. Moreover such areas as intellectual property rights, environment, consumer protection, customs and financial control are to be harmonized with the EU member states. Poland will also be able to join the EU monetary union.

Such changes would basically mean that Norwegian companies operating in Poland would have the rest of EU as their home market. Meaning that there will not be any barriers for e.g. selling goods, providing services, moving capital between the Norwegian companies` Polish subsidiaries and the rest of the EU. Furthermore the subsidiaries will face company law, taxation and competition policies harmonized with the other member states. The companies will have to follow EU environmental and consumer protection regulations and it will be subject to the joint EU customs and financial control. It is also likely that the operating currency will be the euro. One area of great concern for Norwegian exports, with fish being a very important part, is the expected changes in taxes on fish imported to Poland from Norway. Currently there is no tax due to the EFTA agreement, while the EU operates with taxes at about 15 per cent, this will cause a large increase in fish prices on the Polish market.

## FOREIGN DIRECT INVESTMENT (FDI) INFLOW TO POLAND

In 2000, Poland was the major recipient of foreign investment in Central and Eastern

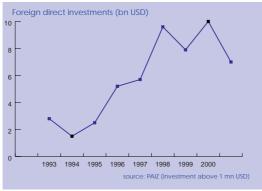


Figure: Economy 1

Europe. According to information of the Polish Agency for Foreign Investment (PAIZ) the FDI inflow totalled in excess of USD 10.6 billion.

The list of major foreign investors as at the end of 2000 included 885 companies from 35 countries [PAIZ 2001]. The largest investors came from France, the USA and Germany. The three countries together account for over 46 per cent of the total amount invested in Poland since 1990.

So far FDI focused on manufacturing activity. As at the end of 2000 this type of activity accounted for USD 19,5 billion of the invested capital, i.e. 42.5 per cent of the aggregate value of large FDI. As compared with previous years, a decrease was noted in the share of the invested foreign capital, mainly as a result of a high increase in the second in line investment sector - financial brokerage, which absorbed USD 10.4 billion, accounting for 22.7 per cent of the aggregate value of

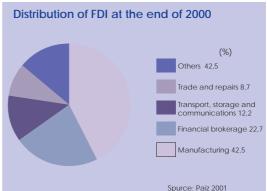


Figure: Economy 2

FOREIGN DIRECT INVESTMENTS BY COUNTRY OF ORIGIN												
	(as of December 31, 2000)											
	Ec	juity & Loans	Number of Companies									
		(million USD)	(Investments over 1 million USD)									
1.	France	7 901.0	70									
2.	USA	7 350.3	130									
3.	Germany	5 903.7	209									
4.	Netherlands	4 224.9	66									
5.	Italy	3 417.6	65									
8.	Sweden	2 027.8	53									
14.	Denmark	741.7	34									
17.	Norway	491.7	14									
			Source: Paiz 2001									

Figure: Economy 3

large FDI. [PAIZ 2001]

## THE MAIN SECTORS OF POLISH ECONOMY

The main sectors in the Polish economy are industry, construction, agriculture, trade, transport services and tourism.

Since 1992 Poland has been recording an upward trend in industrial production, which seems to be gaining momentum after a temporary fall at the beginning of the transformation period. The volume of industrial production sold rose in the years 1992- 2000 at an average annual rate of 7.3 per cent, and in 2000 alone it increased by 6.8 per cent. The high growth rate of Polish manufacturing industry is based on increased activity of private sector firms.

In 2000 the total value of sales of building and assembly production, including investment modernisation and renovation-maintenance works, amounted to USD 10.9 billion, down 2 per cent from the previous year. Employment was also down by 10.6 per cent, from 602 000 in 1999 to 538 000 in 2000. [PAIZ, 2001]

Poland is an agricultural producer of world importance. In 1999 Poland occupied first place in world production of rye and fourth in potatoes and oats. The cultivated surface in Poland accounts for 50.1 per cent of the total surface of the country. Nearly all previously stat-owned farms have been privatised since the process began in 1990.

The process of economic transformation in Poland has brought about fast and permanent effects in the functioning of the domestic trade market. Between 1990 and 2000, the number of shops more than doubled.

#### **GDP**

After the big change in 1989/90 three years were needed for consolidation before rapid growth started. In the period from 1994 to 2000 the GDP increased rapidly to 1997, but has now slowed down, maybe because of the uncertainty in the world economy. The increase in GDP is still growing, but not as much as the government desired. Expected increase in GDP in 2002 is 1.4 per cent. [NOBE, 2001

#### **FOREIGN TRADE**

Ownership transformations and private sector growth in the Polish economy have resulted in an increase in the private sector share in foreign trade turnover. In exports this share rose from 4.9 per cent in 1990 to 83.6 per cent in 2000 and in imports, it rose from 14.4 per cent to 84.2 per cent, respectively.[PAIZ, 2001]

In spite of the high growth rate of turnover in Polish foreign trade, the share of Poland in world exports is still far from satisfactory (0.5 per cent in 1999). The value of Polish foreign trade turnover per capita grew stedily from USD 858 in 1993, to USD 1 897in 1999. These figures must be considered too low in relation to Poland's economic potential. [PAIZ, 2001]

In exports and imports Poland's main trade partners in 2000 were Germany followed by Italy, France and the Netherlands. The main commodity groups in Polish exports and imports in 2000 included machines, equipment and means of transport, followed by industrial goods.

Poland's central location in Europe means that transport, especially land transport, plays an important role as Poland is crossed by a lot of important transport routes from Western Europe to the east, particularly to Russia, Belarus and Ukraine. Transport services create

#### **Dynamics of Gross Domestic Product**

Gross Domestic Product	1993	1994	1995	1996	1997	1998	1999	2000
GDP at current prices PLN bn	155.6	217.9	278.9	371.1	469.4	550.4	615.6	685.6
- USD bn	86,4	95.4	121,9	132,5	135.7	157.6	155,2	157.7
- per capita USD	2 260	2 478	3 167	3 432	3 5 1 0	4 070	4 020	4 080
GDP at constant prices pr.yr=100	103.8	105.2	107.0	106.0	106.8	104.8	104.1	104.1

Source: Central Statistical Office, 2001

Figure: Economy 4

jobs and are a source of considerable benefits. Employment in the sector of transport, storage and communication at the end of 1998 totalled 621 000. The share of gross added value recorded in this sector accounts for 5.7 per cent of the GDP.

Poland is becoming an increasingly attractive country for tourists. The growth in the number of tourists coming to Poland testifies to the effectiveness of its tourist attractions. Between 1990 and 1998 there has been an almost fivefold growth of the number of tourists visiting Poland.

#### **IMPROVEMENTS IN THE COMPETITIVENESS OF EXPORTS**

Poland has since 1991 had a negative trade balance, typically because Poland exports raw materials and imports the processed goods instead of doing the processing themselves. There is a large restructuration going on in Poland regarding this problem, and the reformation of Polish industry is already bringing evident effects. Steady more goods manufactured in Poland satisfy international standards, which improves their competitiveness on foreign markets as well as on the domestic market in relation to imported goods.

#### LABOUR MARKET

#### (FOR MORE DETAILS, SEE THE HUMAN **CAPITAL SECTION ON PAGE 50)**

The Polish workforce is the largest in Central and Eastern European countries (CEE) with approximately 15 million people. The labour force is also among the youngest in Europe and the average age is steadily getting younger. Over the next five years net growth of the workforce is expected to reach one million. At the same time restructuring of certain branches of industry and government administration has and will lead to rationalization of employment. The labour cost is currently the most expensive in CEE countries. One of the reasons is the appreciated Zloty.

The lower economic growth rate, group dismissals in privatized enterprises as a result of employers' commitments regarding employment guarantees, and continuation of the restructuring process, have all led to a deterioration in the situation on the labour market.

#### UNEMPLOYMENT

Unemployment was no issue in Poland before 1990, but the tough principles of the market economy soon began affecting the labour market. During 1990, unemployment reached 6.3 per cent of the labour force. It stabilized in 1994 at a level of 16 per cent and from then on started to increase. The unemployment rate is currently over 18 per cent [GUS] and is expected to remain at this level next year.

Unemployment benefit lasts only six months and the long-term unemployment rate is increasing. There is a substantial difference between unemployment in rural and urban areas. Warsaw has an unemployment rate close to the natural rate of unemployment (about 4.5 per cent) whereas in other areas 25 per cent is not uncommon.

#### MISMATCH PROBLEM

Many have acquired good professional qualifications but cannot find work because the vocational educational system has not kept up with the changes in demand for specific professional skills. A substantial amount of the unemployed force does not have the possibility of moving because they simply cannot afford it.

#### WAGES AND SALARIES

The level of average gross monthly pay is diversified depending on the type of business conducted by economic entities. In 2001, average gross monthly salary in

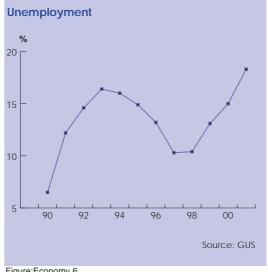


Figure: Economy 6

Poland amounted to about PLN 2 150 [GUS]. On average the pay is better in public jobs than in the private sector. Social costs for varies aroun 36 per cent of gross wage. This is considerably higher than many other European countries. The pay level in executive positions has increased up to European standard in some sectors. According to the estimate of the Market Economy Research Institute, the cost of labour calculated per hour in Poland remains several times lower than in the European Union countries.

## CONSUMER PRICE INDEX AND HOUSEHOLD INCOME

The table below illustrates the Consumer Price Index (CPI) and monthly real gross wages development in Poland development in Poland over the recent years. As one can observe from the indicators above, inflation has been outpacing growth in wages in the recent years. Moreover the inflation rate has been going down in the period from 1995 to 1999 but has increased again in 2000.

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#### A BRIEF HISTORY OF POLAND

Poland, a country with a proud past filled with wars and conflicts. Once a great nation, but devastated by its neighbours again and again. Poland, God's playground situated in the heart of Europe.

The name Poland originates from the Polanie tribe ("people of the fields") which settled here in the 10th century. In 966, Poland's king Mieszko I was baptized, and this year mark the birth of the Polish state. However, it was not until the 14th century, and the rule of Casimir the Great that Poland really developed towards a mighty force. Before that there were



several internal conflicts and invasions from outside; the Mongols ravaged the country several times and the powerful Teutonic Knights occupied the north preventing Poland's access to the Baltic Sea.

In the 15th century a union with Lithuania was established that lasted 400 years. The 16th century will forever be known as the golden age for Poles. This was a time virtually without war, and massive exports made Poland one of the great powers of Europe. Culture and science flourished, and the Polish people experienced good times.

However, problems started to build up. The Polish nobility's power grew, eventually leading Poland in to a sort of republic: the gentry elected the king and the Seim acted as a Congress. The Seim actually had liberum veto, meaning that the opposition of only one member made it impossible to change the law. Enemies surrounded Poland and soon the Seim became an instrument of foreign power play, choosing hopeless kings and ruining the country. Poland had wars with Sweden, Russia, Turkey, the Tartars and the Cossacks. These attacks were all conguered, but what remained was a totally ravaged country. In the 18th century, Russia gained control over a weakened Poland. In fear of lacking strength to control the whole kingdom alone, agreements with Austria-Hungary and Prussia were made to partition the country. This was done three times between 1772 and 1795, erasing Poland from the world map.

#### **MODERN TIMES**

Despite this, the Polish state lived on through the dreams of a free Poland in the minds of millions of people. Attempts to gain independence were launched during the 19th century, but it was impossible to beat three powers at a time. Later came World War I, in which the three partitioning countries found themselves as enemies, and eventually lost the war. The Great Powers who won the war saw a strong Poland as something favourable to the power balance in central Europe. Consequently, Poland was given a chance to be reborn. As most of the battles during the war were fought on Polish territory, the country was again left in ruins. The inter-war years were filled with chaos, difficulties uniting the three parts and a terrible economy. At the same time, neither the Soviet Union nor Germany accepted the borders stated in the Versailles treatv.

840-900 Several West Slavic tribes united under the Polaniea tribe that gives rise to first ruling dynasty, the Piast

1138-1295 Fragametation into and Swedes. many duchies 1400

1619-1772 with Cossacks, Russians,

Series of disastrous wars Congress of Vienna creates Congress Poland under Russian crown

800

Poles begin conversion to Christianity

Polish duchies reunited merged into Russian empire by Casimir the Great

Polish revolt crushed by Russian troops, area

Russo-Polish War, eastern boundary established by Treat of Riga

1772-95 Three partitions erase Poland from the map of Europe

1900

Poland's independence did not last long, during World War II the country was partitioned once again. This time between Germany and the Soviet Union, two cruel regimes which destroyed the country beyond belief. Of all countries affected by the war, Poland came out as the most damaged. 6.5 million Poles died-, and the whole country was in ruins, much worse than ever before.

After the war, Poland hoped to regain its independence. Again the Great Powers played with Poland's destiny, and although Poland all the time fought for the allies, the country was left under Soviet control after the Yalta conference. In addition, the borders were moved westwards, creating a Poland quite different from what it used to be. This led to massscale emigration of both Poles and Germans. The Soviet Union ruled Poland hard, but the Polish people were hard to control. The Catholic Church played an enormous role in this battle, uniting the people and holding the moral up. A series of strikes was arranged through these years, and when Cardinal Karol Wojtyla was elevated to the papacy in 1978, a whole country found new hope. The 1980's were filled with numerous strikes. The communists were losing control and the regime was loosening up. The workers were allowed to form trade unions, and several million Poles joined Solidarity under the lead of Lech Walesa. Solidarity was allied with the church, and together they formed a frontier against communism. The leaders in Moscow were not satisfied with the developments in Poland, and expressed clear signals of this. Pressure from the Soviet Union led to a declaration of martial law in 1981. Polish leaders tried to seize control to avoid Soviet action. Solidarity was forbidden

and the regime used force to suppress the population. In 1983, Walesa received the Nobel Peace Prize for his work for a democratic Poland. As Gorbachev became General Secretary of the Communist Party in Soviet, he drastically changed its foreign policy. The Soviet Union loosened its grip on Poland, and the foundation for communist control was gone. The pressure for Solidarity continued, and in 1989, Poland became the first country in the Soviet bloc to break out of communism rule.

Walesa later became Poland's president, but lost the election in 95 to the former communist Alexander Kwasniewski, who is still in office. During the last decade a new Poland has been built, a very young country in a modern and independent sense of thinking. Considerable privatization, restoring of the economy, joining NATO and seeking EU membership are issues of great importance.

#### **RELIGION IN POLAND**

Strolling around in a typical Polish city, one of the first things that strike you is all the churches. Poland is one of the strongest catholic bastions in Europe, with 95 per cent confessing to Pope John Paul II. An even more impressive number comes from the fact that about 70 per cent go to church every Sunday. These numbers show that the country is very homogeneous, and there are few significant minorities. The church is a powerful force, political, social and cultural. It influences daily life and society as a whole. Poland is for example one of only two countries in Europe to have a law forbidding abortion.

1978

1945 Soviet liberation, Yalta and Potsdam Conferences establish new Polish boundaries 1955

Warsaw Pact

founded 1960

1970 Pope John Paul II
Workers revolt in Baltic
ports, government
leadership under Gomulka
forced to resign

Pope John Paul II
1989
Comn
domin

1989
Communist Party
domination ends following
partially free elections
1990

1940 founded 19

Hitler and Stalin agree to divide Poland, German invasion launches WWII Soviet led Warsaw Pact invasion of Czechoslovakia includes Polish forces

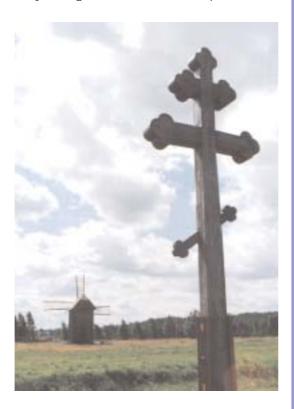
Solidarity founded in Gdansk, strikes force government to accept worker demamds

Polish archbishop elected

1981-83 Country placed under martial law, Solidarity dissolved, limited marketoriented reforms implemented

Communist-dominated government in place

So why is the Catholicism so strong in Poland? Poland has traditionally been a strong Catholic country, ever since Mieszko I swore allegiance to the Pope in 966. During the Middle Ages and later, the church under the Pope was generally very strong in the whole of Europe. But



when the church lost its power in most of Europe, it kept its strength in Poland throughout the 20th century. The explanation is very important for understanding the Polish people; since the middle of the 18th century, Poland has been dominated by foreign powers. During this period, the church has served as a shelter for Poles. Here they have spoken freely, and through the church Polish traditions and a Polish state have lived on. Many people even believe that Poland would not have existed today without the support of the church. Especially during communism, the Catholic Church played an immense role. It supported worker's rights and the fight for independence. When Solidarity negotiated with the communism regime, the church participated and exercised pressure. It was only through the speeches by members of the Catholic hierarchy that Polish society was able to communicate their opinions to the elite of communist rule. A very important event was when Archbishop of Krakow, Karol Wojtyla was chosen to be the world's next pope. This

made generations of Poles see the end of communism, and they united as never before. John Paul II was a sworn anti-Communist, and he made three official visits to his native country before the Soviet Union fell. These were of great

#### **Facts About the Country**

Area: 312 700 sq km (120 778 sq miles) (For instance seven times larger than Denmark)

Large cities: Warsaw (capital), Lódz, Krakow, Wroclaw, Poznan, Gdansk and Szczecin

#### Land boundaries:

Poland's borders have often changed through the history. Today Poland's neighbours are: Germany, the Czech republic, Slovakia, Ukraine, Belarus, Lithuania, Kaliningrad (Russia)

Rivers: Vistula, Warta, Odra

Landscape: North: Sandy beaches (Total coastline: 528 m). Farther south; two large sea areas named: (De Pommerske and De Mazuriske). In the central part: Woodland and fields with agriculture. The mountain range along the southern border is named: (Sudetene and Karpatene)

Highest point:Rysy (2.499 meters over the sea)

Flag: Two equal horizontal bands of white (top) and red



importance, and today the Pope is without doubt the most respected person among Poles.

To show how strong the church really is, and how it influences daily life, one can follow the ongoing EU-discussions in Poland. At the end of 2001, the Catholic Church declared that it supported Polish

#### **Famous Polish Personalities**

- Chopin, Frederic (1810-1849) World-famous pianist and composer. Born in Zelazowa Wola near Warsaw, but settled down in Paris in 1931. His work reflects the Polish national spirit.
- Curie, Maria Sklodowska (1867-1934) Best known for her pioneering work in the study of radioactivity which led to the discovery of the elements radium and polonium. She received the Nobel Prize twice (1903 and 1911).
- Copernicus, Nicolaus (1473-1543) Scientist; astronomer. Famous because of his heliocentric theory. He proved that the earth rotated around the sun.
- •Matejko, Jan (1838-1893)
  The greatest Polish painter, who painted large pictures of scenes from Poland's past. (He used his pencil as a weapon in the struggle for freedom and independence).
- Mickiewicz, Adam (1798-1855) Poland's greatest poet. Much of his work was written in exile in Russia, including his great national epic, "Pan Tadeusz" (1834).
- \*Polanski, Roman (b.1933)
  Filmmaker. Known for among others
  "Rosemary's baby" and
  "Chinatown".
- Sienkiewicz, Henryk (1846-1916) His novel "Quo Vadis?" (1896) Became internationally famous. He won the Nobel Prize in literature in 1905.
- Walesa, Lech (b.1943) Electrical worker in Gdansk. The main person in the forming of independent trade unions and national confederation of trade unions called Solidarity. He became President, and received the Nobel Peace Prize for peace in 1983.
- Wojtyla, Karol (b.1920)
   Pope. Born in Wadowice near
   Krakow. In 1978 he became Pope
   Johannes Paul II

membership. Especially among people in the villages, this will greatly influence their choice. They are often less educated and less informed about the consequences for Poland following possible membership. This could lead them to vote no in a referendum. But with the church's power in rural areas, this will surely lead many to vote yes, and thereby securing that Poland accepts EU-membership.

#### **PEOPLE**

#### **POPULATION**

The population in Poland is about 39 million, and in the last few years has been experiencing very slow growth (approx. 0.36 per cent). Half the population lives in large cities with over 100 000 inhabitants.



38 per cent of the total population live in the countryside. The population density is 124 people per sq. km. In recent years the working population has been experiencing a dynamic growth as a result of the demographic trends. In 2001 there were 15 million people employed, and Poland's workforce is among the youngest in Europe [GUS].

Poland is one of the most homogeneous countries in Europe. Before the Second World War there were many Jews, Ukrainians and Germans in Poland. But today over 98 per cent of the population is of Polish ethnic origin. Today the population of Polish communities abroad is estimated as about 12 million (5.6 million live in USA, mainly in Chicago).

#### LANGUAGE

Polish is the official language. Polish is known for being complicated and hard to learn. English is possibly the most popular and widely spoken foreign language in Poland. Small groups also speak German, Lithuanian, Belarussian, Ukrainian and Slovakian.

#### **EDUCATION**

Education is compulsory for all children from 7 to 15 years of age. The literacy-rate in Poland is 99 per cent. There are general, technical and vocational secondary schools. There are also colleges of economics, engineering and agriculture. All the major cities have a university, and the oldest university in Poland is situated

#### **BUSINESS CULTURE**

#### **CONDUCT**

It is difficult to communicate in English outside the main cities where few of the citizens speak this language.

Nevertheless, within the main cities you can expect people to know English. Mos

can expect people to know English. Most younger and educated people speak English. Once a business contact is established you can expect hospitality. Poles are on the whole friendly and hospitable.

Business in Poland is based on personal relationships. It is recommendable to have a local person to represent you in the beginning. That agent does not have to be Polish - as long as he / she knows the Polish business practice and how to deal with the Polish culture.

In general, conducting business in Poland is done in a more formal approach than one is used to in Norway. Titles and age mean a lot for Poles. It is appropriate to use Mr or Ms when addressing the counterpart. Never use "you". Managers of companies in Poland have a strong and respected position and it is customary to bow your head when shaking hands. Furthermore, written confirmation concerning contracts and other agreements is essential. Another aspect is the follow-up of the agreement. Poles are used to close and frequent contact with their foreign partners. One good way to do this is to have a representative on the board of directors. Moreover it is important to bear in mind that doing business requires time, often more time than expected. You

should not get too nosy and instructive when it comes to matters that Poles feel they know best.

Business cards are commonly written on two sides, one in Polish and the other in English. This is the item that people probably keep the longest time after you leave. It is usual to use the English side for contact information and the Polish side for descriptive information.

#### **GIFTS AND CORRUPTION**

Corruption in the public sector is relatively widespread and considered a high priority issue. In the private sector corruption depends on the type of industry, however it generally increases in accordance to the privatization of the industry. This, among other factors, makes networks and social relationships important. It is essential to be polite and get to know the network of your business partner; this will make business be more efficient.

#### **BUREAUCRACY**

Several people International Business met in Poland said that the bureaucracy is quite tough. Local authorities have established very strict control mechanisms, which by far outclass the respective Nordic ones. Due to Polish legislation practically all documents have to be in Polish. In general, there are many details to be followed, which emphasizes the need for a local representative.

#### **FOOD AND DRINK**

To eat out in restaurants is no longer as unusual as it was under communism. Traditional Polish food is continuously being combined with and influenced by foreign food. The custom of tipping is the same as in Norway. Vodka is the national drink and Poles have often been categorized as heavy drinkers. It is unacceptable to drink during working hours.

#### **CRIMINALITY**

There are large differences between the upper and lower classes. The welfare system in Poland is different from the Norwegian one. Social security is paid out only for a half of the year after being laid off. With the high unemployment rates, about 18 per cent on a national basis, it is easy to turn to criminality [GUS]. Nevertheless you can feel safe within the large cities where you can see guards everywhere you turn. The country is

almost in the centre of Europe and is visited by criminals from the east. Street criminality in Warsaw has dramatically increased the past years. Still Poland is much safer than many other Central and Eastern European countries.

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## Technology

The early 1990s saw the initiation of the process of an overall restructuring of Polish industry, including the mining and quarrying industry, significant elements of manufacturing, as well as electricity, gas and water supply. These structural transformations were made to adjust industry to competition in a market economy and, in particular, to face the challenges that result from the opening of the Polish



economy and Poland's integration into Europe.

To restructure, enterprises are now introducing new organizational structures and methods of management, replacing machines, introducing new technologies and revamping the product mix.

Combined with the introduction of efficient procurement methods (for instance, "just-in-time") and ISO standards, Polish companies expect the industrial restructuring to result in growth of labour productivity and improved profitability.

Generally, investments in technology are looked upon as a comparative advantage as skilled labour now is among the most expensive in CEE countries. Technology in many sectors is therefore highly developed and still improving. The foreign factories in Poland have the highest productivity since they have of the best machinery, technology and locations.

#### **INDUSTRY**

#### **HEAVY INDUSTRY**

The steel industry has in particular traditionally been regarded as one of Poland's main strengths, as the Soviet Union was

dedicated to establish Poland as a steelproducing province in the post-war communist era. Till this day, much of the old post-war machinery is still used in production - as the investments required to buy new equipment are formidable, many plants have remained almost as they were in the 1960s. However, with the cost of labour gradually increasing, companies have realized it is in their best interest to purchase new machinery to increase efficiency, work security, as well as to be able to meet international standards. In addition to this, pollution and waste policy requirements defined by the EU have made new investments necessary to stay in business. As a result of this, the structural changes and modernization carried out in the industry over the past several years have resulted in reduced production costs and improved competitiveness on the international market.

In general, the Polish domestic industrial suppliers are able, for the most part, to provide the local industries with parts and low-tech electronics and machinery. High-tech electronics and complicated systems, both for use in the production and as part of an order, have to be imported from outside of Poland. In general, the Polish heavy industry is skilled and delivers good quality products at a reasonable price..

Several international companies produce cars in Poland. Here Fiat and General Motors are the most important. These factories make an extensive contribution to technology transfer by bringing state-of-the art machinery into the country.

#### CONSTRUCTION

Poland is a significant exporter of building services. It is essential to adjust the Polish building industry to European standards, which vary between individual EU member states. Poland cooperates closely in this field with the European Committee for Standardisation. Construction design standards (Euro codes) constitute a special group of European standards in the building industry. The Euro codes concerning the designing of construction from concrete and steel have already been introduced in Poland. Other standards are in preparation.

The Building Law, which took effect in 1995, extensively amends previous provisi-

ons. Erected buildings must satisfy technical requirements ensuring security and reliability of construction, environmental hygiene and related requirements concerning building materials, protection against noise and convenience of use, rational energy consumption, durability of buildings and their components, and fire safety.

#### **AGRICULTURE**

Agricultural production is relatively mechanized. In 1999, there was one tractor per 14 ha of land under cultivation. The consumption of fertilizers in terms of the pure component in the economic year 1998/1999 amounted to 87.4 kg per hectare of land under cultivation, 2.2 kg lower than in the previous year.

#### **FOOD PRODUCTION**

It is a key factor in this industry to have among the best and most efficient equipment park possible. Many companies want to export to the European market but stringent demands have to be fulfilled. If Poland becomes an EU member state the same demands will exist even on the domestic market. Most production equipment is Polish because imports are usually expensive.

#### BANKING AND FINANCE

The technology in the banking and finance sector is well developed. There are currently three payment systems compared to one in Norway (BBS). Telephone and Internet banking services are common. Debit and credit cards are widely used and ATMs are easy to find as well as shop terminals. Polcard is the most advanced domestic system and cheaper than international cards.

On the Warsaw Stock Exchange, the WARSET system has been in use since 2001 (provides full automation of order transfer and transaction execution). The WARSET is similar to the systems used in the stock exchanges in Paris, Chicago and Singapore.

#### **TELECOMMUNICATIONS**

The Polish telecommunication sector is a key industry and an important part of the

infrastructure. The telephone network has an annual increase of 15 per cent and has been ranked among the fastest growing markets in Europe. The Polish infrastructure is far behind other European countries with about 20 telephones per 100 inhabitants. To increase this USD 14 billion will be invested the next 10 years. During few years the telephone connections and equipment have improved a lot, and all the regions in the country have new cables and connections.

The national telephone operator, "Telekomunkacja Polska S.A." (TPSA) will have a monopoly till 2003. There are also a variety of local operators and GSM networks throughout the country. There are no coin telephones in Poland, so it is necessary to buy telephone cards in order to use public phones. Foreign companies have the possibility for investments in local telephone services and additional services.

#### **GSM**

Since the middle of the nineties there has been an increase in mobile telephones. Cellular telephony first appeared in Poland in 1991 with operations of PTK Centertel Company, which now has a market in almost every area in Poland. There are about 7 450 000 mobile users in Poland, thus setting the average mobile telephone density to about 19.3 (the European average is approx. 40).

#### **SOFTWARE**

In the last few years more than 3000 computer companies have been established, but the market is not saturated. The bank administration and the telecommunication sectors are the largest purchasers of PCs and software, but there are also rising PC-sales to the domestic market.

#### **INTERNET**

The Internet is becoming increasingly popular as a source of information and a communications medium. At the end of 2000, the number of Internet hosts was estimated at roughly 76 per 10 000 residents. Internet cafés are easily accessible in most cities.

#### **MEDIA**

#### **TELEVISION**

There are three national television stations in Poland. Two of them are owned and operated by the state-owned company TVP - Polish Television. The third station is Polsat, the first private television station in Poland with national coverage. The state-owned channel Polonia is broadcasted by satellite and directed to viewers living outside Poland. All stations with non-satellite transmission must have a licence from



the National Radio and Television Council. Roughly estimated, Poland is the country in Europe with most satellite dishes relative to the number of people apart from France and Great Britain.

Video systems: PAL is currently the VHS standard (SECAM until recently). VHS is the most widely used format for recording from TV for home and video rentals.

#### **RADIO**

Radio is growing in popularity as an advertising medium. There are numerous radio stations in Poland, six stations are available nationwide of which three are controlled by the state-owned Polskie Radio. The remaining stations operate regionally or locally. According to a survey carried out by OBOP, 90 per cent of Poles regularly listen to the radio and 75 per cent listen every day.

#### **NEWSPAPERS**

About 6 million Poles read newspapers on a regular basis. 22.5 per cent of urban residents and 14 per cent of the rural population read newspapers. Men read more frequently than women (31 per cent compared to 26 per cent), and they spend slightly more time reading newspapers (40 minutes a day).

#### **ELECTRICITY**

Poland generates 97 per cent of its electricity in thermal plants. 60 per cent of this is from hard coal and 37 per cent from lignite. Only 3 per cent of all electricity is generated in hydro power plants. Poland has a high level of energy self-sufficiency, 90 per cent. This is higher than in most EU countries.

Electricity is 220 V, 50 Hz. The plugs used are the same as in the rest of Continental Europe - round with two pins.

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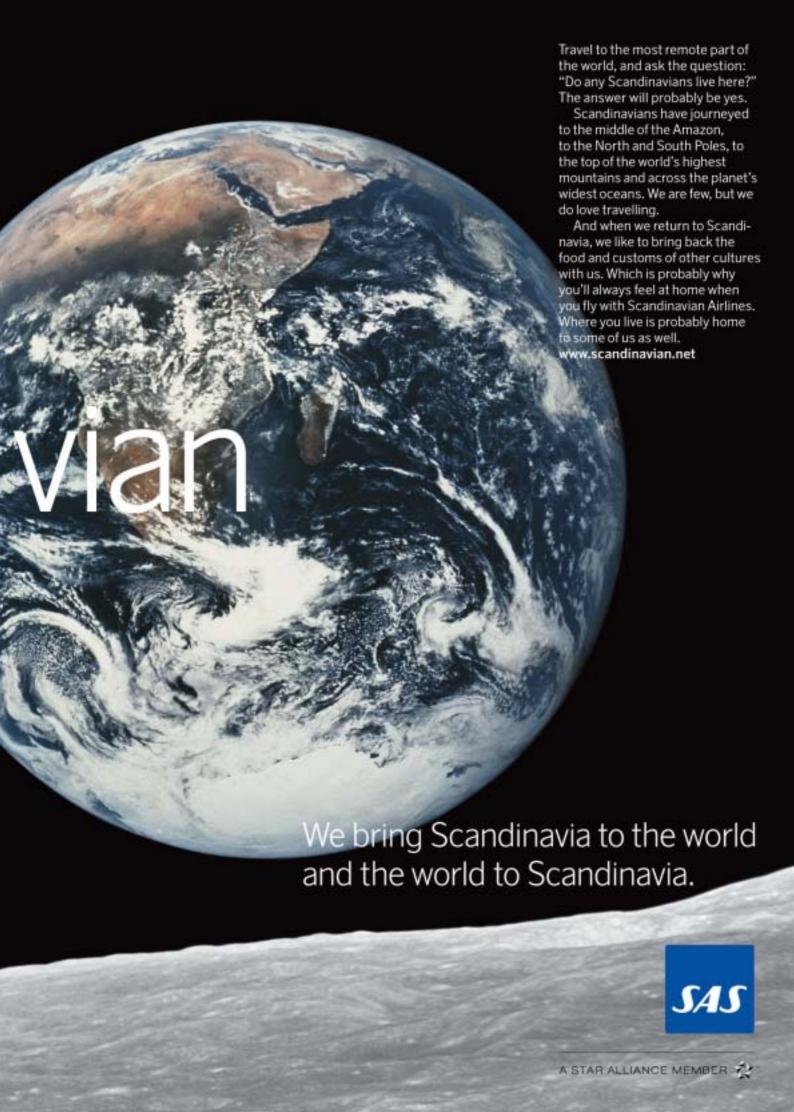
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# Part 2

- Setting up Business
- •The Legal Framework
- Banking and Finance
- Support Facilities
- Human Capital
- Transportation Infrastructure

## Setting up Business

In 2000, Poland was again the major recipient of foreign investment in Central and Eastern Europe. According to initial estimates of the Polish Agency for Foreign Investment (PAIZ), the foregin direct investment (FDI) inflow totalled in excess of USD 10.6 billion.

#### WHY INVEST IN POLAND?

- · A qualified workforce
- Relatively low cost of labour
- Attractive conditions for the operations of foreign investors
- Poland's forthcoming entry to the European Union
- Relatively good economic performance and favourable prospects for further growth
- Large market of nearly 40 million consumers

Foreign investors in Poland have shown particular interest in the manufacturing industry, especially food-processing and automotive industry.

## OUTLINE OF THE PROCESS OF SETTING UP A COMPANY

The establishment of a company by a foreign entity does not require any administrative permits, except for setting up a bank, for which a permit must be obtained from the Banking Supervision Commission.

#### Steps

Drawing up a deed establishing a company in the form of a notarial act and articles of association

Entering the company into the trade register in the register division of economic court

Registration of the company in the REGON system of the Central Statistics Office

Obtaining a licence or a permit for conducting economic activity

Opening a corporate bank account

Registration of the company with the tax office

#### **Explanations**

Upon registration the company becomes a legal person

Application should be submitted to the relevant statistics office for the seat of the company

Application should be submitted to the district branch of the Social Insurance Office within 10 days of first recruitment

Required only in cases specified by the law

Account can be opened with any bank in Poland

Company notifies the tax office of the commencement of its tax obligation

#### Figure:Business 1

#### **BUSINESS LAW**

According to the principle of mutuality, foreign investors in Poland can operate within the territory of Poland in all forms provided for by Polish law. This applies to foreign entities registered in the European Union or OECD member states, or countries with which Poland has signed agreements on mutual support and protection of investments. For entities from other countries, the Economic Activity Law provides for three legal forms of operation: limited partnership, limited liability company and joint-stock company. Their operation is regulated by the Commercial Companies Law.

In general, domestic and foreign businesses enjoy the same rights. The only sphere of activity forbidden to foreign investors is lotteries and gambling.

#### MARKET AND ADVERTISING

#### **ADVERTISING**

Television, radio, press and exhibition advertising are now the most popular forms of promotion on the Polish market. The average (net) cost of a television commercial ranges from PLN 500 to PLN 100 000 for 30 seconds while the average price of an advertisement in the domestic press ranges from PLN 300 to PLN 900 per square centimetre of space.

Billboard advertising and "telegazette" advertising offered by different television stations of nation wide and regional scope are also gaining importance. The cost of placing a one-week advertisement on the first screen page of Channel I and II of TVP ranges from PLN 250 to PLN 650, depending on the sector. [FTRI 2001]

#### **FAIRS AND EXHIBITIONS**

Fair organizers are associated in the Polish Corporation of Organisers of Business Fairs and Exhibitions. The largest organizer of fairs and exhibitions in Poland is the Poznan International Fair. The best-known events in Poznan include the investment and technology fair held every June and the Polagra agricultural and industrial fair held each autumn. There is also a fair devoted to furniture and other wooden articles. The average cost per square metre of exhibition space in an unfurnished hall at the Poznan International Fair in 1999 ranged from USD 75 to USD 95 and

outdoors from USD 25 to USD 50. Gaining popularity as well are the Lodz International Fair, Gdansk International Fair, East-West Border Fair in Biala Podlaska, Katowice International Fair and a number of fairs organized in Warsaw. (More information about the about 500 fairs in 24 towns can be found in "Poland 2001. International Fairs and Exhibitions", edited by Dima Advertising and Publishing Agency.)

#### SPECIAL ECONOMIC ZONES

The law on Special Economic Zones (SEZ) was passed by the Sejm on 20 October 1994. It was amended in 2000 to reflect, among other things, arrangements concerning competition policy adopted in the context of negotiations on Polish accession to the European Union. The EU required in particular changes to Polish law regarding business subsidies to conform to Community law.

Income from the economic activity in the zone generated by legal and natural persons may be exempt from corporate income tax and personal income tax based on rules in the corporate and personal income tax regulations. The scale of the exemptions is specified in the ordinances of the Council of Ministers establishing the zones. The principles and scale of the public support granted to the entrepreneurs under the law may not be changed to the detriment of entrepreneurs holding a valid permit to operate in the zone during the period for which the zone was established. The extent to which the exceptions apply depends, among other things, on the size of investment projects undertaken and the number of people employed.

If an economic entity is not entitled to exception from income tax, all its investment expenditures connected directly with economic activity conducted in the zone can be fully deducted from gross revenue as costs in the fiscal year in which they were made. Such economic entities may also increase depreciation rates for fixed assets used to conduct economic activity in the zone.

Special economic zones also offer facilitation of construction law procedures by, for instance, faster and simpler issuance

of a building permit, transfer of a building permit to another person, and so on.

The law on special economic zones also stipulates that the Council of Ministers may liquidate a zone before the period for which it was established has expired, and may also modify its area or merge zones. However, the law does not permit that the total area falling within economic zones can be increased by replacing an area with no hope of attracting investment with another zone in a more attractive area. Zones may not be liquidated during the period when permits for conducting economic activities in the zone remain valid.

#### 15 LOCATIONS

There are 15 special economic zones in operation: Mielec, Katowice, Suwalki, Walbrzych, Lodz, Legnica, Starachowice, Kamienna Gora, Tarnobrzeg, Olsztyn, Slupsk, Kostrzyn-Slubice, Zarnowiec, Tczew and Krakow. By the end of 2000, 300 permits were granted for conducting economic activity in special economic zones. It is expected that the SEZs will be operational at least till 2017, i.e. to the expiry of the permits issued for conducting activities in these areas.

#### TAX EXCEPTIONS

New investors will be able to enjoy preferences in the form of income and real estate tax exceptions up to 50 per cent of the value of their investment projects. However, total tax allowances for investors in particular zones will not be allowed to exceed the overall public support ceiling in a given region.

#### PLANNED GOVERNMENT AMEND-MENTS

The special tax and legal regulations in the SEZs have sparked some controversy, especially in view of the EU's position, that EU members should not introduce tax incentives for foreign investors or other groups that would significantly deviate from the average level of taxation in a given country. The EU countries plan to liquidate SEZs within 3 to 5 years. Although Poland argues that it is not as well developed as the EU, the activity of SEZs will be limited in Poland. The government plans to introduce some amendments to the Law on Establishing SEZs. It is proposed that instead of tax relief, investors will be offered public assistance limited to a

maximum of 50 per cent of the investment value. This assistance will also depend on unemployment and GDP per capita in the specific area and it will be given in form of relief in income and property tax or through financing the infrastructure by the authorities. As a result of these amendments the size of public assistance will be in line with EU standards.

The amended regulations will apply only to new investors obtaining their permits after new regulations are introduced. The ones who are already operating and who will obtain their permits before the change takes place will benefit from the current, more advantageous tax exemptions. Therefore, potential investors considering investments in SEZs should accelerate their ventures, bearing in mind however, that after obtaining the permit operations must begin within a specified period of time.

In conclusion, it is important to note that conducting business in SEZs in Poland can be an advantage for investors.

Nonetheless, as different conditions apply to different zones, a detailed knowledge of the regulations regarding the particular zone and careful tax management is essential in order to obtain and benefit from the tax incentives. Furthermore, even if the tax incentives will be reduced, SEZs in Poland will continue to attract foreign investors due to other forms of public assistance.

#### **INVESTMENT INCENTIVES**

The government's incentive policy is largely influencing investment decisions. The act on public aid, which is now the fundamental act regulating investment activity in Poland, became effective in January 2001. It controls conditions, procedures, the amount and the form of the aid granted to investors. It also presents new opportunities for foreign investors by warranting competitive advantage for a company within the field of its activity.

The government's main investment incentives can be listed as follows:

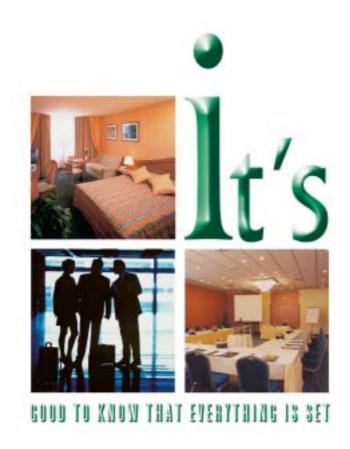
- 1. Special Economic Zones.
- 2. VAT taxpayers are entitled to a decrease in the amount of the tax

- due by the amount of tax charged on the purchase of goods and services.
- 3. Effectuation of a non-cash contribution from outside Poland is exempted from customs duty.
- 4. Polish customs law provides for several privileges for entrepreneurs (customs-duty exemptions, use of economic tariff procedures, conducting activity in free customs areas etc.).
- 5. Possibility of returning the tax charged as an advance prior to the emergence of tax liability.
- 6. The corporate income tax (CIT) rates fell to 34 per cent as of 1999; 28 per cent as of 2001; 22 per cent as of 2004.
- 7. The number of depreciation rates was reduced to 10.
- 8. Property tax there is a possibility of decreasing the rate or complete exemption.
- 9. Motor vehicles tax there is a possibility of decreasing the rate or complete exemption.
- 10. Grants for employment of the unemployed.
- 11. Grants dedicated for employment of unemployed disabled.
- 12. Subsidies to interest rates of bank credits for entrepreneurs for various purposes (farming, financing export contracts etc.).
- 13. Subsidies / credits for scientific/research work (covering things such as the purchase of computer software and development of local networks.).
- 14. Subsidies, credit guarantees, preference credits, subsidies to the interest rates of credits for entrepreneurs launching innovative or new products, processes or technologies.
- 15. Bank credit guarantees for:
- a. investment credits;

b. credits meant for purchase of materials for production purposes

16. Reimbursing the cost of commuting and accommodation to persons who have undertaken employment or received training outside their place

of residence, in regions threatened with particularly high structural unemployment (up to 12 months maximum).





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# The Legal Framework

#### **BASIC LEGAL INFORMATION**

#### SETTING UP FOREIGN ACTIVITIES

Economic activity may be started by foreign entrepreneurs and conducted (after meeting the relevant conditions) in all legal forms available to the Polish citizens, i.e.:

- 1. Natural person conducting economic activity
- 2. Civil partnership
- 3. General partnership
- 4. Partnership
- 5. Limited company
- 6. Mixed joint stock and limited company
- 7. Limited liability company
- 8. Joint stock company
- 9. Division
- 10. Representative office.

#### CORPORATE INCOME TAX (CIT)

Taxpayers should note that all taxes are payable monthly on account and that interest penalties in excess of 40 per cent per annum apply to the late payment of tax.

All business entities and organizations are required to pay corporate income tax. Corporate income of legal entities is taxed at 28 per cent. The tax rate will be decreased as follows: 2003 - 24 per cent; 2004 - 22 per cent.

Losses can be carried forward up to five years, though no more than 50 per cent of the loss can be written off in any year.

#### PERSONAL INCOME TAX (PIT)

An individual generally becomes a tax resident in Poland if he is domiciled in the country. An individual has his usual domicile in Poland when he is present in the country for at least 183 days in a calendar year.

#### **VAT – RATES AND REGULATIONS**

Tax on goods and services (VAT) is a broad based tax levied on the sale of goods and services in Poland. An entity is required to register for VAT once its annual turnover on VAT able transactions exceeds 10 000 EURO (39 800 PLN).

#### 22 per cent:

The base VAT rate is 22 per cent and is charged on most goods and services.

#### 7 per cent:

A reduced VAT rate of 7 per cent is imposed on sales of:

- Certain groceries
- · Goods used in health care
- Goods used as children
- Tourism and transportation services
- Communal services (e.g. water distribution, street/square maintenance etc.)
- Fertilizers
- Gas
- Energy
- Newspaper, publications

#### 3 per cent:

E.g. sale of unprocessed agricultural products

#### 0 per cent:

A zero VAT rate is levied on the export of goods and services and also on some international transportation services, financial and insurance services, cultural services, agricultural machinery and fertilizers, etc.

#### **ACCOUNTING AND AUDITING**

Businesses operating in Poland are required to base their accounting procedures on a double-entry system. Each company must also establish its book of accounts. There are no uniform requirements for the book of accounts.

#### The 2001 personal income tax scale

Taxable Basis Tax Due

 Up to
 PLN 37 024
 19% of taxable basis minus PLN 493

 PLN 37 024 to
 PLN 74 048
 PLN 6 541
 +30% of an excess over PLN 37 024

 Over
 PLN 74 048
 PLN 17 648
 +40% of an excess over PLN 74 048

Source: Unido 2001

Figure:Legal 1

Nevertheless it has to reflect the company's assets, the cost of production and the profitability of the company. The accounting records, the annual balance sheet and the profit and loss account have to be maintained in Polish currency and prepared in the Polish language.

Requirements regarding correctness and clarity of the accounting records do not differ from those applied in western countries. All accounting records, documentation, reports, etc. have to be kept for five years.

#### SOCIAL SECURITY INSURANCE

In Poland social security insurance consists of the following kinds of insurance: Pension, disability, accident, and sickness insurance. (More information about this is in the section for Human Capital.)

#### **DOUBLE TAXATION TREATIES**

Poland follows the model of OECD convention in negotiating its tax treaties. As of May 2001 Poland has signed agreements on avoiding double taxation with 78 countries. These treaties are based on a reciprocity principle, the may actually reduce or eliminate various taxes.

#### LOCAL TAXES AND CHARGES

Local authorities are empowered to set the level of rates and relieves in local taxes. Their rates cannot exceed the maximum levels determined by the Parliament.

Local taxes include:

- Real estate tax
- Transportation tax (imposed only on lorries and trucks)
- Fair tax
- Inheritance and donations tax
- Agricultural tax
- Forestry tax
- Dog owner tax

#### **REAL ESTATE**

Acquisition of real estate by foreigners may take place solely on obtaining permission from the Ministry of the Internal Affairs. The Law does not apply to the transfer of proprietary rights to heirs.

A foreigner intending to purchase real estate may apply for a permit issuance promise. The promise is issued in the form of an administrative decision. It is valid for 6 months from the date of its issue. During

the period of the promise's validity, the Ministry may not refuse to issue a permit. All provisions applicable to a permit also apply to the promise.

The 2001 maximum real estate tax rates for selected types of real property are as specified in the following table.

#### **BANKRUPTCY AND INSOLVENCY**

Bankruptcy of any business may be declared when a business entity has ceased to pay its debts. If the situation is short-lived, due to temporary difficulties, the Bankruptcy Law does not give the grounds to declare bankruptcy. The

#### Maximum real estate taxes

Type of real estate	Annual tax rate per sqm
Residential Buildings	0.46 PLN
Commercial buildings	15.86 PLN

Other buildings 5.29 PLN
Commercial land 0.56 PLN
Other land 0.08 PLN

Source: Unido 2001

Figure: Legal 2

Arrangements Proceedings Law aims to avoid the bankruptcy of economic entities that are facing short-term liquidity problems. Once a situation giving ground for bankruptcy arises, the entrepreneur has to file a declaration of bankruptcy within 2 weeks. Failure to do so is punishable. A creditor of the company may also file a bill for bankruptcy, as well as any of his creditors.

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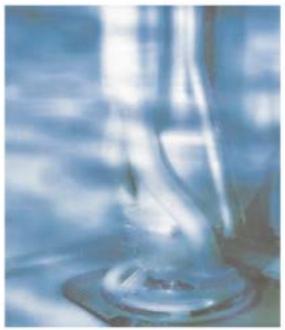
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# Banking and Finance

#### THE POLISH BANKING SECTOR

The transformation of the Polish banking sector started in 1989, and has rapidly developed since. As a result of the OECD membership Poland agreed to let foreign banks open branches in 1999. Before this period foreign investors had to buy an existing bank to get an operating license.

In an interview published in the Prawo i Gospodarka [PG], Hanna Gronkiewicz-Waltz, Governor of the National Bank of Poland, claims that the condition of banks has been generally improving. Banks are stronger thanks to accumulation of specific purpose reserves and able to act as a cushion in case of unforeseen events.

Foreign investors control 70-80 per cent of the Polish banking sector. At end of year 2000, there were 73 commercial and 680 very small cooperative banks operating in Poland. The concentration is high as the top five banks hold about 50 per cent of the total assets of the banking sector. Around 60 banks are more or less dominated by foreign ownership (About 50 per cent of the total assets of the banking sector)[GIME].

Because of the high domination by foreign banks, it is fair to say that the banking sector in general is in good shape and will be well prepared to assist companies for the time when Poland will (probably) enter the EU. Nevertheless, there are serious barriers to intensification or speeding up the privatisation process in Poland. These include: Capital shortage, worried trouble with Polish investors and the scarcity of funds available on the capital market.

Recently, in their search for new sources of funding, Polish banks have embarked on setting up capital and insurance groups. The diversification of banking services' offers by insurance facilities is also convenient for banks' customers. Owners of bank accounts can buy life and accident insurance policies.

The scope of the so-called investment banking, including brokerage services, capital market operations, preparation of issues of shares and financial counselling, trusteeship, and asset management, has been steadily increasing in banks' operations.

#### Nordic banks in Poland

There are four Nordic banks present in the Polish market. All of them are offering corporate services. In addition SEB and Nordea have retail services. Handelsbanken is the only bank that has entered the market by Greenfield activity and not by an acquisition. Nordea aims to be among the five largest retail banks in Poland.

Taking into consideration the assumed initial target customer segments (subsidiaries of Nordic enterprises) for Nordic banks in Poland, they should be seen as emerging players compared to such banks as Deutsche Bank, Citibank, ING and ABN-AMRO. Thus the Nordic banks are facing competition not only from other Nordic competitors but also from banks which are not usually met as competitors in the Nordic region.

DANSKE BANK POLSKA www.danskebank.com/pl

HANDELSBANKEN www.handelsbanken.se/pl

NORDEA www.nordea.pl

SEB www.seb.pl www.bos.pl

Also, the market of Corporate Finance services poses more and more serious competition for traditional banking activities: both holding deposits and granting credits. Most important of them include: handling of the issue of commercial papers, handling of the issue of corporate bonds, management of customers' assets, intermediation in trading in securities at the Warsaw Stock Exchange, handling of issue of shares and counselling services in the field of mergers and takeovers. Activities in the field of asset management and investment in securities become substitutional to lending, while debt securities replace traditional credits. The emergence of new financial institutions, such as investment funds or pension funds

will create growing demand for debt securities.

The network of small banking offices has been developing at a relatively fast rate. Although the degree of saturation with banks in Poland lags far behind the European Union standards, positive trends are noticeable in this respect. Centralized information systems allow banks to open small offices with only few staff members and to cut employment. Thererfore the rise in number of bank-offices has not resulted in any increase in employment. The fall in the interest margin is expected to slow down in 2002. Investment risk in the banking sector is still the consequence of growing competition between banks in cutting the margins. The interest margin is projected to fall to 3.2 per cent in 2003 (compared to 5.4 per cent in 1998).

#### POLISH BANK CHARACTERISTICS

Foreign companies who plan to invest or who have already invested in Poland have to be aware that there are some differences to the Western European market such as:

- Level of interest volatility
- Level of currency volatility
- Spreads between deposit and credit rates (Bank Guarantee Fond & Central Banks rules for the Banks to deposit 5 per cent of all deposits without interest rate in the National Bank of Poland)
- Tax on Civil Law Transactions (Former: Stamp duty on inter-company loans)
- Foreign Exchange Law (Limitations on cross border transactions)
- •Thin Capitalization (Three to one)

It is recommended [DBP] that these differences be closely investigated before setting up account structures, financing (parent company loans contra local funding) and hedging in general. The first great mergers occurred in 1997 and were initiated by the takeover of Bank Gda\_ski by BIG

# THE POLISH CURRENCY (PLN) AND INTEREST RATES

The Polish currency has been rather buoyant during the last year. There are several reasons for this strengthening:

• Sentiment in the international financial markets has become less uncertain in step with the positive progression of the



US military actions in Afghanistan. This leads to greater risk acceptance, which has a (slightly) positive impact on emerging market currencies such as the PLN.

- •The budget situation in Poland has been resolved. Among other things, it has demonstrated a strong resolve to implement an unpopular, albeit necessary, tightening of fiscal policy.
- Poland's tighter stance on fiscal policy has paved the way for a more lenient monetary policy, reducing the tensions between the government and the National Bank of Poland (NBP).
- Poland is increasingly perceived as a "blue chip" emerging market, and the PLN therefore has become less vulnerable to volatility compared to other emerging markets (e.g. Argentina or Turkey).

Despite the overall good performance of the PLN over the last year there have been periods where the PLN has been weakened rather dramatically. This has

#### The Top of Major Foreign Investors in banking (in million USD)

Investor Equit	ry and loans	Investment plans	Country of origin
1.UniCredito Italiano	1,042.0	n.a.	Italy
2, Bayerische Hypo- und Vereinsbank AG	1000.0	500,0	Germany
3.Allied Irish Bank Plc	746.7	n.a.	Ireland
4. ING Bank NV	470.0	n.a.	Nether <b>l</b> ands
5.Commerzbank AG	460.0	n.a.	Germany
6.Citibank	236.0	43.0	USA
7. Deutsche Bank	146.6	na	Germany
8. Creditanstalt Bankverein	145.2	50.0	Austria
9. KBC Holding	137.1	173.0	Belgium
10. J.P.Morgan	100.0	na	USA
<ol> <li>Raiffeisen Zentralbank Oesterreich AG</li> </ol>	72.0	na	Austria
12. Westdeutsche Landesbank	69.5	na	Germany

Figure: Bank 1

primarily been a result of political uncertainties and the overvaluation of the PLN. Given the overvaluation of PLN one should expect to see an adjustment of the exchange rates sooner or later.

The following factors are considered to represent the greatest risks in respect of the positive trend:

- The Polish economy has experienced a market slowdown, and there are no prospects of an immediate recovery. This may contribute to exacerbating the public finances, triggering a new budget and currency crisis similar to the one witnessed during the past summer.
- So far, the newly elected Polish government has performed surprisingly well. However, the coalition government between the SLD (ex Communists) and the Polish Peasant Party is definitely not a "dream government", and we would the-

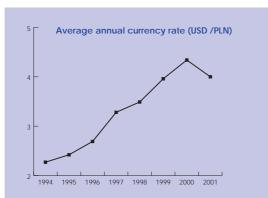


Figure: Bank 2

refore expect to gradually see government tensions emerge during the next years that could contribute to tarnishing its credibility in respect of the economic policies pursued.

If the global economic downturn continues well into 2002, the risk of international financial crises will increase, and this will hit relatively volatile currencies such as the PLN.

#### **FINANCE**

Appropriate legal regulations are a significant element of the emerging capital market. In 1991, the Sejm passed the law on public trading in securities and on trust funds. This way legal foundations for major capital market institutions were laid down. These institutions included: brokera-

ge houses, the stock exchange, trust funds as well as the Securities Commission as a government administration body controlling and promoting the securities market.

#### WARSAW STOCK EXCHANGE

The Warsaw Stock Exchange (WSE) was established by the State Treasury as a non-profit joint-stock company, and is the only stock exchange in Poland. As of 1 February 2002, there were 217 companies (market value of PLN 117 billion) and several bond series quoted on all markets on the WSE in total. Stocks are traded on three different markets with different demands as follows (See Figure Bank 4): In addition to these three markets, in March 2000 the WSE introduced the SiTech segment, for innovative technologies related to IT and telecommunication stocks. Stocks traded on the main floor are the most liquid ones and represent the potentially lowest risk of the three markets. A permit from the Ministry of the Internal Affairs is required for purchase or receipt by a foreigner of 50 per cent of shares or stocks in a commercial company, or purchase or receipt of shares/stocks in a controlled company by a foreigner not being its shareholder.

In 2000, the foreign investors' share in the stock trading on the WSE equalled 28 per cent in contrast to only 2 per cent on the bond and futures market [UNIDO].

Bonds have been sold secondary on the Warsaw Stock Exchange since 1992. In

Securities are traded on three different markets with different demands as follows:						
	Book value	Aggregated value				
Main floor	6.5	40.0 (million PLN)				
Parallel market	2.2	14.0				
Free floor	4.0	4.0				
		Source: (Andersen)				

Figure Banking 3

1998, the WSE also started trading futures contracts on WIG20 index in the continuous trading system.

At present, the retail sales network offers the following types of bonds:

- -two-year fixed-rate bonds (DOS in Polish abbreviation)
- -three-year floating-rate bonds (TZ)

-four-year indexed bonds (COI) after the

The provisions of the law on public trading in securities, which has been effective since 4 January 1998, are compatible with OECD requirements and with legal acts of the European Union.

The WSE plays a minor role for most Nordic businesses, and we therefore refer to references for further information. Several people we have met have critized the stock exchange for not being liquid enough. They recommend investors to think thoroughly before entering the WSE at the current situation.

#### THE NATIONAL BANK OF POLAND

The National Bank of Poland (NBP) issues currency, holds Poland's foreign exchange reserves, refinances and supervises the banking system, exercises control functions and issues licences for banking activities.

The basic objective of NBP's activity is to maintain price stability. According to the medium-term monetary policy strategy for the years 1999 - 2003, a medium-term target of the NBP is to reduce inflation below 4 per cent by 2003.

NBP President Leszek Balcerowicz said at a press conference in November 2001

that inflation may fall below 5 per cent by the end of the year and may even stabilize in 2002. Since the beginning of the year 2001 interest rates have been cut by a total of 600 base points. The Economist Intelligence Unit estimates the inflation of 2002 to be about 4.4 per cent.

#### **FUTURE PROSPECTS**

Poland has recorded the strongest economic growth of all Central and Eastern European (CEE) countries over the past ten years. However, during 2001, growth has dived and unemployment has passed 18 per cent due to the central bank's numerous rate hikes in 2000, bringing the interest rate above 19 per cent at one time. The NBP introduced this monetary tightening to curb inflation and inflation has indeed gone down, but at the same time economic growth slowed dramatically. During 2001 the NBP has started to cut rates. However the interest rate level remains high and further cuts are in sight in 2002, which might cause growth to regain some momentum in 2002. After the latest rate cut in January 2002 the Key Market Rate is now at 10 per cent.

Despite the currently negative economic trends, the long-term outlook for the Polish economy is relatively positive. As Poland starts to recover, annual GDP growth may return to the growth rates of the past decade of 4-5 per cent.

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#### Investeringspartner i Polen?

Områdene i Øst- og Sentral-Europa representerer nye muligheter og utfordringer for norsk næringsliv.

SNDs Russland- og Øst-Europadivisjon har investert i 14 prosjekter i Øst- og Sentral-Europa. I sin rolle som aktiv medinvestor vil våre erfarne medarbeidere og jurister kunne tilby høy kompetanse, utstrakt nettverk og inngående kjennskap til disse landene.

Investeringsfondet for Øst- og Sentral-Europa tilbyr egenkapital til norske bedrifter og investorer som ønsker å etablere seg i disse områdene.

#### Kontakt oss hvis du har et interessant prosjekt!



Divisionsdirektor Erfic Holtedahl 22002545



Avdelingsdirektor Erik Welle-Watne 22002516



Investeringsanalytiker Elin Ersdal 22002637

Statens narrings- og distriktsutviklingsfond, Russland- og Øst-Europadivisjonen Akersgata 13, Pb. 448, Sentrum N-0104 Oslo, Norway

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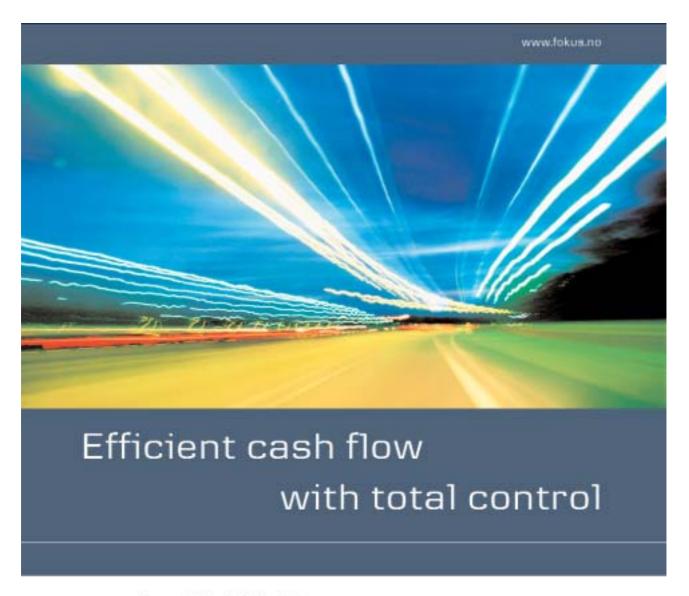
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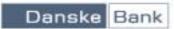
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# Support Facilities

# THE EMBASSY AND CONSULATE

#### THE ROYAL NORWEGIAN EMBASSY

The Royal Norwegian Embassy of Poland is located in Warszawa. Its main purpose is to maintain and nourish official contact between the Norwegian and Polish governments as well as to keep the home authorities informed on the political and economic situation in Poland. In addition to the political work, the Embassy promotes economic and cultural contact between the two countries and supports Norwegian and Polish business communities and citizens. For instance the Embassy arranges seminars and trade fairs often in collaboration with the Norwegian Trade Council. Another example of this work is the Norwegian Trade- and Promotion Council, a forum with participants from the Embassy, Norwegian companies, the Norwegian Trade Council and the Norwegian Seafood Export Council. In this forum representatives will inform about activities taking place in their organization and look for possibilities for common events.

#### **Examples of involvement**

As a part of the Norwegian Embassy's work to promote contact between Norway and Poland, there will be a Polish - Norwegian business seminar in Tarnòw in April 2002. Arranging this seminar in southern Poland is also a part of the Embassy's plan to enhance contact and explore the business opportunities in parts of Poland outside the Warsaw region. Both Norweaian and Polish businesses are expected at the seminar, and it will actively try to match those who have common interests with respect to trade and investments. The Norwegian Embassy will also be represented at Baltexpo 2002 (see the section on Shipbuilding) and Polfish 2003, to promote Norwegian businesses and strengthen contacts between the two countries.

### EMBASSY OF THE REPUBLIC OF POLAND

Embassy of the Republic of Poland in Oslo is mainly engaged in bilateral government negotiations with Norway. However the economic and commercial section handles business related affairs.

# ROYAL NORWEGIAN CONSULATES IN POLAND

There are three Norwegian consuls in Poland, located in Krakow, Szczecin and Gdynia. All three are honorary consuls, which mean that they execute their consular duties in addition to being employed in a company. The consulates in both Kraków and Szczecin assist Norwegian companies with commercial matters, while the one in Gdynia only assists in private matters.

#### Norwegian Business Forum

The Norwegian Business Forum is an informal association of representatives of Norwegian companies established in Poland. The association arranges lunch meetings and other activities focusing on networking and social events. Carsten Nilsen, president of Group 4 Polska, is the head of the Norwegian Business Forum

#### NATIONAL RESOURCE CENTRES

#### NORWEGIAN TRADE COUNCIL

The Norwegian Trade Council (NTC) is the national resource centre for private enterprises and the authorities in the fields of export and internationalization. The NTC is a foundation owned equally by Confederation of Norwegian Business and Industry (NHO) and the Ministry of Trade and Industry (NHD) and performs both official and consulting services. In Warszawa the NTC is also the commercial section of the Royal Norwegian Embassy.

The official services the NTC provide are mainly focused on promoting Norway and Norwegian trade and industry towards foreign companies and business environments. NTC organizes trade delegations, exhibitions and campaigns, often

#### NORWEGIAN FUNDS AND SUP-PORT ORGANISATIONS

There are several organizations and funds that support Norwegian business ventures in Poland. We have only mention a selection of those we find most important. A great opportunity for Norwegian businesses investing in environmental technology in Poland is the EcoFund. The EcoFund is not mentioned here as it is thoroughly treated in the Energy and Environment sector.

### THE NORWEGIAN INDUSTRIAL AND REGIONAL DEVELOPMENT FUND

The Norwegian Industrial and Regional Development Fund (SND) is the government's most important financial tool in Norwegian business development. Through the Investment Fund for Eastern and Central Europe, SND can be an active and long-term investor in Norwegian projects in Poland. With SND as an investor, the project's risk might be reduced as SND has a staff with long experience from Eastern Europe and the advantage of being a governmental institution. To invest in a project SND demands that it is based on a good, feasible business idea and has a project plan showing that the project will be profitable. A Norwegian private co-investor is also a requirement set by the SND. The investment fund amounts to NOK 120 million and is run on a commercial basis. Usually SND does not invest in more than 35 per cent of a project and

never more than NOK 15 million. The division for Russia and Eastern Europe in SND manages the Investment Fund for Eastern and Central Europe.

#### THE NORDIC INDUSTRIAL FUND

The Nordic Industrial Fund is the collaborative body for the Nordic countries in industrial research and development. The fund seeks to stimulate, initiate and finance research and development in Nordic industry. To be entitled to economic support from this fund, a project must include participants from at least three Nordic countries.

### THE INDUSTRIAL DEVELOPMENT CORPORATION OF NORWAY

The objective of the international department of Industrial Development Corporation of Norway (SIVA) is to facilitate the internationalization of Norwegian small and medium-sized companies, with particular emphasis on the Baltic region. Today SIVA has established industrial and business parks in Murmansk in Russia, Panevezys in Lithuania and Ogre in Latvia. SIVA has several projects under development in the Baltic countries, Russia and Poland. The international department of SIVA has long experience in assisting business ventures in the Baltic region and can assist Norwegian companies also where SIVA does not have industrial and business parks.

#### NATIONAL RESOURCE CENTRES

#### Norwegian Trade Council

Drammensveien 40 0243 Oslo, Norway Phone: +47 22 92 63 00 Fax: +47 22 92 64 00 Web page: www.ntc.no

#### Norwegian Trade Council

ul. Srebrna 16 00-810 Warsaw, Poland Phone: +48 22 699 72 41 Fax: +48 22 627 39 87 Web page: www.ntc.no

#### Economic and Commercial Section of the Embassy of the Republic of Poland

Uranienborg terrasse 11 0351 Oslo, Norway Phone: +47 22 60 24 48 Fax: +47 22 56 53 81 E-mail: tradepln@online.no

#### Polish Agency for Foreign Investment

al. Roz 200-559 Warsaw, Poland Phone: +48 22 334 98 00 Fax: +48 22 334 99 99 Webpage: www.paiz.pl

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### The Royal Norwegian Embassy of Poland

ul. Chopina 2a

00-559 Warsaw, Poland Phone: +48 22 696 4030 Fax: +48 22 628 09 38

E-mail: emb.warsaw@mfa.no

### Embassy of the Republic of Poland in Norway

Olav Kyrres pl 1 0273 Oslo, Norway Phone: + 48 22 43 00 15 Fax:+48 22 44 48 39

# EXPORT FINANCING AND INSURANCE

### The Norwegian Guarantee Institute for Export Credits

Postboks 1763 Vika 0122 Oslo, Norway Phone: +47 22 87 62 00 Fax: +47 22 83 73 58 Web page: www.giek.no

#### **Eksportfinans ASA**

Dronning Maudsgt. 15 PB: 1601 Vika, 0119 Oslo, Norway

### Phone: +47 22 01 22 01 Fax: +47 22 01 22 02

Web page: www.eksportfinans.no

# NORWEGIAN SUPPORT ORGANIZATIONS AND FUNDS

### The Norwegian Industrial and Regional Development Fund (SND)

Akersgata 13 Postboks 448 Sentrum 0104 Oslo, Norway Phone: + 47 22 00 25 00 Fax: + 47 22 42 45 00 Web page: www.snd.no

#### The Nordic Industrial Fund

Holbergs gate 1 0166 Oslo, Norway Phone: +47 23 35 45 40 Fax: +47 23 35 45 45

Web page: www.nordisk-industri-

fond.no

### The Industrial Development Corporation of Norway (SIVA)

Leiv Eiriksson senter 7462 Trondheim, Norway Phone: + 47 73 54 62 00 Fax: + 47 73 54 62 50 Web page: www.siva.no E-mail: internasjonal@siva.no

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# Human Capital

One of the most important comparative advantages of the Central and Eastern European (CEE) countries is accessibility to relatively cheap and good quality labour. According to a postal survey [OCE] availability of cheap, skilled labour was the second most important factor driving investment (number one was access to the market).

Through the EEC agreement Polish workers will get free access to the Norwegian labour market through an EU membership. The Norwegian government has stated as for December 2001 that no barriers will be set. This opens up a vast labour market for Norwegian businesses.

# FACTS ON GETTING LABOUR TO NORWAY

What are the current and future possibilities of getting non EU/European Economic Area (EEA) labour to Norway?

#### **CURRENT SITUATION**

Annually, several hundred skilled workers from outside the EU/EEA area, obtain jobs in Norway. This is based on the condition that the labour is not available within the EU/EEA area, which is coordinated through the EURES organisation (EURopean Employment Services).

In addition, several thousand unskilled labourers come as seasonal workers during the harvesting periods.

#### **FUTURE POSSIBILITIES**

Eventually, when Poland becomes a member of the EU, the Polish workforce will also have access to the Norwegian job market because of the EEA agreement. The Norwegian government has, as mentioned in the introduction, stated that there will be no barriers set on Polish labour immigration.

#### **LEGISLATION**

Currently a group set up by the Norwegian government is working on potential changes in the existing foreign law. Their goal is to make it up to date, less bureaucratic and more flexible. One example is the abolishment of quotas on foreign seasonal workers in the agriculture and forestry sector. The new delegation of approval authority regarding work permits to some Norwegian embassies (Vilnius,

Riga, Tallinn, Moscow, Riga, and Ottawa) is another example. Since these are currently changing, it is our recommendation to study in closer detail the web pages in the "Sources of information" section.

Nonetheless these are some important rules to be aware of:

- •As an employee you must pay the foreign skilled workers the same wage and salary as Norwegian workers.
- •The work permit procedure can take from one to three months.
- •The Immigration Regulations require that when a foreign national is to stay in Norway for more than three months, he or she must be informed of the duty to undergo an examination for tuberculosis.

#### Sources of Information:

The Labour Market Administration www.aetat.no
Tel: +47 22 98 71 00

The Norwegian Directorate of Immigration www.udi.no
Tel: +47 23 35 15 00

EURopean Employment Services http://europa.eu.int/comm/employment

# ANALYSIS OF THE POLISH WORKFORCE

The Polish workforce has a reputation of being well educated, quick learners and flexible [PAIZ]. With some 30 million people of working age, the Polish labour market is one of the largest in Eastern and Central Europe. The Polish population is relatively young, with an average age of 35 years. The population in 2000 decreased by ten thousand, but the number of persons in the productivity age\* increased by 230 000. Over the next five years about 3.5 million people will reach the age of 18. In the same period about 2.5 million people will reach retirement age. This means that the net creation of jobs must be at least 1

<sup>\*</sup>Productivity age: 18-59 for women, and 18-64 for men.

million just to maintain the current rate of employment. At the same time the current rate of unemployment is 18,4 per cent [CESTAT] and it is expected to increase during 2002. This means that there will be substantial number well qualified of job seekers in this time period. The unemployment rate is highest among the young under 24, even though they are often very well educated. In fact, Poland has with its nearly 300 higher education institutions more students than Great Britain.

cent, while in many rural areas unemployment is up to 25 per cent.

#### **COST OF LABOUR**

The cost of labour has been a comparative advantage for all CEE countries since the transformation into market economies. However, the cost differences are not as significant as they used to be. This is particularly true for Poland, which these days has the highest wage level in the CEE region. The current high or strong PLN

Employed persons b	by category
(in th	nousands)
Total	8065
	3804 4261
Fishing Hotels and restaurants Agriculture Financial intermediation Public adm and defence Construction Real estate, business act. Transport and storage Trade and repair Health and social work Education Industry	5 109 135 232 511 529 530 569 864 796 892 2690
	Source: GUS 2001

Figure: HC 1

#### UNEMPLOYMENT

The unemployment issue is undoubtedly one of Poland's major current and future problems. Nearly 19 per cent of the workforce (about 3 million people) is currently without jobs. For every 10 workers, 8 are receiving pensions, social security benefits or are unemployed. This clearly indicates the gigantic social difficulties, and is forcing young people to take an education. Bear in mind, though, that there are geographic differences within Poland. Social conditions vary from region to region and among vocational groups. Warsaw is the economic centre in Poland, with an unemployment rate at about 4.5 per cent, close to the natural rate. In the Gdansk\Gdynia area in the north the unemployment rate is close to 20 per

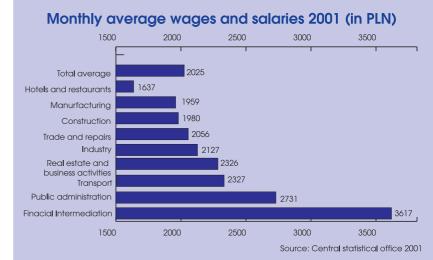


Figure: HC 2

makes the wage levels even more expensive.

Recently PSA (Peugeot Citroen and Toyota Motor Corp.) chose the Czech Republic over Poland and Hungary as the location for a new joint factory to build small cars for the European market. This was partly due to labour costs [AUTO].

# WHAT ARE THE MEDIUM TERM PROSPECTS FOR OUTPUT AND THE LABOUR MARKET?

[Taken from the OECD Survey 2001]

Prospects for net job creation are not much promising. The social model that has been promoted in the 1990s by the coalition governments has many features that are not employment-friendly. Employment protection is widespread, resulting in a rigid labour market. Wage indexation

mechanisms and the non-differentiated minimum wage lead to high labour costs that crowd out the low skilled workers. Generous early-retirement and disability pensions have led to huge increases in social security contributions. Policies to cut labour supply have failed to achieve their intended goal because many recipients have remained active. In addition, they have narrowly focused on the short-term target of reducing unemployment figures, and failed to recognize labour resources as a development factor. Finally, public employment services do not foster active job search, and there is virtually no individual follow-up of the unemployed. In these circumstances, it is likely that structural unemployment has already reached a high level. A particularly worrying feature is the low employment rate among school leavers, with inevitable social implications. Thus, without major reform in labour market policies, Poland may suffer from the similarly chronically high unemployment that confronted other OECD countries in the past.

### HOW TO FOSTER JOB CREATION AND FIGHT UNEMPLOYMENT?

An important step to foster job creation and fight unemployment, is to lower the tax wedge, so as to reduce labour costs. The recent pension reform has helped in this respect, because it transformed old-age pension contributions from taxes to savings, and abolished widespread early retirement schemes. But it will take time for people to internalise these reforms and adjust to new incentives. In the meantime, cutting Social Security contributions at the minimum wage level and slightly above it would be particularly important in raising the employability of low-skilled workers. Disability pension contributions could also be reduced from their presently high level, with both a tightening of eligibility criteria and a shift of financing to indirect taxes, for instance, environmental related taxes, as suggested below. Lowering the personal income tax rate would also be important to alleviate the tax burden of the low-paid and make work pay. Another important step would be to make working time more flexible, so that companies can adjust work schedules to their activity peaks and avoid paying large overtime premiums. A concrete measure in this direction would be to promote the annualization of working time. Labour offices need to become more pro-active and make the labour market function better. This would involve a greater degree of cooperation with employers to better assess their specific needs. Labour offices should also draw up individual plans with each unemployed person that would chart strategies to re-enter the labour market, including retraining. This effort should focus first on young unemployed persons so as to leverage their human capital and encourage participation in the labour market because, for them, the transition from school to employment seems particularly difficult.

The increase of nominal gross salaries has been higher than annual average increase in the prices since 1994. In the period1992-2000 an increase of effective salaries was registered to be 26 per cent. [MG]

The minimum wage is high at 40 per cent of average wages, or PLN 760. According to professor Kabaj, at the Institute of Labour and Social studies, more and more enterprises are paying the minimum wages. Automatic wage indexation is common in the public sector, adding relentlessly to costs, and rules governing hiring and firing are restrictive [FT].

The income of families living on retirement pensions was slightly higher than average (in 1999), amounting to USD 2,743 per capita [PAIZ]. In general, wages and salaries in the urban areas are considerably higher than in rural areas.

As a result of the wage growth many companies are focused on how to increase productivity with better technology and better use of machines. Still, as seen in Figure HC 4, wage and salary levels vary considerably within workgroups.

# SOCIAL SECURITY CONTRIBUTIONS

In 2001 the total social security charges amount to 36.59 per cent of the salary, of which the employer pays 17.58 per cent.

In Poland it consists of the following kinds of insurance: pension, disability, accident, and sickness insurance. Contributions to the pension and disability insurance are payable until the gross cumulative annual remuneration of the given individual exceeds the cap amount (54,780 PLN in 2000). Contributions to the sickness and accident insurance are paid at all salary levels. The Social Security Institution (ZUS) transfers 7.3 per cent out of 19.52 per cent of pension insurance collected to the open pension funds for all employees that are pension fund members. The mandatory ZUS contributions are payable on a monthly basis. The amounts of contributions payable by an employer and an employee to each kind of insurance are shown in Figure HC 3.

Wages and salaries are paid in Polish currency at least once a month. The working hours are to amount to 8 hours a day and 42 hours a week on average.

#### **PRODUCTIVITY**

The wage level is one side of the picture, productivity is another and very important one. As the previous section showed, Poland has the highest labour unit cost in the CEE countries. But how is productivity?

Dynamic economic changes and the shift from public to private sector resulted in increased productivity, a willingness to learn, and responsibility. In the period 1990-2001 employment decreased by 8 per cent but GDP increased about 50 per cent [MK]. This represents an enormous

Contributions paid by the	ne employ	ee and	the employer
Category of insurance	Percentag	je rate (	of the salary)
	Ei	mployer	Employee
Pension	19.52	9.76	9.76
Disability	13.00	6.50	6.50
Accident	1.62	1.62	-
Sickness	2.45	-	2,45
Additional contributions			
Labor Fund	2.45	2.45	-
Employee Benefit G. Fund	0.08	0.08	-
Total	36.59	17.88	18.71
		Course	Andomon 2001

Figure: HC 3

increase in productivity, in fact the highest in Europe during this period.

#### Example:

In 1998, the number of bank offices rose by 21 percent (excluding PKO BP, which

#### **Some Facts**

Minimum salary: 760 PLN/ MONTH Average salary: 2043,55 PLN/ MONTH

Pensionable age/pension rights:

65 years for men 60 years for women

Working hours:

42 hours a week on average (8 hours a day)

Dismissal regulations depend on length of service:

6 months6 months-3 years
3 years plus

2 week's notice
1 month's notice
3 month's notice

closed 730 offices). Nevertheless, the increase in the number of branch banks did not involve a rise in employment, which went up by only 1 percent.

In the short run the quality of labour can be determined by its productivity. In the

	Monthly base salaries in USD							
		Czech Re	p. Hungary	Poland		Czech Re	ep. Hungary	Poland
Ge	eneral Manager	2640	3220	5886	Gross salary in USD	750	750	750
Ch	nief Engineer	1338	1668	2816	Employee deductions *	- 209	-323	-244
R&	D Engineer	1013	1312	2092	Employer on costs	+262	+281	+134
Skil	lled Machine Operator	377	371	607	Total Cost to Employer	1012	1031	884
Wc	orker	227	237	443				
Cor	Conversion rates: 1 USD = CZK 39.74 = HUF 292.5 = PLN 4.38 * includes obligatory					contributions & p	personal income	tax liability
Soi	urce: Hay International, Octob	er 2000				Source:	KPMG CR a.s., C	october 2000
	Conversion rates: 1 USD = CZK 39.74 = HUF 292.5 = PLN 4.38 Source: Hay International, October 2000				* includes obligator			

long run a company can increase its productivity by improving the skills of the workers. If the workers are well educated,



new skills will be acquired quickly, and general productivity levels can rise substantially. According to foreign investors [OCE] workers in transition economies have considerable training needs. For policy makers this means that education and training have to receive more attention if the legacy of high educational achievement is to be maintained and whether it is to be translated into job opportunities for those who have acquired good formal education.

A number of economies in transition continued to experience a dramatic decrease in real manufacturing wages following political, social and economic reforms in the early 1990s. However, in some Central and Eastern European economies and some Baltic States, the downward trend has been reversed. Most notably, real manufacturing wages have risen markedly in Poland since 1990, and more in Croatia, the Czech Republic, Latvia and Lithuania.

It is an important fact that the Polish agricultural sector strikes the productivity level quite hard, although it is currently going through major reforms. The agricultural sector employs between 18 and 23 per cent of the total workforce but the contribution to GDP is only about 5 per cent.

Professor Kabaj emphasized that there is little reason why Polish manufacturing workers should be less productive in Poland than in Western Europe, as long as employers use the right methods to motivate the workers. Productivity is a matter of equipment, organisation, management and motivation.

#### WORKING CONDITIONS

Many foreign firms are considerably more productive than Polish firms, much because of the availability of capital, and therefore have the best locations and machinery to perform business. But there is still a huge potential. Professor Kabaj stressed the negative manner in which many Polish workers are treated. Lack of promotional possibilities and little motivation have resulted in lower productivity from workers. The dreadful treatment many Poles experience is in deep contrast to the communist era, where the worker was seen as the most important factor of production. Therefore it is a big mistake to think one can treat Polish workers badly just because there is extensive unemployment and the workers need money. A recent survey conducted at one at one university showed that 70 per cent of entrants to the labour market preferred public versus a private, and the main reasons were due to low wages, high intensity and lack of good treatment in many private jobs. These factors have increased the Poles' scepticism to foreign companies.

Another area of a potential enhancement, according to Professor Kabaj is to change the payment systems. Too many firms are paying by the hour and not by result. If a firm pays by result and in addition paying them above minimum wagelevels, it will generate more productivity from the workers. In a country with low levels of wages (like Poland), an increase in wage will have much greater effect on the workers productivity than in countries with higher level of wages. Kabaj says: "Pay higher wages for higher productivity. Pay by results!"

#### **LEGISLATION**

Polish labour law is based on the Labour Code. Acts on other legal sources that apply to employees must never worsen the situation of the employee, as it is written in the Labour Code.

#### **EMPLOYMENT CONTRACT**

A written employment contract is compulsory. There are three types of contracts:

- For an indefinite period
- For a definite period
- •For the time of completion of a specific task

Each of these contracts may be preceded by a trial period for up to three months.

Employees have the legal right to participate freely in trade unions. This cannot be limited in an employment contract. Trade unions are common especially in big state-owned enterprises.

You can hire an employee for a short time, up to 6 months each period. The third time the employer must hire without a limit of time. You can hire a person several times on short-term contracts if it is more than one-month time between termination and hiring.

This has lead to a substantially higher number of turnovers. In CEE only Hungary has a higher turnover. Also many change jobs because of negative/unfair treatment.

Since the rate of unemployment these days are at a record high, some firms

employ a high number of workers on a short time basis. This is especially favourable for firms in business sectors with rapid changes in the amount of work. For example, the welding industry has found it these days easy to expand production by hiring additional workers on short-term contracts [MOGD]. Other firms try to avoid the turnover in order to establish a better and more stable personnel policy.

#### **FOREIGNERS**

Polish legal entities may employ foreigners only if a Polish national cannot be found.

Norsk Hydro, Statoil and Telenor have well-established businesses in Poland. Even though, they have very few Norwegians employed. One of the reasons is the difficulty of getting workpermits. In general, you must be Polish speaking to be employed.

#### RECRUITMENT

When a new company wants to establish in Poland, it is first recommended [NTC] to search for a person that will manage it. Often the recruited manager will then recruit additional staff on his own (either by press/Internet ads or more often – by his network of contacts).

There is also a large number of Polish and international recruitment companies in Poland. They vary in size and specialization, but still ads in newspapers are very common. It is quite expensive to outsource the recruitment procedure, and that is probably the reason why ads are so common. Furthermore, it is for the most part, not difficult to find workers with the current rates of unemployment.

The Norwegian Trade Council does also have a considerable recruitment experience.

#### **Human Resources Companies**

www.intersearch.org/pl www.ipk.com.pl www.neumann.com.pl www.intersource.com.pl www.notio.com.pl www.profesja.com.pl www.bankkadr.com.pl www.naj.com.pl www.hill.com.pl www.hill.com.pl www.antal.com www.turnaround.pl SMG/KRC Poland Human Resources Institute for Personnel Promotion

Neumann Group

Group of companies - Permplus, Tempservice, ...

Personnel Progress Assistance

Profesja Consulting

Test - Personnel Data Base

NAJ International Executive Search

Personnel Consulting Hill International Antal International Ltd Turnaround Sp. z o.o. Addecco Poland

Topjobs

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Norges Handelshøyskole har flere mastergradsstudier for deg som ønsker videreutdanning på høyere grads nivå. Intensive samlinger gjør det mulig å kombinere studier med jobb. Deltakeme følger hverandre gjennom hele programmet og får gode muligheter for erfaringsutveksling, samarbeid og nettverksbygging.

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   Neste oppstart bøsten 2003, søknadsfrist våren 2003
- Kraftanalytikerstudium Starter høsten 2002, søknadsfrist 1. juni 2002
- Deltidsstudier i økonomiskadministrative fag
   Oppstart/påmelding primo september 2002



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# Transportation Infrastructure

#### TRANSPORT SYSTEM

Poland has a well-developed transport infrastructure. There are approximately 358 thousand kilometres of roads and an extended railway network of over 23 thousand kilometres linking all the major cities and towns. Nevertheless the road and rail system is somewhat outdated and in need of an extensive overhaul. Poland's central geographical position, linking the east to west and the north (Scandinavia) to the south, means it is obliged to develop an efficient transport network, adapted to European standards.

#### MEANS OF TRANSPORT

The structure of the Polish transport system is reflected in the share of goods distributed in 2000. All in all there were approximately 641 million tons transported, mostly by roads. Even though motor transport accounts for well over a half of goods transported in Poland, motorways (two-lane public roads) account for only 3.2 per cent of national roads.

Railway transport in Poland is fairly accessible thanks to the dense network of freight stations (some 2000) and over 1700 passenger stations. Enhancing the speed and quality of rail services would make it possible to compete effectively with road and air transport.

Polskie Koleje Pastwowe (PKP) is among others planning to build logistical centres based around the existing railway terminals. The centres will offer customs clearance, storage and transfer of goods and are planned to be opened in Warszawa, Gdynia, Szczecin, Gliwice, Wroclaw, Maaszewicze and Poznan. These locations are considered to be the most important Polish hubs in the European and domestic network of major rail transit routes, processing container and transhipment terminals as well as specialized infrastructure.

Transportation of goods by rail is intended to be liberalized. The Polish Government insists on a transitional period until 1 January 2006. From this date it is imposed that any company will have access to the international railroad system leading through Poland. The fee required will be the same as paid by the PKP (Polskie Koleje Pastwowe).

The air transport infrastructure has its national and international hub in Warszawa,

Okecie airport. Gdansk and Kraków airports and, to a lesser extent, some regional airports should increase their share in international traffic. Over the next decade, it is planned to improve terminals, parking

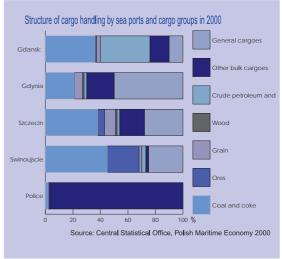


Figure: Trans 1

facilities, and signing and approach systems at airports in Gdansk, Kraków, Wrocław, Poznan and Warszawa.

Maritime transport, especially passenger transport by sea in the Baltic is growing strongly and the forecasts confirm this trend. [ECMT]

In 1999 there were 104 seaports for cargo handling and storage. According to the central statistics office, centre of maritime statistics the largest seaports, with reference to their size, are Gdansk, Gdynia, Szczecin, Swinouiscie, Police, Stepnica, Kolobrzeg, Ustka and Elblag. During the year of 2000, the first four of the above seaports handled close to 94 per cent of the total freighted tonnage in Poland. [GUS]

The main groups of handled cargo are shown in the following graph:

#### **ROAD CONSTRUCTION**

Meanwhile, the transport is focused on the national roads that total 45 700 km and are divided into two categories:

- Inter-regional roads, total length of 11 500 km, numbered with one and two digits.
- Regional roads, total length of 34 200 km, numbered with three digits.
   As far as transit is concerned, the network of international roads has a total length of some 5 500 km.

The programme of building a network of motorways in Poland was adopted by the Ordinance of the Council of Ministers dated 28 September 1993. It suggests the construction of four main motorways in the next 20 years, some 2 300 km of toll motorways.

The Motorway Construction in Poland Programme anticipates the construction of a network of four motorways, two running from east to west, and two from north to south:

A-1 (597 km) Gdansk - Torun - Lódz - Katowice - Czech Republic border,
A-2 (626 km) German border, crossing in Swiecko - Poznan - Warszawa - Belarusian border, crossing in Terespol,
A-3 (365 km) Szczecin - Gorzów - Zielona Góra - Legnica - Lubawka,
A-4/A-12 (738 km) German border, crossings in Jedrzychowice near Zgorzelec and in Olszyna - Wroclaw - Opole - Gliwice - Katowice - Kraków - Rzeszów - Ukrainian border, with the A-12 branching Olszyna - Legnica.

Construction of A-1, A-2 and A-4/A-12 motorways has been given priority. The A-3 is estimated as less likely to experience such high traffic volumes as the other ones.

The basic document setting the legal grounds for implementation of this programme was the Law on Toll Motorways of 27 October 1994, which came into force on 1 January 1995. The Agency for Motorway Construction and Operation (ABEA) was established to monitor the execution of the Motorway Programme.

At the beginning of 1999 the government decided to replace the BOT (Built-Operate-Transfer) system of motorway construction with a PPP (Private-Public Partnership) system that would oblige the State to co-finance construction or to cover up to 50 per cent of the operating costs. In return the State would gain the right to participate in the profits, or to share the risk of low incomes. The new Law on Amending the Law on Toll Motorways and Other Laws of 8 September 2000 came into force on 17 November 2000. The amendments stream towards utilization of both public and private finance through PPP. The changes allow for a greater flexibility in selecting financing options, so they would better suit each individual case. The new solutions envisage increased support of the State through the creation of the National Motorways Fund (KFA).

In March 2001 the government approved a programme for road construction and modernization till 2015, with an aim to adjust the Polish road transportation system to EU standards. Currently only 1 per cent of roads in Poland conform to EU standards demanding international roads to withstand axle load of 11.5 tonnes. The programme envisages constructing 1 500 km of motorways and 1 500 km of expressways and modernizing 2 500 km of international roads and some 4 000 km national ones. It is expected that EU financing will cover approximately half of the needed investments.

As of June 2001 there is only one, 61 km long toll motorway in Poland, running from Katowice to Kraków.

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# Part 3

- Energy and Environment
- Fish Exports and Industry
- Shipbuilding
- •The Consumer Retail Market
- •IT Telecommunications

# **Energy and Environment**

Poland is on the verge of entering the European Union. Negotiations for the membership have implied needs restructure the energy and environment sector. Coal is the principal fuel for power generation and heating of private sector, thus one of the main concerns. Other future challenges include plans to diversify the portfolio of natural gas suppliers to reduce vulnerability to external market fluctuations as well as the commenced privatisation and liberalisation of the energy market. The environmental work is being taken seriously in Poland. However, the history of heavy industry and reliance on coal for power generation has made it complicated to deal with environmental problems.

#### **ENERGY**

Poland's energy situation is similar to that of other former Communist countries, relying heavily on fossil fuels to meet energy needs. The Polish power generation sector, with a total installed capacity of more than 34 000 MW, is the largest in Central and Eastern Europe [PAIZ]. Projections show that domestic demand for electricity could grow as much as 50 per cent by 2020. Currently, Poland's installed generation capacity exceeds domestic demand by approximately 30 per cent, and some of the excess electricity is exported to neighbouring countries.

The Polish energy sector has three subsectors. The first one is the generating subsector, which represents 50 per cent of electrical sector assets and consisting 54 power- and heating plants. The second one is the transmission sector (10 per cent of assets), encompassing the transmission grid, wholly owned by Polskie Sieci Energetyczne (PSE). Distribution, with 33 active companies, is the third sub-sector. Distribution firms buy electricity from PSE, which they transfer to end users [PAIZ].

#### COAL

Coal is by far the dominant fuel in Poland's energy sector. Accounting for 95 per cent of the country's primary energy production and only representing 2 per cent of Poland's total GDP. Though it is of high quality, Polish coal is found is found in geological locations that are difficult to mine. Hard coal (mostly bituminous) provides about 65 per cent of electricity gene-

ration. Brown coal (lignite) providing nearly all of the rest of the fuel consumed in Poland's power plants (many of which provide heat and hot water as well as electricity). Poland is the world's ninth-largest coal exporter, exporting primarily to customers in Europe and the former Soviet Union. In May 1998, Poland announced a comprehensive restructuring programme for the coal industry aimed at maximizing efficiency and paying off some of the industry's then USD 4.5 billion debt. The changes brought about by the programme have had positive economic and environmental implications, which are important for Poland's accession to the EU [EIA].

#### **NATURAL GAS**

Poland has estimated 5.1 trillion cubic feet (Tcf) of natural gas reserves and imported over 60 per cent of its 442 billion cubic feet (Bcf) consumption in 1999. Natural gas production remained fairly stable throughout the 1990s, between 150 Bcf and 180 Bcf. This rate of production is expected to continue into the 21st century, as new exploration takes the place of depleting reserves. Despite the fact that Poland's real GDP has grown by about 21 per cent since 1997, natural gas demand has remained static and is predicted to remain so over the next decade. Much of the reason for this is that natural gas is simply uneconomic for power generation in Poland compared with coal. Yet, at the same time, diversification of gas sources is a high priority in Poland, and those traders with diversified sources will have priority [EIA].

The Polish gas industry network has some 17.6 thousand km of high-pressure gas pipelines and nearly 90 thousand km of distribution network, 20 gas-pumping stations and over 4000 stations to reduce and measure pressure. This system supplies nearly 4000 towns and cities, with 6.7 million domestic gas consumers. Forecasts of Polish gas consumption predict that its combined utility by households will increase from current 3.9 billion m3 annually, to 4.8 billion m3 in 2010. Industrial users consume 5.5 billion m3 each year and should expand to 7.7-8.4 m3 in the same period [PAIZ]. Concerning the EU demands, Poland is obliged to have an energy reserve for about 90 days. EU prefers gas for such reserves. Today Poland is ably to supply themselves only for about 20 days.

This will mean that Poland will have to build containers and terminals for storing gas.

#### OIL

Poland has proven oil reserves of only 115 million barrels, and relied on imports for 98 per cent of its 2000 oil consumption. Oil demands are expected to increase by as much as 50 per cent by 2020. Despite production of only 10 000 barrels per day in 2000, this is a 100 per cent increase in production compared to previous years. Polish oil production comes primarily from fields in southern and western Poland, with the southern reserves nearly exhausted. However, the Barnówko - Mostno -Budzewo "BMB" field discovered in 1996 in the Polish part of the Permian Basin (near the German border directly east of Berlin) has potential reserves of about 73 million barrels and the Miedzychod field is estimated to have even more, so Poland should be able to increase its volume as these fields start production.[EIA].

#### **ELECTRIC POWER**

With installed electric capacity of over 30 million kilowatt and 1999 electric generation of 134 billion kilowatt hours, the Polish power generation sector is the largest in Central and Eastern Europe. Most of Poland's electricity comes from coal-fired plants, which are highly polluting and operate with outdated technology. The Polish government expects electricity demand to have grown by over 50 per cent by 2020. The Polish electric grid is part of the CENTRAL system, which links the Czech Republic, Slovakia and Hungary.

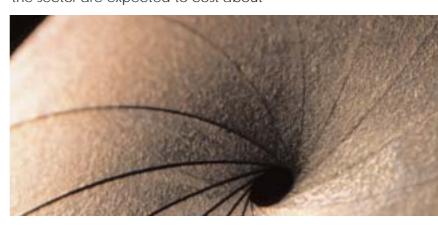
Poland's status as an ascending EU member makes it more important that efficiency and environmental goals are met in a timely fashion. In November 1998, Poland

#### Norwegian Gas to Poland

An intention agreement for Norwegian gas supply to Poland was signed in September 2001. Energy security and independence from one source, Russian gas, is an important aspect for the Polish government. The agreement commits sales of 74 billion m3 gas to Poland. The cost of building the pipeline is estimated to about EUR 1.3 up to EUR 1.5 billion. The supply should start in 2008 and continue for 16 years. Statoil and the

Norwegian government through Petoro AS are responsible for 66 percent of the gas deliveries to Poland. Total, Fina, Elf, Shell and Norsk Hydro are planning to share the rest of the delivery. The Polish cooperation partner is the Polish Oil and Gas Company, POGC. The Polish - Norwegian agreement needs government approval in both countries, and the deadline is set to December 2002 to get the approval from the governments and in the boards of the companies [AP].

ambitiously committed to adapting its electricity market regulations to EU standards within four years. Renovations of the sector are expected to cost about



USD 15 billion by 2010. For these reasons Poland's power generation sector is in need of large investments [EIA].

#### **PRIVATIZATION**

The current process of demonopolization and privatization is possible due to decisions made in September 1996. Privatization is seen as the key to modernization and increasing the efficiency of the electricity sector. However, privatization has been delayed. According to the head of the Energy Regulatory Office, it will be two to four years until Poland's energy market is truly competitive.

The Polish government plans to complete the first stage of privatization of 55 power plants and combined heat and power (CHP) plants, and 33 distribution companies. So far, only two power plants, five CHP plants and one distribution company have been privatized. Privatization of power generators will be performed simultaneously with the privatization of dis-

tribution companies, with emphasis on the privatization of power generators. Under the currently binding government privatization programme, the Treasury is empowered to tender stakes of up to 25 per cent in power distributors, up to 35 per cent in generators and up to 45 per cent in combined heat and power plants.

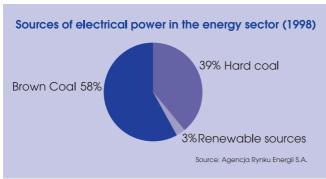


Figure: E&E1

Poland's electricity sector is at the moment barely profitable due to government-set consumer prices and high fixed costs stemming from massive modernization loans. However, it is expected to become highly competitive in the coming years.

#### LIBERALIZATION

The Liberalization of the energy market in Poland began in 1998 with the introduction of a new Energy Law. A great deal of work has been done since then. However, there are certain issues that need to be addressed in order to complete the task. The introduction of a compensating fee system (SOK) to resolve the problem of long-term power purchase agreements and the launching of an hourly balancing market are now crucial for the creation of practical and competitive energy market.

The market is to function according to the principle of Third Party Access, which focuses on gradually giving consumers the choice of where to buy electricity. Energy trading companies experience problems with discriminatory access to the grid. There are also reservations about the tariff system on the part of trading companies. Also, the stiff system of approving tariffs for energy companies blocs the development of a flexible market and influences projections of future energy prices.

A total liberalization of the energy market is to be completed in Poland by 2005. By then, it is to function according to the principle of the third party access. Furthermore, in 2005, 37 per cent of the Polish domestic demand will be open to foreign suppliers [PAIZ].

#### POLAND AND EU ENERGY POLICY

The proposed enlargement of the EU will complicate the energy and environmental policy. The major part of the energy generated in Poland comes from power plants and heat and power plants that burn coal; hence, each unit of energy consumed is associated with the release of carbon dioxide into the air. Poland has made great steps in improving its environment over the past 10 years. However, the country continues to rely heavily on polluting coal, and despite Poland's surging economy, a major concern is Poland's ability to finance cleanup projects. Toxic effluents continue to pour into Polish rivers, yet most polluters go unpunished, either due to the lack of legislation, or, because it is badly enforced, if it exists at

Margot Wallstrom, European Commissioner for the Environment, has estimated that Poland must still spend up to EUR 139 billion cleaning up the environment in order to meet EU criteria for membership. Although Poles point out that, as a percentage share of GDP, they have consistently spent more than the Organization for Economic Cooperation and Development (OECD) country average on environmental remediation, Poland still has a long way to go to catch up. In order for Poland to meet the EU environmental criteria and accede to the Union, it will take more than money. Although the shift is underway in Poland from coal mining and heavy industry to modern services and lighter, more advanced branches of production, such as car manufacturing, Poland's State Inspectorate for **Environmental Protection 2000 Report** recognized that the locus of environmental threats is changing. In addition to the need to switch from coal to cleaner energy sources, the Report stated, "not the industry anymore, but rather the growing individual consumption of energy and fuels, as well as uninhibited motorization growth, is posing ever increasing threats to the environment".

#### **ENVIRONMENTAL ISSUES**

During the Soviet regime, Poland became one of the most polluted countries in Europe. The last decade has shown large improvements in environmental standards, and Poland has developed one of the most sophisticated approaches to environmental management in the Central and Eastern European region. Currently Poland spends about EUR 2 billion on environmental work, about 1.7 per cent of GDP [EIU]. This is considerably higher than the average of the OECD countries, showing that the problem is taken seriously in Poland. There are two main reasons why Poland still faces severe problems; (a) the role heavy industry has historically played in the Polish economy, and (b) the country's energy culture and reliance on coal for power generation. Although pollution from power generation and industry has benefited from a large investment programme in environmental protection technology over the past decade, sectors such as coal mining and other heavy extracting industries are issues of major concern. They continue to produce considerable amounts of industrial waste, as well as polluting the atmosphere. In addition to wastewater treatment, the toughest challenges for the Polish environment are air pollution and waste management. These are areas that have been in focus for quite some time, and will continue to be during this deca-

It is important to remember the huge regional differences in environmental standards in Poland. The most polluted areas are in the south and southwest, and most of the environmental investments in Poland are implemented here.

#### **MARKET CHARACTERISTICS**

The Polish environmental market consist of about 1500 firms, most of them small or medium-sized, but also a few large companies that operate on a broad field. There are many Polish companies on the market, but more and more foreign establishments are appearing. Joint ventures with local firms are especially popular, and the most active foreign countries include Germany, Sweden, Denmark, Switzerland and France. As mentioned earlier, the current market is worth about EUR 2 billion, and is expected to grow to EUR 4.5 billion during this decade. This shows the market still has a large potenti-

al for foreign firms. Presently, foreign firms are most active within air pollution control and the wastewater sectors. In the waste management sector, there are about 300 active firms many of which are local. [CEEBIC], [TUK]

High quality and long durability are the main reasons Polish firms choose foreign suppliers, but they are still quite expensive. The most successful foreign companies have used time and effort to establish contacts with Polish companies and institutions. They have also actively advertised in local trade publications and attended major environmental fairs. There are especially two large fairs that should be of great interest for environmental companies, namely Poleko and Intereco. For details about these, see the information below. Most Polish environmental projects are very small and at a local scale, and it is very important to have a local presence to reach out to these projects. This may be the problem for Norwegian firms, that are often small and with few resour-



ces to perform these tasks. Polish firms also find post-construction maintenance, equipment service and spare parts accessibility very important. Norwegian companies should convince their Polish partners and possible investors that they are ready to provide this.

#### **WASTE TREATMENT**

Poland is one of Europe's largest waste generating countries, producing about 126 million tonnes of industrial and 12.3 tonnes of municipal waste. The waste management legislation is recently updated, but the implementation of these directives still needs to be carried out. The amount of industrial waste has been declining the last decade, while municipal waste has been fairly stable. Most of municipal waste is deposited in dumps, while about 50 per cent of industrial waste ends up in landfills. Poland has a great lack of waste utilization facilities,

and most dumps are full or in bad condition. Especially poor are the Katowice and Legnica voivodships. They represent 70 per cent of all industrial waste produced in Poland. Recycling is a relatively new issue, and is currently very underdeveloped; only 2.4 per cent of municipal waste is recycled. The only efforts that are made with results are within paper, glass and plastics. [CEEBIC]

The EU has allowed Poland transitional periods of 3-5 years in the field of waste treatment, and there are great challenges to implement EU demands. According to the World Bank the total expected costs to the Polish economy over the next 15 years for meeting EU accession requirements for recycling and solid waste management amount to about EUR 3.5 billion. Poland is counting on foreign capital to reach their goals in the field of waste treatment.

A very good resource in this field is the Institute of Waste Management (IGO) in

#### **Major Environmental Fairs**

International Environmental Fair POLEKO,

Time of event: November every year Organizer: International Pozna\_ Fair, Address: ul. Glogowska 14, 60-734 Pozna\_,

Phone: (48-61) 869-2592 Fax: (48-61) 866-5827

International Environmental Fair INTERECO

Time of event: March every year Organizer: International Katowice

Fair,

Address: ul. Bytkowska 1 b, 40-955

Katowice

Phone: (48-32) 204-2499 Fax (48-32) 254-0227

Source: [CEEBIC]

Katowice. They have a lot of information on industrial wastes, landfills, waste processing technologies, small waste quantity technologies and waste free technologies, machines and equipment for waste treatment. IGO also works out solutions for individual customers, and provides information for Polish firms on technologies and equipment available.

### WATER QUALITY/WASTEWATER MANAGEMENT

There are two basic uses of water resources in Poland, which most strongly affect the quality and quantity of water. These are the use of water for economic purposes and the use of rivers, streams and lakes as sewage receptors for different branches of the economy. It is estimated that 25 per cent of available water resources is contaminated, especially in Silesia, Warszawa, Gdansk and Lodz. The state of groundwater quality is not as thoroughly studied, as is surface water.

Over 83 per cent of the water used for the national economy comes from surface water, 14 per cent comes from underground sources, and only approximately 2 per cent comes from water discharge in mines. Water from mines meets the requirements for drinking water, however it is not used sufficiently. Only about 40 per cent of the recovered mine water is utilized annually. Of all the industrial sectors, the power generating plants have the greatest demand for water.

There is a growing need for the utilization of groundwater. Only such water is suitable for drinking and economic purposes. In Poland this water occurs most often at depths of 200 to 300 metres. Because of the protection from direct inflows from the surface by a filter of soil, the quality of groundwater is much better than that of surface water.

Groundwater is used to provide inhabitants, especially those of smaller towns, as well as being used for reserves of good drinking water for future generations. The main hazards for groundwater quality are pollution connected with agricultural activities, atmospheric pollutants and villages and cities that have no sewage treatment. In addition, there is the pollution from municipal and industrial waste sites, petrochemicals and from roads.

Poland has been granted transitional periods of 6 to 10 years concerning water reservoirs, 8 years concerning sewage treatment and pollution from agricultural sector, as well as 5 years concerning reduction of polluting elements in water. Still, within these periods, much needs to

be done regarding wastewater treatment, reduction of pollution of the surface waters and protection of groundwater from infiltration by surface water polluted by effluents. [SOE]

#### AIR POLLUTION CONTROL

Maximum industrial activity with no respect to the environment led to enormous air pollution problems during the Soviet regime. But Poland has made large efforts on this front during the last decade, and air quality has improved dramatically. It is observed an improvement of about 30-50 per cent, and focus is now shifted towards "non-point" and mobile source. These areas have experienced a rise in pollution.

Although great improvements are made, there is still a long way to go before the levels the EU demands are reached. In the field of air pollution, Poland is granted transitional periods of about 3-4 years in some areas. Adoption of the EU's "Integrated Pollution Prevention Directive," mandating Best Available Control Technology (BAT) is a great step for Poland. It requires that plants use specific technology to control emissions, and will especially force the non-power sector to focus more on these problems. Many of these firms still operate under traditional Polish air standards. BAT will inevitably lead to higher expenditures in other sectors as well. The Government has taken actions to encourage early adoption of EU requirements, by issuing tariff reductions to environmentally EU-compliant plants. There is concern in Poland whether local firms will be able to follow these restrictions, and many fear that this will lead to several firms being closed by the Government. This will not be an easy social issue in a country with almost 20 per cent unemployment.

#### EU

As one of the countries applying for EU membership, Poland is in the process of tough negotiations. In the case of a membership, National legislation has to adjust 100 per cent with requirements of EU legislation. This includes the environmental aspects. Poland is looked upon as the country with the greatest challenges of the applying countries, so the Environmental Chapter was an especially tough one. Despite this, Poland managed

to close this chapter October 2001. Poland was granted transitional periods in nine fields including water quality, waste management and air pollution, some as long as 10 years. None of the other appli-

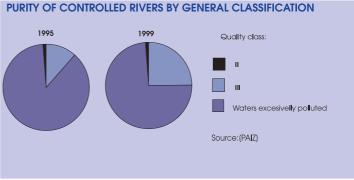


Figure: E&E 2

cants were allowed such extensive transitional periods, showing that this really is an area of major challenges. The EU has stated that Poland has "substantial lags in air pollution and waste management," once again confirming that these will be critical issues in the years to come. It is estimated that as much as EUR 40 billion has to be spent to fulfil the demands [EIU]. These are enormous amounts, and Poland will need considerable foreign capital to manage this. The EU signals it will only contribute with about 5 per cent of this amount.

Support from the EU comes at the moment mainly through ISPA, the Instrument for Structural Policies for Pre-Accession.

#### **FINANCING**

- Poland's National Fund for Environmental Protection and Water Management mainly supports projects recommended by regional authorities (Voivods). The most common form of provided support consists of soft loans, but they also provide grants, mainly to pilot projects and promotional activities.
- Voivodship Funds for Environmental Protection and Water Management, working on regional level. These are the main financial instruments and usually provide soft loans up to 50 per cent of the investment cost. Grants are also given, mainly to public authorities and Non-Governmental Organisations (NGOs).
- Nordic Project Fund (NOPEF) grants favourable loans to Nordic companies for

their feasibility expenses for project export or internationalisation projects. The project must be located outside the EU and EFTA countries.

• Nordic Environment Finance Corporation is a risk capital institution financing environmental projects in CEE.



They do this through equity investments, different forms of loans and guarantees.

- Bank of Environmental Protection funds offers suitable preferential credits.
- The World Bank can be a possible partner for project funding.
- Local environmental funds on the levels of county ("powiat") and commune ("gmina") typically provide some grants, although priorities for funding differ depending on local development strategies. They mainly support environmental activities of local authorities.
- Global Environmental Facility Small Grant Program of the United Nations Development Program provides grants up to the level of USD 50.000, mainly for local authorities and NGOs.
- Another institution offering grants for NGOs and local authorities is the Foundation for Environmental Partnership for Central and Eastern Europe.

#### The EcoFund Foundation

The Minister of Finance established the EcoFund Foundation in 1992 to manage funds deriving from the exchange of part of Poland's debt for undertakings in the field of environmental protection. Half of Poland's debt to creditors from the so-called Paris Club was written off, while the remaining part was to be paid off by Poland by the year 2010. It is part of these payments that are now being paid into the EcoFund account. There are six countries that have entered into the agreement. These are the United States, France, Switzerland, Sweden, Italy and Norway.

By the year of 2010 the agreement secures USD 571 million that are continuously being used to part-finance (preferential loans or non-refundable grants) undertakings in the field of environmental protection. There are five sectors of environmental protection considered to obtain a priority status.

- 1. The limitation of emissions of gases capable of inducing change in the Earth's climate such as CO2, methane and CFCs. (i.e. climate protection)
- 2. The limitation of the transboundary fluxes of SO2 and NOx, as well as the elimination of low sources of their emission. (i.e. air protection)
- 3. The restoration of purity of the waters of the Baltic Sea, and the protection of drinking water resources. (I.e. water protection)
- 4. The protection of biological diversity of Polish nature.
- 5. The waste management and reclamation of contaminated soil.

The size of a grant from EcoFund is dependent on the nature of the project, as well as the legal status of the applicant. If this is an enterprise, then the grant does not as a rule exceed 20 per cent of the total costs. If local authorities are behind a project, the EcoFund may cover up to 30 per cent of the costs, while if those involved are budgetary institutions or nongovernmental organizations up to 50 per cent or 80 per cent respectively

may be covered. In each case, however, the level of the grant is determined be economic and environmental analysis carried out by the Foundation's own experts.

The Board of the EcoFund is the body directing the Foundation's day-to-day activity and representing it elsewhere. It is responsible for the proper screening of applications, as well as for ensuring the appropriate use of the grants awarded.

For more information: EcoFund Bracka 4 St, 00-502 Warszawa phone: 0048-22-621-27-04 fax: 0048-22-629-51-25 www.ekofundusz.org.pl info@ekofundusz.org.pl

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Ministry of Environment Il Polityka Ekologiczna Panstwa

# Fish Exports and Industry

With its 40 million people, Poland is a large market for consumer products like fish. Due to the increasing standard of living and changeing preferences, the potential for increased sales seems good. Fish exports account for about 30 per cent of the total export value from Norway to Poland. The outcome of the EU negotiations will be very important for this trade. Meeting EU standards and adapting to a new market is also a great challenge for the Polish fish processing industry.

#### THE POLISH MARKET

Traditionally, fish is quite important for the Poles, but it is expensive compared to meat, so many cannot afford it very often. Due to the large and important agricultural sector in Poland, meat also has stronger traditions in the Polish diet. The most common kind of fish is herring, which is one of the cheapest fish, and most people can afford it. A study carried out by The Sea Fisheries Institute found that 66 per cent of Poles buy herring regularly. Second in rank is cod and the third is mackerel consumed by 44 per cent of respondents. Smoked fish, mostly mackerel, canned products, fish fillets (cod-, pollock- and hake- fillets) are the most popular products in Poland. Because of the high prices, salmon is a luxurious product, and is not eaten regularly by Poles. On average, each individual consumed close to 6.2 kg fish in 1998, compared to a European average of about 12 kg. The average monthly expenditures of households when it comes to fish were PLN 4.89 in 2000 [GUS]. This indicates that many cannot afford any fish but herring.

Both frozen fish and fish products are common on the market, but the sale of more expensive fresh fish is also increasing. The reason for this may be that the Polish standard of living is improving. A growing young middle-class with "western" preferences is also starting to appreciate the health-aspects of eating fish as an alternative to meat. When people become wealthier they tend to start eating more expensive sorts of fish like salmon, and eat less pelagic fish like herring and mackerel. An investigation from Irish Sea Fisheries Board (BIM) says that this is likely to happen in Poland when the eco-

nomic situation gradually improves. [TL EFF]. This will hopefully mean new opportunities for other seafood products, however, since there are strong traditions associated to herring and mackerel, the prospects of such a development is uncertain. There are also regional differences in preferences. For example does herring obtain greater market shares in areas around Warsaw, Gdansk and Szczecin.

Since fish is more expensive than meat in Poland, an increased standard of living and more European life style might increase the Poles' fish consumption. The Norwegian Seafood Export Council (EFF) is targeting their sales-campaigns primarily at women between 25-50 years with higher education who are living in cities, a consumer-group with increasing purchasing power. The growing importance of new consumer markets, like super- and hypermarkets, has also contributed to make the seafood products more available.

Sales of fish differ with the time of the year. Especially right before Christmas the sale is high. On Christmas Eve, Catholics are not allowed to eat meat, and the most people eat carp that day. On Fridays, Catholics do not eat meat, making the opportunity for the fish market greater.

# NORWEGIAN EXPORT CHARACTERISTICS



EXPORTERS, TRANSPORT AND IMPORTERS

Several large Norwegian export companies are operating on the Polish market, buying fish from Norwegian wholesalers/ports and selling through different channels in Poland. Mainly frozen pelagic fish is exported. As Norway is the

dominant supplier to the Polish fish market, covering about 60 per cent of the demand [NTC], these exporters enjoy high visibility and being "unavoidable" in the market. With exception of some salmon being trucked, reefers mainly carry out the freight of the fish from Norway to Poland and one big company, Green Reefers, dominates this market. Most of the fish is landed in Odraport, a duty-freezone situated on the German border in the north. Polish importers then transport the fish either to wholesalers, to processing companies or direct to the market. Forwarding agents mainly carry out the transport, but some of the fish-processing companies also use their own trucks for part of the transport.

As the market and connections between Norway and Poland are well functioning, and a sort of mutual dependency can be seen (especially with regard to herring), International Business considers that the export of Norwegian fish seems to have a strong future in Poland. Three main factors will have a large influence on this:

- •The Polish economy and the income development for Polish families in relation to the Norwegian fish prices (the Polish market is very price sensitive).
- Possible EU taxes on Norwegian fish in case of a Polish EU membership. This could mean a 15-20 per cent price increase on the Polish market, which could be fatal for the growth in demand.
- Norwegian fish supply. Low fish-quotas decreases supply, making the prices rise. This has large impact on the Polish demand.

Other important suppliers to the Polish fish market are Iceland, Canada and the EU states Denmark, England, Ireland and Scotland. Even though they offer lower prices, they will most likely not be able to force the Norwegian fish out of the market, as they are incapable of delivering sufficient quantity.

#### NORWEGIAN FISH EXPORTED

In 2001, the total value of fish exported from Norway to Poland was NOK 1 193 billion, which compared to the 2000 export is an increase of 28.5 per cent (see Figure Fish 1). In 1999 the equivalent value was NOK 792 million, thus in two years a 50 per cent increase has taken place. However, when considering the quantity of fish exported, the picture is different. In 2001 a

total of 128 581 tonnes were exported, a decrease of about 16 per cent from the previous year. These numbers show the great increase in prices for Norwegian fish (mainly herring) and the consequences this has for the Polish demand. A great increase in export cannot be expected in the near future as the Polish economic growth is losing velocity, and the prices for Norwegian fish are increasing. In 2000, 37 per cent of the total fish imports to Poland were frozen fish fillets, and 70 per cent of this originated in Norway [NTC]. The Norwegian Seafood Export Council (EFF) has had an extensive campaign running in different media

Exports by totals			
	2000	2001	Change
NOK (millions)	927	1 197	(+)28.5%
Tonnes	152 000	128 581	(-)16.0%
			Source:EFF

Figure: Fish 1

through the last year, aiming at increasing the general knowledge and interest for all kinds of Norwegian fish. NOK 35.3 million will be used in this campaign. [TD EFF]

#### HERRING

Herring is the most important fish imported to Poland, as it has strong traditions among the Poles. On the Polish market, herring is sold mainly as canned fillets in different kinds of sauces and oils. From supplying 75 per cent of the demand in 1996, Norwegian exports in 2000 covered 83 per cent [EFF]. About 70 per cent of this is frozen fillets. The export value of Norwegian herring in 2001 was NOK 662 million, compared to NOK 446 million in 2000. This makes Poland the second-most important market for herring next to Russia. Considering the quantity exported, one easily understands the reason for this large increase in value: In 2000 approximately 100 000 tonnes of herring was exported. In 2001 the number had dropped to 75 000 tonnes. Thus, the very high prices led to a 25 per cent decrease, accounting for nearly all the drop in total fish-export quantity.

### OTHER WHITE FISH AND PELAGIC FISH

Poland is the second-largest single market, after Japan, for Norwegian mackerel. About 34 000 tonnes was exported in 2001, an increase from the two previous years. In 2001 the export value was NOK 267 million [EFF]. From 1996 to 2000 the share of Norwegian mackerel in Polish imports increased from 39 to 84 per cent. [NTC] Mackerel is also sold mainly canned/ in jars with sauces and oils, and vegetables.

Cod is quite popular in Poland, and is mainly supplied domestically from the Baltic Sea, but also some is imported. The Baltic cod is mainly fished in July – August, when it is peeks quality. Approximately 363 tonnes of Norwegian cod was exported to Poland in 2001 (NOK 7.67 million). At the moment the cod seems to be too expensive to experience high growth in the near future.

Third in rank of pelagic fishes (by quantity) imported from Norway is capelin, but more expensive fishes like Greenland halibut and coalfish account for higher values (see Figure Fish 2). Sprat is the most common fish in the Baltic Sea, and it is popular in Poland, but the Norwegian export is not of great importance.

#### **SALMON**

Being a very expensive fish for the price sensitive Polish consumers, salmon has still

Norwegian export to Poland 2001								
Species \	/olume (tonnes)	Average price (NOK/kg)	Value (1000 NOK)					
Salmon	6863,59	21,69	148865,94					
Cod	362,71	21,15	7671,12					
Herring	75310,59	8,79	662052,81					
Mackerel	34403,52	7,78	267829,84					
Coa <b>l</b> fish	2119,44	12,36	26201,18					
Shrimps	42,98	61,03	2623,17					
Trout	218,99	20,29	4444,27					
Capelin	5643,04	2,69	15184,37					
Greenland Hali	but 1259,59	29,08	36625,82					
Various other	2356,77	<del></del>	21546.54					
Totalt	128581,22		1193045,07					
			Source:EFF					

Figure: Fish 2

not reached high sales quantities in Poland. Salmon has only been introduced to the market the last 3-4 years. In 2000 the value of Norwegian salmon exported to Poland was NOK 112 million. In 2001 this had increased to nearly 150 million. It can be found in nearly every restaurant and on the dinner tables in upper-class homes, indicating a trend of increased consumption. Trying to introduce such a

luxury product to the Polish market, needs good knowledge of the market-preferences. Smoked salmon, vacuum-packed in package of small portions, is common and popular with the costumers. You will also find examples of salmon prepared with oil in jars.

#### OTHER SPECIES/ SEAFOOD

Tuna, carp, flounder and bream are other popular fishes at the Polish market, and products of these fishes are offered by several of the fish processing companies. The Norwegian Seafood Export Council has put through a campaign promoting Norwegian shrimps. Poles are learning to like frutti-de-mare.

# CONSEQUENCES OF A FUTURE EU-MEMBERSHIP FOR NORWEGIAN FISH EXPORTERS

From 1993, Norwegian fish and seafood exports enjoyed free entry to the Polish market, as a result of the EFTA agreement. Without this free trade agreement, Norwegian fish and especially pelagic fish would not have had the dominant market share it has today. When Poland enters the EU, the EFTA free trade agreement will be replaced with the regulations and import taxes of the EU. Frozen mackerel and herring are, as mentioned above, the most important products for Norwegian export to Poland. When exporting frozen mackerel and herring to the EU, Norwegian exporters meet import taxes between 15-20 per cent, (apart from the period between 15 March and 15 June when there is no tax for these products) [EFF]. If Norway is not compensated for the rise in import taxes following a Polish EU membership, it will worsen its competitive ability and probably lead to reduced volume or increased prices [NUPI]. However according to the rules of the World Trade Organization, the enlargement of an economic community like the EU should not make a third country meet higher average taxes than before. When Sweden, Finland and Austria joined the EU in 1995, tax-free quotas compensated Norway. Because of the bureaucracy and reduced potential for increased export, this is not an optimal solution. Probably the most profitable thing for Norwegian exporters would be a general tax reduction. As shown in the Table Fish 3, this will lead to reduce import tax on all

pelagic species. This regime will not have the negative consequences for expansion of market share that a tax-free quota system will have. According to Arne Melchoir, "It will be surprising if Norway will not achieve a compensation agreement for the fishery sector" [NUPI]. The extent and quality of this agreement is dependent on negations between Norway and the EU.

Another consequence of the EU enlargement is that the EU member states will get free access to the Polish market. For Norwegian exporters this means an even worsened competitive situation, as the difference in import taxes and restrictions increase.

Even though Poland is a very price sensitive market, it is not certain that import taxes will increase the EU countries' market share at the expense of Norway. Norwegian herring, the most economically important species, is preferred to most of the herring from both the Baltic Sea and the EU countries. The reason is that Norwegian herring is considered to be of the highest quality because of its size. It is uncertain if the Polish processing industry is able to convert its production to match herring of a different quality. A development backing up this argument is that even after a period of increased price, the demand for Norwegian herring did not decrease. [TL EFF]

Norwegian herring has a competitive advantage also when it comes to quantity. Most likely the EU countries will not be able to export the amount of herring demanded by the Polish market. The EU countries' catch of herring has been stable during the last years and due to limited quotas it is not expected to increase.

Future EU Membership will probably accelerate Poland's economy and raise the standard of living. This might compensate the raise in price due to the import taxes. On the other hand an increased standard of living might change fish consumption.

## THE FISH PROCESSING INDUSTRY

#### **MARKET STRUCTURE**

Fish processing and preserving in Poland is dealt with by about 380 enterprises. About 80 per cent of them are small, employing less than 50 people. Currently,



there are only four state-owned fish processing- enterprises. 160 of the companies produce end products. The largest companies conducting fish processing activiti-

	Norwegian export	in 2000	Tax rates to	Average tax			
Fish species	figures in million	NOK	the EU in 2001	2000, based			
То	the candidate countries	To the EU		on trade			
Frozen mackerel	394	44	20/0	3/0			
Frozen fillet of herring	296	75	3	0,6			
Fresh salmon	124	6785	2	2			
Frozen fillet of herring	100	105	3	1,5			
Frozen salmon	63	88	2	1,5			
Other frozen herring	61	25	15/0	4,4/0			
Frozen mackerel	56	12	20/0	3,8/0			
Frozen North sea herring	50	82	15/0	9,3/0			
Frozen fillet of mackerel	13	4	3	0,7			

Figure: Fish 3

es are: Superfish S.A in Kukinia, Big Fish in Gniewino, Lisner in Poznan, Euro- Odra in Swinoujscie and Wilbo Sea Food S.A in Wladyslawowo. A great share of the companies are located in the coastal regions in the north. The reason for this localization has historical aspects, but today there are no obstacles to localization in other regions.

The whole industry is going through significant changes, which are mostly forced by new standards the EU will demand, such as good manufacturing practice and Hazard Analysis Critical Control Points (HACCP). 44 of the companies' meet the EU standards and another 21 have an opportunity to live up to stated requirements. As a consequence it is expected that enterprises manufacturing low quality products will be eliminated from the market. In a few years, 3-4 of the largest companies will control about 80 per cent of the market opposed to today's 60 per cent[MPW]. In the fish processing industry we find significant differences in the standard concerning production facilities, and also cooling-, freezing- and purification plants. Investments in these areas are needed as a consequence of the coming EU demands.

#### PRODUCTION AND SALES

In the processing industry we find a widely spectre of products. The most popular fish, such as herring, mackerel and sprat are prepared in different types of sauces and delivered either in tins or jars. But there is an expected drop in the number of canned fish producers because of the difficult period in Polish economy. Also common products are fish salad with mayonnaise in different kinds of flavour. Different companies have an assortment of about 140. These products are distributed all over Poland, with a few regional differences to consider. Annual fish processing production amounts to 100 000 tonnes of frozen fish, 15 000 - 16 000 tonnes of chilled fish and 50 000 tonnes of marinades [PAIZ].

There is a large sales organization in Poland, which is now developing exponentially. New, demanding sales-channels have changed the market-access for fish-products in recent years, like all other consumer products. Large, international hyper- and supermarket-chains are taking over the market, introducing new

demands on the processing companies: Marketing, sales-forces and relation-building with these chains. This imposes the need for further investments, which not all companies can afford. Due to their size, the chains are very powerful and can also operate with binding agreements on deliveries placing all the risks on the processing company.

An important customer for the Polish fish products, especially for cheaper goods such as canned and salted fish, is the Eastern European market. Lately Russian and Ukraine demand has increased notably. But the EU (mainly Germany and England) markets also have a strong position as a major consumer of fish exported or re-exported from Poland. In 1999 the EU countries imported 89 000 tonnes of fish products from Poland. Several of the processing companies in Poland are working hard to get access to this market, as it will be easier to operate when Poland enters the EU. Having established themeselves

#### **Polfish**

Every second year this international fair for fish products is held in Gdansk. In 2001, about 200 exhibitors from 13 countries were represented, the majority being Polish fish processors. This fair strives to enhance contact wtih businesses with regard to all parts of the fish industry; processingand technology companies, aquaculture and environmental protection themes and so on and so forth. The 7th Polfish fair will be held in June 2003, and the Norwegian Ambassador has stated the importance of this industry for the Polish-Norwegian relationships by confirming that he will attend.

For further information:

www.polfish.nets.pl www.mtgsa.com.pl Telephone + 48 58 5549206 + 48 58 5549344

fax + 48 58 5522168

before accession to the Union, companies hope to gain competitive advantages. This is also a market of higher purchasing

power, enabling sales of a greater variety of products.

#### THE NORWEGIAN ROLE

Imported fish plays an important role as a source of raw material for Polish processors. Lately some disappointment about Norwegian exporters has been expressed. This is mainly due to the reductions in fishing quotas in Norway, which together with increased demands for fish in Russia and the Ukraine caused a great increase of prices. As the processing companies had binding agreements with the supermarket chains, an increase in prices of 120- 150 per cent caused them great losses. [NTC]

The fish processing industry is open for foreign investments in their market, and of course also for Norwegian investments. This is an opportunity for Norwegian companies to get a position inside the European Union. Two of the main fish processing companies have Norwegian owners, Big Fish is owned by Rieber and Son and Super Fish owned by Orkla Foods through Abba Seafood.

#### DOMESTIC PRODUCTION

From the perspective of the national economy, the fishing industry is of marginal importance and counts for only about 0.03 per cent of the Polish GDP. However it makes a significant contribution to the local economy in the coastal regions. These regions suffer structural unemployment; hence fishery and associated activities are important for the inhabitants. The local fisheries is not that crucial to the Polish processing industry, which depends on import. This is the reason why Poland is a net importer of fish. [FAO]

The Polish fishery industry can be divided into three sectors. First there is boat fishery that can be considered as a local artisan fishery. The second is cutter fishery, operating mainly in the Baltic Sea. The last sec-



tor is the deep-water fleet, suffering from reduced quotas in the fishing grounds of the northeast Pacific and structural problems. It is likely that the fishery industry will experience a decrease since the Baltic Sea has been over-fished for a while. Reduced quotas are particularly expected for cod, which is the species of greatest economic importance. Another problem is the state of the fleet. The Polish Baltic fleet has an average age of about 30 years, and a significant part of the vessels need capital investment in order to meet the EU's sanitary, safety and surveillance requirements. [FAO] There is some fish farming in Poland, but only in rivers. Trout and Carp are the species that are most commonly bred. Due to poor conditions in the rivers and the Baltic Sea and the additional pollution the fish farming carries, International Business has found that there is no potential in fish farming in Poland.

Sea and freshwater fish catches									
	1991-1995	1995	1999	2000					
in thousand tons									
_Total	445,8	442,2	269,7	246,2					
Sea fish	406,5	405,2	221,8	200,1					
of which:									
Codfishes	287,7	283,8	95,0	58,3					
Of which wall-eye pollock	256,6	249,3	65,5	33,2					
Herring	48,9	45,8	19,2	24,5					
Sprat	35,6	46,2	71,7	84,3					
Freshwater fish	39,3	37,0	47,9	46,1					
Of which carp	27,6	29,8	32,3	33,1					
			So	urce: (GUS)					

Figure: Fish 4

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# Your partner in Poland

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#### **OBJECTIVE**

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#### **Trond Haavik, Managing Director, Segel AS**

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  - 8 years experience as business adviser with main focus on internationalisation.
  - •Certified export consultant by Norwegian Trade Council

#### Roger Bergset, Senior business adviser

- 5 years experience from bank develop ment projects
- 5 years experience as general manager
- 10 years experience as business adviser with main focus on business development

#### Synnove Aabrekk Natland, Business adviser

- 5 years experience from development of tourism projects
- 1 year experience from export of fish products
- 6 years experience as business adviser with main focus on market development.

#### Astrid Paulsen, Business adviser

- 6 years experience as sales manager in IT and graphical sector companies
- 8 years experience as market manager and personnel manager in energy sector companies.
- 1 year experience as business adviser with main focus on business development

#### Kaare Nordbø, Business adviser and General Manager, Segel Polska Sp. z o.o.

- 4 years experience from innovation and market development in maritime and offs hore sectors
- •6 years experience as general manager in Norwegian owned companies in Poland
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- maritime and offshore
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#### Strategy Process (Styrt Strat)

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developed by Segel based on the clients need for organising information so that the employees receive the right information at the right time.

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a systematic approach for successful definition, planning and realisation of projects.

## Shipbuilding

The shipbuilding industry has long traditions in Poland, and a very good reputation. As the industry was the first in Poland to enter the international market, good connections have been built up over the years. Polish shipyards build more than 30 ships per year worth approximately USD 16 billion, which is about 3 per cent of the world production. Two major shipyards dominate the market, and play very important roles for the cities where they are located. The threats one fears are competition from low-cost countries and the consequences of an over valuated PLN.

#### AN IMPORTANT INDUSTRY

The main regions for Polish shipyards are the "Tri-City" (Gdansk, Gdynia and Sopot) and the Sczcecin area. There are some small shipyards situated on the coastline



between these cities, and the suppliers are located in all parts of Poland. Still there is no doubt that the areas mentioned host most of the activity. Both Sczcecin and Gdansk have technical universities with marine departments. Each year they graduate 150 – 200 engineers [DNV]. This illustrates the importance shipbuilding has for these cities. The industry is also of great importance for the Polish economy as a whole; about 27 per cent of Poland's exports are related to this industry [EMB].

According to the Organization for Economic Cooperation and Development (OECD), Poland delivered 34 ships worth USD 820 million in 2000. During 2000, 67 new orders came in. These figures indicate good long-term prospects. However the prospects are not that bright for the employees in the shipyards. From 1996 to 1999 employment dropped from 47 752 to 42 466, and since then even more have been laid off. These employees became redundant after a major restructuring, which still is not finished. The cutbacks are mainly in administrative positions, while production positions are rising. Despite these reductions in employment, the shipyards are very important in the costal regions and support from 130 000 to 140 000 jobs in the yards and related industries. [WBJ]

#### **SHIPYARDS**

#### **MARKET STRUCTURE**

Following the privatization that took place from 1995 to 2001, there has been a consolidation among the shipyards, particularly in the shipbuilding industry where groups of shipyards account for 97 per cent of the market. Gdynia Shipyard Group is the largest and most prospective shipbuilder in Poland, and the fifth largest in the world. It has a capacity of 20 - 25 vessels a year [DNV]. The Gdynia Shipyard Group now owns the historical important Gdansk Shipyard, where former President Lec Walesa once was employed. The other major shipbuilder is Sczcecin Shipyard. This shipyard was the first to be privatised in '95/'96. Gdynia Shipyard Group is larger than Sczcecin Shipyard both with regard to turnover and number of vessels produced, but still the Sczcecin Shipyard plays a major role the in Polish shipbuilding industry.

Polish repair yards are much more diversified then the new-building part of the industry. There are various small and medium-sized shipyards that operate mainly on the European market. They have recently achieved relatively good business performance, with an average net profitability that amounts to nearly 5 per cent [BALTEXPO].

#### CHARACTERISTICS OF POLISH SHI-PYARDS

The Polish shipyards are known for their high-quality work in the international shipping industry. The mechanical aspect enjoys a particularly good reputation, and together with low labour costs this is their major competitive advantage. A strong history in steelworks is probably the main reason for the high quality welding

and hull-work. The good conditions in the global shipping industry during the second half of the 1990s made it possible for the shipyards to conduct internal restructuring processes. Thus the production facilities have improved considerably.

Polish shipyards are ISO certified, as this is required by most buyers. All in all this enables cooperation when operating in this market. However, one should do extensive research on the market before entering it, especially due to the many shipyards around. Many have also experienced the importance of having "hands-on

Production of Polish shipyards in 2000						
Types of vessels	Number of vessels	Gross tonnage (GT)	Deadweight (DWT)			
Total	34	615898	722081			
Chemical carriers	2	28800	43737			
Bulk carriers	9	55856	69229			
General cargo vessels	8	140767	180545			
Container vessels	11	232595	292876			
Car transport vessels	1	57772	21310			
Gas carriers	2	98838	114084			
School vessels	1	1270	300			
			Source: GUS 2001			

Figure: Ship 1

Container ships are the main types of vessels built in Poland, but the yards are very flexible and can construct ships to most requirements. Typically Polish shipyards are not building cruisers, military vessels and other more complicated ships, as these require more advanced technology. The two major shipyards have the capacity of constructing ships up to about 270 m long and 45 m wide, and with sizes up to 100 000 DWT (deadweight tonnes). In 2001 the Szczecin Shipyard delivered the world's largest ship in stainless steel. This 40 000 DWT chemical tanker in a way symbolises the prosperity of the Polish shipyards.

As well as delivering high-quality new ships, the Polish shipyards are also good at reparir work and rebuilding. Poland is number one on the European repair-market. A large share is passenger-ferry repairs, but some work has also been done for the offshore industry, where the Poles are building up competence. The dominant Gdansk Repair yard, with a capacity of 100 000 DWT, is said to be the best in Europe, but also the smaller repair yards deliver very high quality. [DNV]

In this industry international relations have always been important (even before 1989), and the business culture in Polish shipbuilding has developed to be quite European. One will find an extensive usage of modern communications-technology, for instance electronic drawings are being sent by e-mail. The majority of

contact" while the work is being done. One should not expect that everything runs smoothly without being followed up. [KN]

Major competitive advantages [DNV]:

- Quality. Especially in the steelworks
- Geographical location. A market concentration to the German and Scandinavian markets
- Time accuracy. The Polish yards have improved a lot at this area
- High quality staff. Good educational institutions and high loyalty to the employer
- Good design to requirements

Normally contracts with Polish shipyards are signed in USD. As the PLN has been over-valuated during the last couple of years, this has led to great profit losses in the industry. Many shipyards are operating with very narrow profit margins, down to only a few percent. [UNITOR]

Another problem in the industry is the low level of investment. New capital is especially needed for further restructuring: A lot of the facilities on the shipyards are getting old and have to be replaced.

#### TRENDS IN THE INDUSTRY

Compared with their major competitors, the Polish shipyards are becoming relatively expensive. When it comes to new building, this causes great concern among the Polish shipyards, as Asian competitors are basically selling at dumping-prices [UNITOR]. The business of

repairing ships is more sensitive to conditions in closer markets, like the Baltic States, Russia and Romania. Travelling to the Far East to repair ships is far too expensive, thus factors like quality and price from nearby shipyards represent the competition. The main reason for rising prices is increasing labour costs. Wages in the Polish shipbuilding industry are however not expected to rise significantly in the near future, due to the high unemployment levels. Entering the EU, Poland will hopefully see a general increase in wages, which on a long-term basis will influence this industry as well as any other. Another reason for the relatively high prices is that the Polish shipyards are not subzidised by the government, whereas in other countries one can find such support at levels up to 20 per cent.

The same environmental demands as in the EU are restricting Polish industry. Still, due to low penalties, these might not be followed up100 per cent, and Poland therefore experiences a cost advantage to Norway and the EU [UNITOR]. As the country enters the EU this is likely to change, and the advantage might be lost to Russia, Romania and other competitors.

Because of the price advantage that will slowly disappear, Polish shipyards will find it very important to restructure to gain a better position in the market. Some are doing this by specializing in niches. Others try to optimize their capacity, by for instance building for the offshore industry. By doing this they are not as dependent on seasons and are not as restricted by the number of docks available.

#### **OFFSHORE DELIVERIES**

The high-quality steelworks have given Poland a good base for deliveries to the offshore industry. As mentioned above, some shipyards are delivering modules and sections for platforms and decks in addition to building and repairing ships. Some steel construction companies are also diversificating their order-portfolio adding offshore deliveries. Mostostal Gdansk being one of them, presently working on the Kvitebjørn project for ABB Offshore Systems AS. The Poles have the competence to make most constructions required, the main problem is to transport big units over great distances at sea. Low prices are a very important factor when

#### **Baltexpo**

The Baltexpo is held every second year in Gdansk. In September 2002 the 11th fair expects some 20 000 visitors from more than 20 countries. The total number of exhibitors has been close to 500 in recent years, where about 50 per cent are Polish. All sorts of companies connected to maritime industry are represented.

The objectives of Baltexpo are:

- To establish contacts between foreign exporters and Polish buyers and end-users
- •To create:
- an East-West forum in marine economy
- a meeting ground for discussion concerning industrial cooperation with Polish manufacturers
- a meeting ground with prospective buyers From East European countries. The exhibition is organized primarily for trade and technical circles

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fax: (+48 22) 625 23 98 e-mail: agpol@pol.pl

URL: http://www.baltexpo.com.pl

the Polish companies are preferred for these jobs, but the quality is considered to be equally as good as any other. [ABB]

#### SUPPLIES TO POLISH SHIPYARDS

Being the Polish industry with the longest history on the international market, the shipyards in Poland are not only used to serve customers from all over the world, they are also familiar with purchasing ship's equipment from other countries than their own. Poland has a few suppliers for their shipyards, which the shipyards often prefer to use when no other is specified by the owner of a ship being built or repaired. The Polish suppliers can deliver machinery and mechanical equipment for ships. These products are considered to be of acceptable quality. There are also a few suppliers of electrical systems for ships. Most of the ship's equipment

used in Polish shipyards comes from foreign actors, Germany and Scandinavia being the main suppliers.

### MARKET OPPORTUNITIES ON THE SHIP'S EQUIPMENT MARKET

As a starting point, all Norwegian suppliers for the ship's equipment market can sell their products to Polish shipyards. The supplier who can deliver a product with satisfactory quality to the lowest price will be chosen. When asked, managers at Polish shipyards say they associate Norway with high knowledge on technology and "know how". Most of the managers also tell us that there is a lack of domestic suppliers of high-tech electronics and advanced machinery.

Polish shipyards cannot compete on prices as they have done earlier years. The Baltic, Romanian and the Asian market are usually better considering the price aspect. Because of this, the shipyards focus more on quality and on-time deliveries. This may require fast deliveries from the supplier and many suppliers may have an advantage if they are located in one of the towns with the largest shipyards. A local office in Poland could also be strategic important because of the

Norwegian Maritime Exporters (NME)

NME is one of the world's leading associations of marine equipment suppliers. The association has over 140 major Norwegian manufacturers who hold an 8-10 per cent international market share in the marine equipment industry.

NME is divided into three areas of competence:

- -Ship Equipment (NME/S)
- -Fish Equipment (NME/S)
- -Aquaculture Technology (NME/A)

NME strives to build and operate networks that contribute to greater expertise in the areas that are relevant to customers and suppliers, helping them to assess market opportunities and enhance their ability to compete in the global market.

Contact information: Norske Maritime Eksportører Postboks 1927 Vika NO-0125 Oslo

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central location with the markets in Germany, Russia, Ukraine and Romania as well.



#### **HOW TO ENTER THE MARKET**

Maybe the best way for Norwegian companies to enter the Polish market is to sell the product to Norwegian shipowners. That way the owner can specify the product in the specification for the ship being built.

It is also worth trying to advertise in one of the Polish or international shipbuilding magazines and try to sell equipment directly to the yards, or you can go through one of the many agents located in Norway. One trend though, among smaller companies, is cooperation between several other companies to form larger units that can deliver a larger product, or package that is easier to sell.

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## The Consumer Retail Market

Poland is a considerable consumer market with the largest population in Central Europe. The country is a perfect location for a company planning future expansion to the markets of the Baltic States or to the eastern markets. Household incomes are increasing, and new products, innovations and the so-called "western" lifestyle are being adapted by a growing number of Polish consumers.

#### **CONSUMER**

During the Communist era, Polish consumers were used to markets with a poor selection of products. Within only a few years, after 1989, the consumer market has exploded. The Polish consumers have now the opportunity to choose between all sorts of goods. They may buy what they wish according to their required price and quality.

#### PRICE AND BRAND NAME

The purchase of a product is determined by two factors: Price and the brand name. For young people, price is not the most important criteria when selecting between products. They are influenced by fashion and advertising, and require what is hip and popular. The older generation are more traditional and prefer well-known and tested products in their purchasing. Polish consumers are quickly adapting to innovations, new products and are uncritically accepting of the American or so-called "western" lifestyle. [PAIZ]

#### **INCOME**

It is important to note that even though household incomes in Poland may appear low compared to Western Europe, people are better off relatively speaking, as general expenses are lower. Incomes in the cities are considerably higher, and in the countryside, income figures are distorted by the fact that many people still own smallholdings, so their expenses on items like food are to a large extent reduced compared to densely populated urban countries like Britain.

The average income for a Polish worker is about PLN 2150 per month. This indicates that most people do not have any choice but to buy cheap products. Food is given high preference, and during special holidays like Christmas it is not unusual to

spend almost 100 per cent of income on food. At these times, even though they have many other expenses, people tend not to look at the price so much but think more about enjoying their meals and spending time together with their families. [PAIZ]

#### COUNTRY OF ORIGIN FFFFCTS

A few years ago, any product was preferred to domestic products, simply because the Polish consumer had been denied access to imported goods for so long. This curiosity then declined somewhat: Many Polish consumers were sceptical to foreign investors and foreign products. Their opinion was that foreigners came to Poland only to make money, and the consumer nationalism grew quite strong. Now the situation has changed and consumer preferences according to country of origin depend more on type of product. Food and alcohol products are usually domestic. Though 20 per cent of Poles like imported food items, 30 per cent prefer domestic products. Young people up to 24 are the exception - one third of this group like foreign food products. [PAIZ]

#### INFLUENCE OF CHILDREN

One of the key features of the Polish market is the size and influence of the younger generation. Children up to the age of

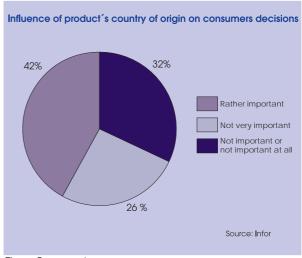


Figure: Consumer 1

15 make up to 21 per cent of the population. Over 57 per cent of children live in cities where accesses to the market and purchasing power are potentially higher [PAIZ]. As in the USA and Western Europe, children participate in the purchasing decisions regarding goods for the whole family such as toothpaste, soap, sweets,

cleaning products and beverages. Children have less influence on the purchasing decisions of their parents regarding other products.



#### **CONSUMER SPENDING**

The structure of Polish consumer spending is similar to that observed in Western Europe. The percentage of income spent on food items is decreasing in favour of other goods and services. Individual consumption expenditure has been rising every year since 1993. Spending on interior decoration, health services and communication is growing especially fast. The growth trend should continue until Poland reaches the level of consumption in Western European countries.

#### **MARKETING**

A lot of the foreign retail companies or chains which have became established

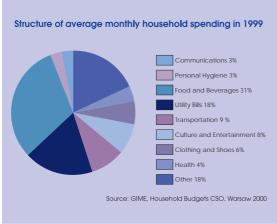


Figure: Consumer 2

in Poland started ambitiously with many marketing-tricks on the radio, television and so on to get a considerable share of awareness in the Poles' minds. Today television often is looked at as a very effective marketing tool, and radio is growing in popularity as an advertising medium.

#### **ADVFRTISING**

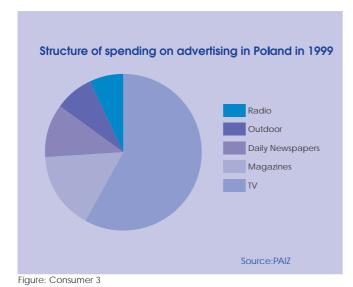
Advertising is considered to be one of the best investments in Poland. Polish advertising revenues reached almost USD 1.6 billion in 1999 (about five per cent of the European market), and the spending on advertising is growing rapidly (for instance, it was 26 per cent higher in 1999 than in 1998). The most advertised brands in 1998 were Danone, Coca-Cola, Blend A Med, Vizir, Pampers, Always and Knorr[PAIZ]. As much as 58 per cent of advertising budgets are spent on television campaigns, making it the most popular means of advertising. It is also showing huge growth.

Most consumers have a positive attitude towards advertising. Education, income level and age play a central role in the influence of advertising on Poles. Less educated and older consumers with lower incomes are more convinced by rational arguments in advertising. While the emotional and informational element, plus the context of advertising, is more essential for the younger consumers with higher education and income. Young people pay more attention to advertising than older Poles.

## KEY FACTORS FOR THE MARKETING STAB

Marketing plays a central role for a company trying to survive on a rough market. Without marketing budgets, for instance, a local producer has to choose between two fates: 1) To be ousted by a competitor. 2) To be bought up by huge international companies that can handle the expensive marketing and distribution costs of the product [REM].

To be effective and get the required results, a company should pay attention to their marketing stab. Good sales managers and regional sellers are essential, as well as having representatives from the company in the stores when the shelves get empty, to secure a visible place in the store for their products. Campaigns in different stores with personal presentation of the product including samples



should be a focus, and it is important to have good connection with the forwarding agents truck drivers, who play a key role in getting the company's product to

the right store at the right time.

The Scandinavian people and lifestyle enjoy positive associations for most Poles. This image could be focused on in the marketing campaigns of Norwegian companies and chains, through emphasising the Norwegian or Scandinavian aspects of the products.

#### **BRAND LOYALTY**

Shopping has become a way of spending free time and a family activity in Poland. A special characteristic for women, but also notable for men, is that significant

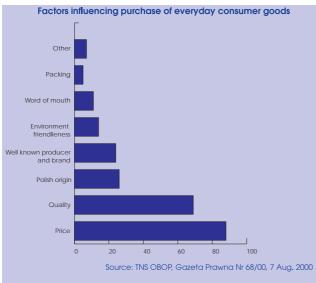


Figure: Consumer 4

proportions of all purchases are made during various types of promotions. In general, promotions are an effective way to reach the Polish consumers.

Despite the impact of promotions, 70 per cent of the highly educated Poles mean that a good brand name is an indication of product quality. Polish consumers have in the recent years experienced a dramatic increase in the number of brands. Poles are generally brand loyal; over 40 per cent of the Polish consumers express loyalty to a specific brand. The Poles name the following when it comes to best brands: Sony, Philips and Polar. [PAIZ] The chains own products; the private label products, have lower prices and sometimes poorer quality than branded products. As we know there are two main factors for the Poles in purchasing situation: brand name and price. From Figure Consumer 4 we can see that almost a quarter of the Polish consumers pay attention to the producer and brand name in consumer decisions. Young, urban Poles tend to buy more branded products than the older generations and youngsters living in the rural areas. People with secondary education, blue-collar workers, pensioners and women are more sensitive to price than the other consumers. Because the branded products in general are among the more expensive choices in each product category, these last-mentioned consumers tend to purchase the less expensive, private label products.

#### LOCALIZATION AND SHOPPING

In Poland many people live by the saying: "Never use the car to get bread". This is one of the main reasons why there are very many small local shops where people get the most needed products, like milk, bread, coffee and butter. The selection in these shops is not impressive compared to other shopping possibilities, often only two or three different kinds of each product. The advantage with the local shops is closeness, and often a more personal treatment of the customers than in larger shops. Older people prefer everyday shopping in local stores, where they can get fresh bread at a short distance. Young people tend to do their shopping in more sizeable shops, where they shop more frozen food and ready-made

meals. This means that they can shop all they need only once or twice a week. Purchases are made primarily in stores. Only about 10 per cent of adult Poles use mail order catalogues at the moment. During the last ten years the Polish market has been invaded by foreign investors, especially from Germany and France, building hypermarkets. These are gigantic shopping centres often build outside the



cities where parking facilities are good. Experts predict that there will be restrictions on where the hypermarkets could be located [REM]. Because they take possibilities from other stores (local shops and supermarkets) and companies in the centre-zone, the hypermarkets presumably will be banned from the city centres. The main goal of the hypermarkets is to make shopping a good experience, often selling entertainments like bowling and cinema, along with the shopping. The selections of goods in the hypermarkets are very good. It is possible to get all sorts of goods at all kinds of different price- and quality levels.

#### DISTRIBUTION STRUCTURE

#### **DEVELOPMENTS IN THE 1990'S**

Investments in the distribution system
During the command economy in Poland
prior to 1989, the existing distribution system was not governed by the principles
of efficiency and effectiveness, which
resulted in rather outdated wholesale and
retail, formats. After the start of the marketization process in 1989, the Polish distribution system had to undergo significant
changes. Due to its sheer size and development potential, Poland did not have
problems in attracting international invest-

ment into this sector of the economy. Thus throughout the 1990's the Polish market has attracted a large number of international retail chains such as German Metro, French Casino, Auchan and many others. By the middle of the 1990s, these investors have spent over USD 3 billion on the development of the distribution structure in Poland.

These investments have resulted in a number of modern retail and wholesale formats such as hypermarkets, supermarkets, hard discount stores and cash and carry outlets. For instance there are around 120 foreign owned (i.e. excluding Polish owned) hypermarkets in the country. This number has been around 100 at the end of 2000 [CAL]. Hypermarkets in Poland have an average of 8 000 -10 000 shoppers daily per store, and average daily sales per hypermarket are USD 140 000 -170 000 [PAIZ].

Furthermore, there are currently two major processes under way in the Polish distribution industry. First of all, the process of aggressive market entrance or further investments by international players is still continuing. Second, there is a trend of consolidation between the domestic Polish players in order to resist such a strong foreign competition. It is worthwhile to note that aggressive tactics of a number of international players have drawn a certain amount of criticism in Polish society. For example, Polish media has criticized foreign retail chains for destroying Polish producers by pressuring them to produce private labels cheaply, and thus destroying Polish jobs. In addition some of these companies apparently have been criticized for the violation of the Polish labour laws. Needless to say this kind of media coverage generates bad PR for the international investors in this industry.

#### FRAGMENTED STRUCTURE

Despite the massive inflow of investment into the distribution industry throughout the 90s, the process of restructuring is far from over. It is estimated that the modern retail formats (hypermarkets, supermarkets, etc) account for merely 30 per cent of the retail turnover [REM]. Here it is important to note that these calculations mostly include the turnover of the Fast Moving Consumer Goods (FMCG) segment and the market share of the modern retail formats may vary depen-

ding on product category. The rest of the retail turnover is still controlled by the traditional shops, and "alternative channels" - kiosks, shops at petrol stations, bazaars and so on. The share of the alternative channels is estimated at 15 per cent [CAL]. Moreover it is important to emphasize the role of open markets and bazaars. Not only is this type of retail format still significant is terms of turnover, but it is also deeply rooted in the purchasing habits of many Poles who traditionally are used to doing a lot of shopping in these places. In fact these shopping habits are so resistant to change, that the share enjoyed by these outlets has not decreased, while the share and number of traditional shops has been, and still is, decreasing.

This kind of distribution structure implies a very fragmented retail market. There are over 400 000 shops in Poland, most sized up to 100 square metres, with over 50 per cent being less than 40 square metres [CAL]. Thus for every 10 000 inhabitants in Poland there are around 30 shops, compared to 18 in Hungary, 17 in Spain and 8 in Germany.

Not only the retail distribution structure is fragmented in Poland, the same relates to the wholesale distribution structure. There are a large number of wholesalers in the country and it is often the case that many of the companies are small and they carry narrow assortments of product categories. This is likely to pose problems for the distribution systems of the retail chains, resulting in a situation where they have to deal with a large number of suppliers and thus the turnover per wholesaler is low and costs are higher than necessary. Consequently, this kind of distribution system creates a good deal of inefficiency and unnecessary costs in the distribution channels.

#### **DEVELOPMENT TRENDS**

The statistics shown above once more illustrate the potential that still remains in the Polish distribution industry. The share of the modern retail formats is expected to grow to 45 per cent in 2003 from today's 30 per cent [CAL]. Thus a clear trend will be growth in the number of modern retail outlets and decrease in the number of traditional outlets. The number of small shops is already falling at the rate of 1-2 per cent a year [CAL]. One can also

expect a strong consolidation process in the wholesale structure in the country. Existing foreign players are likely to continue their aggressive investments into the distribution system. For instance Metro plans to invest additional USD 650 million and Texaco and Statoil USD 500 million and USD 400 million respectively [PAIZ]. Furthermore the development of the distribution system in Poland has prompted changes in the shopping habits of the consumers. The share of the household budget spent on shopping in the modern retail formats is growing and in the large cities it reached 60 per cent at the end of 2000, up from 50 per cent in 1999 [CAL].

This kind of dynamic development of this industry in Poland means enormous opportunities for Norwegian investors, but it also means facing very tough competition from large international players, if one decides to enter the Polish market. Therefore the key to success in capitalizing on this huge market potential is a long-term strategy and ROI prospective, patience and commitment to the market, as well as deep local knowledge and hands-on management.

#### PRODUCTS WITH POTENTIAL

In this section we take a look at the Polish consumer goods market and analyse what kinds of consumer products have potential the to succeed in the Polish market place. First potential products for exports are analysed and then we look into promising consumer products generally.

#### **EXPORT PRODUCTS**

Talking about export products, we have to mention two major market conditions that have a major impact on the range of products that can be exported from Norway to Poland. First of all, there are very high production costs in Norway, not only compared to Poland, but also compared to many EU member states, such as Germany, France, the Netherlands. Norwegian producers would meet tough competition from exporters from these countries in Poland, not mentioning local Polish producers. Second, Norway being a non-EU country faces less favourable custom tariffs than EU member states and even less favourable than the CEFTA countries (Hungary, Czech Republic, etc.) [KOT]. It is worth mentioning that the customs tariffs against Norway will become even less favourable than the existing ones, once Poland joins the EU.

These two conditions result in Norwegian products being unjustifiably expensive for the mass consumer market in Poland. Norwegian products come out much more expensive than Polish products in the same product category as well as German or Dutch products [KOT]. The only way to justify such marks-ups compared to competitors is to have a superior brand, which is able to charge higher price premiums than competitors and/or a niche, or luxury product that is clearly differentiated from the competitors' products. One possible example of such a strategy could be an exclusive salmon brand, which is intensively marketed in Poland. Salomon is a product that gives Norwegian producers a natural competitive advantage per se, since Polish salmon is of inferior quality. Provided that a superior brand is created for this salmon product, it can charge a higher price premium than competitors and thus be able to compete in the market. Furthermore the Norwegian country-of-origin could be utilized in creating such a brand, since Norway enjoys a positive image in Poland.

#### PRODUCING LOCALLY

If we talk about relocating the production of consumer products to Poland or to a CEFTA country which has favourable customs agreements with Poland, then we are talking about much broader range of products. In this case Norwegian producers naturally are not limited by the unfavourable factors connected to Norway as the production location, and can utilize

many of the market opportunities in the Polish market.

Some of the consumer products in Poland where consumption is growing rapidly are fish, high margin/value added types of coffee, e.g. Lavazza, wine and beer, washing powder, hygiene products as well as various kinds of ready-made meals [REM]. Clearly there are opportunities in these and other product categories, for Norwegian producers who are prepared to thoroughly invest in the Polish market. Apart from investing into own production, another option is of course to purchase an existing Polish producer in the product category of interest. Finally, apart from the previous discussion on exports, products that we refer to here, need not be superior brands, but can in fact fall into all price categories and consumer seg-

#### COMPETITION

For foreign companies it is not easy to succeed in the Polish consumer market. The competition between different firms is hard, and the margins between success and failure are small. Until now German and French companies have ousted Norwegian companies. In addition to these successful companies, Great Britain and the Netherlands have invested much in Poland [PAIZ].

The German and French companies have managed better than the Norwegians for many reasons. They often offer better prices and more products than the Norwegian companies. An example of a failure is Norwegian chain stores, which aimed at shops with few kinds of products and only frozen fish and meat. The Polish

IV	la	jor i	ore	ign	ret	ail	CC	om	pan	ies
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NO. INVESTOR	CAPITAL	ORIGIN	ACTIVITIES
nor invadion	INVESTED (USD mln)		
1 She <b>ll</b>	618.0	Great Britain	retail trade, power, gas and water supply
2 Metro AG	598.0	Germany	wholesale and retail trade
3 BP Amoco Plc	250.0	Great Britain	retail trade
4 Jeronimo Martins Holding	250.0	Portuga <b>l</b>	wholesale and retail trade
5 Aral	181.2	Germany	distribution of petroleum products, retail trade
6 ACCIONA	150.0	Spain	construction, trade and repairs
7 Casino	140.0	France	retail trade
8 Auchan	137.0	France	retail trade
9 Tesco Plc	118.4	Great Britain	retail trade
10 OBI Heimwerkermarkt AG	110.3	Germany	retail trade
			Source: PAIZ

Figure: Consumer 5

customers often prefer shops that sell fresh products.

Previously the localization of the stores was an important factor for getting success. The sooner a company started their business the more strategic localizations their shops got, like in the city centre or railway junction. This is still important for small local shops and supermarkets. But the opportunity to locate a store near the city centre is now little since the consumer market already is covered in Poland. Therefore the companies have to use other factors like lower prices and more extensive variety of products to succeed.

Hyperma	rkets	
		(per million inhabitants)
Poland	156	4.0
Slovakia	85	15.7
Czech republic	80	7.8
Romania	45	4.8
Hungary	9	0.4
Total	376	2.6
		Source: Paiz Data

Figure: Consumer 6

In the last few years the hypermarkets have been a new opportunity to get market share for foreign chains. Since the hypermarkets are outside the city centre such places need large investments to

make people come there for shopping. Therefore they have to supply a lot of shopping possibilities and also activities.

The number of hypermarkets has increased considerably the last years and is now quite high in Poland compared to other countries in East Europe. But it is still one of the countries with the fewest hypermarkets per million people (see Figure Consumer 7). Still, more and more people prefer to do their shopping in hypermar-

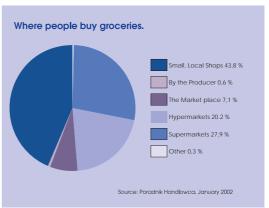


Figure: Consumer 7

kets, and the competition between different stores is hard. Having said that, most people make their purchases in the small, local shops. [REM]

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## IT - Telecommunications

The IT and telecommunications sector in Poland has continued to expand at a rapid pace over the past few years, but is still far behind Western European standard. In 2000 the number of PCs per 100 inhabitants was 6.89 in Poland, compared to 49.05 in Norway. In the same year, only 7 per cent of the Polish people were considered Internet users, compared to 49 per cent in Norway. [ITU]

#### **WIRE TELEPHONY**

The wire telephony sector is dominated by Telekomunikacja Polska S.A. (TPSA), which provides services to 93.5 per cent of all wire telephony subscribers (10.2 million people) and is a telecommunications giant with a staff of over 68 500 and total revenues of USD 3.4 billion in 2000. Since 1997, independent telephone networks have been emerging in Poland, but TPSA still has the majority of the subscribers. In 2000 TPSA had 93.5 per cent of the total subscribers, while the local operators had only 6.5 per cent of the market. [PAIZ]

#### **CELLULAR TELEPHONY**

Cellular telephony is the fastest growing single segment of the telecommunications market. The number of subscribers doubled: as of end 2000, there were 7450 thousand subscribers (in relation to 3956 thousand subscribers in 1999 – a growth of 88.3 per cent), while density ratio increased to 19.3 mobile subscribers per 100 residents. It is estimated that at the end of the year 2001 there will be 9.5 million cell-phone users. In May 2001, after one year of introducing WAP technology enabling the access to the Internet through a mobile telephone set, the total sale of telephone sets with WAP on Polish market was 1.3 milli-

Number of fixed phone lines

New fixed phone subscribers

People on waiting list for phone installation

Number of mobile phones

Source: [GUS]

Figure: IT 1

on units. [PAIZ]

Today, there are three cellular telephony operators in Poland with seven networks based on the following standards: NMT 450 (PTK Centertel), GSM 900 (Polska Telefonia Cyfrowa; Polkomtel and PTK Centertel), GSM 1800 (PTK Centertel – Idea; Polska Telefonia Cyfrowa and Polkomtel since March 2000).

#### **INTERNET**

In Poland, like in other countries, the Internet is becoming increasingly popular as a source of information and communications medium.

The existing ISP (Internet Service Provider) market is still very fragmented in Poland. It is estimated that over 550 licences for Internet access and data transmission services were issued by the end of 2000. At the end of 2000, the number of Internet hosts was estimated at roughly 88 per 10 000 residents. [ITU]

At the same time, a marked ISP acquisition and consolidation trend appeared in Poland. This involved the creation of strongly capitalized holding companies and groups. In 2000 the leading firms providing Internet services were: NASK, Internet Partners, Softbank, AtCom, Teleglobe, Wirtualna Polska, SM Media, Interia.pl. The most popular portals in Poland are Onet.pl and WP.pl (Wirtualna Polska). However, TPSA continues to enjoy a dominant position among ISPs. Having access to a huge number of subscribers, at affordable modem prices (on average USD 50), TPSA easily increases its revenues from these services. In fact, a majority of other Internet providers relies on TPSA, as their customers log on to servers via conventional wired telephony systems. Besides, TPSA is an owner of TP Internet Company, which started up a portal of a name Portal.pl in the first half of 2000. In 2000, TPSA proceeds from Internet services accounted for 2 per cent of all its revenues (0.8 per cent in 1999), while for other leading providers they represent 80 per cent to 100 per cent of revenues (8 per cent in the case of Softbank). [EITO]

#### **TELECOMMUNICATIONS**

Polish telecommunications services are the most profitable sector of economic activity in Poland, with mobile services as the fastest growing segment of the market [USCS].

The international services market will be liberalized after 1 January 2003. Domestic long distance services will open for competition in 2002, when most licensing requirements will cease. Currently, licenses are

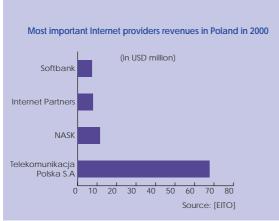


Figure: IT 2

required for all telecommunications activities. The new Telecommunications Law came into force as of January 2001 and facilitated a liberalized and competitive telecommunications market.

Despite dynamic growth, telecommunications in Poland still lag behind EU development, which is best reflected by the average telephone density factor (26 in the end of 1999). As of 1 January 1999 in France it reached 58.3, in Germany 56.6, in Spain 41.7 and in Portugal 41.3.

In the mobile telecommunications' segment Centertel, the analogue cellular network operator using the NMT 450i system dominated the cellular phone market till 1996. The tender for GSM licences that took place in early 1996 resulted in the announcement of two operators, the Polkomtel ("Plus" GSM) and Polska Telefonia Cyfrowa ("Era" GSM). On 1 March 1998 Centertel started operating a DCS cellular phone system. At the beginning of 2000 Polska Telefonia Cyfrowa was the mobile market leader, closely followed by Polkomtel.

#### MARKET TRENDS AND NUMBERS

Although 2000 saw a slower increase in the number of fixed telephony subscribers (in the Telekomunikacja Polska S.A. network) than in the previous year, mobile telephony

recorded a rapid growth. Altogether, the sale of communications services considerably increased.

At the end of 2000 there were 10 034 400 fixed telephone subscribers, including 7 695 400 in urban areas and 2 339 000 in rural areas. The rate of expanding fixed telephony network in rural areas significantly increased by 13.9 per cent compared to 1999. In 2000 the increase of the number of main subscriber lines, i.e. standard main lines, plus ISDN lines in the TPSA network was 599 000, including 293 100 in rural areas. Thus, at the end of 2000 the number of main lines was 10 242 100, a 7.3 per cent increase compared to the 1999 level. [FTRI]

#### COMMUNICATIONS

Telekomunikacja Polska S.A. provides telecommunications services in Poland, first of all, but there are also other local operators as well as networks of cellular telephones covering the whole country.

On 1 July 2001 changes in long-distance connections were introduced, following liberalization of this sector of telecommunication services. In addition to Telekomunikacja Polska S.A., long-distance services are provided by: Netia, Niezalezny

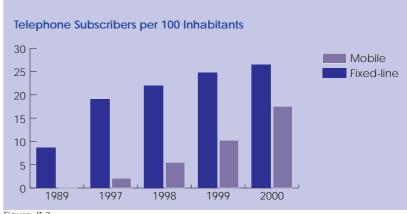


Figure: IT 3

Operator Miedzystrefowy (NOM) and ENER-GIS Polska. In order to obtain automatic connection with a subscriber in another city when calling from Poland, you should dial "0", followed by access code, area code and subscriber number.

#### TELECOM SERVICES

Telekomunikacja Polska S.A. is the dominant fixed-line telecommunications operator in Poland. TPSA also owns 66 per cent of

a mobile operator Centertel. Approximately 30 per cent of TPSA's subscribers are still connected to analogue exchanges, which exclude them from most value-added services. All new networks are built to modern digital standards.

Even though competition in telecommunications service was introduced in 1996, when the first licences for local telephone services were issued, TPSA still maintains its dominant position.

So far, the Ministry of Posts and Telecommunications has allowed Era GSM to provide Voice over Internet Protocol (VoIP) as a pilot project. VoIP is also being offered by several ISPs, mainly in corporate networks. Tele2 Polska and MediaTel are new companies offering international VoIP services.

#### **REGULATORY FRAMEWORK**

Licences or concessions are necessary for providing any telecommunications activity. A licence is issued with a permit to build and operate company-owned infrastructure. Separate licences are required for various activities. For example, telephone operators must apply separately for a license to provide data transmission or Internet services.

In accordance with Poland's agreement under the WTO, TPSA will maintain its monopoly for international phone services until 2003. Foreign investments in long-distance, cellular and data transmission companies are currently allowed only up to 49 per cent. There are no foreign investment limits on local phone services or certain Internet services.

#### **INFRASTRUCTURE**

TPSA maintains over 11 000 km of fibre optic data transmission cables in its network using Polpak X.25 protocol and Polpak-T (high-speed backbone network in Frame Relay/ATM technology). Its main services are Permanent Virtual Circuits (PVC) and Virtual Private Networks (VPN). In July 2000 TPSA signed contracts with Alcatel and Lucent Technologies for SDH and DWDM equipment in order to build a fast optical network for expanding data transmission, video, and fast Internet access services. Other fiber optic nation-wide infrastructures belong to Polish Railways PKP (5 000 km) and Tel-Energo operating the Polish Power Grid Company (PSE) network

(8 000 km). Additionally, Telbank operates the banking sector network (Telbank-M in Frame Relay technology, Telbank-T used for telephone, teletransmission and multimedia services, and Telbank-P packet transmission). Netia is planning to construct its own teletransmission network based on optical technology. This network will link Poland's twelve largest cities by the end of 2000. Formus operates a broadband wireless network. Newcomers to the market are local telephone operator Szeptel and Pro Futuro.

#### **RANGE OF SERVICES**

TPSA's value added services are available to approximately 70 per cent of its customers (those who are connected to digital exchanges and have touch-tone phones). Value added services offered by TPSA include: call forwarding, call waiting, barring outgoing calls, hot line, automatic alarm, and detailed billing. In the spring of 2000, TPSA launched its voice mail service based on Alcatel's technology. This free-of-charge service was first introduced in four cities but will be expanded soon. In the first quarter of 2001 TPSA offered unified messaging service.

Most cable television networks have experimented with pilot Internet access projects, but these services remain mostly future plans. Internet access is not available through digital satellite television operators Wizja TV and Cyfra+. A new company, TPIP, created in July 2000 by TP Internet (a TPSAowned Internet subsidiary) and Polsat television, is expected to offer services linking the capabilities of Internet and television.

#### **MOBILE SERVICES**

All Polish cellular operators offer prepaid systems, SMS, e-mail and Internet access through WAP (Wireless Application Protocol). Polkomtel began offering SurfPlus WAP service in its Plus GSM network in December 1999, addressing mainly corporate users. Polkomtel also uses Nokia HSCSD (High Speed Circuit Switched Data) technology. Polkomtel is actively promoting WAP development through its WAP club, a forum for the development of mobile Internet services in Poland. Polkomtel is also setting up a laboratory, which will enable suppliers of new services to test new terminals and WAP applications. Plus GSM offers several new intelligent network services including one number for up to 6 telephones, corporate networks and free company numbers. Plus GSM introduced in 2001 a

new Graffiti Plus service, enabling transmission of pictures and simple graphic information of up to 120 characters. Centertel's WAP Idea service is addressed to all users, including those using pre-paid services.

Era GSM began offering WAP service in June 2000, addressing this service to all users, thanks to a wide selection of WAP telephones. All three cellular operators are testing GPRS (General Packet Radio Service) for packet transmission and Internet access. The first WAP service was launched in January 2000, soon after WAP became available in the Plus GSM net-

Since the Polish telecommunications market is still restricted, value added services are being developed and offered only by existing operators. Newcomers who want to provide services enter into contracts with operators and work under their licences.

#### **SALES PROSPECTS**

The market will become partially open in 2002, with full liberalization planned in 2003. All currently operating companies are preparing for competition in the further development of the infrastructure and new services.

	1999	2000	2001*
Number of fixed phone lines	10 080 000	12 100 000	15 000 000
New subscribers	1 270 000	2 000 000	2 500 000
elephone density (per 100)	26	29	33
People on waiting list for phone installation	2 000 000	1 200 000	400 000
Number of mobile phones	4 000 000	7 000 000	10 000 000

Figure IT 4

work. Several new applications are being currently developed, including m-commerce solutions, banking services (WBK was the first), and services based on GPS technology. It is estimated that approximately 200 Internet services and portals are currently available in Poland in WAP technology, including stock market information, travel guides, news, weather forecasts and many more. In July 2000, Plus GSM launched first Internet shop using WAP technology.

#### **COMPETITIVE ANALYSIS**

Alcatel, Lucent and Siemens, the major investors in the telecommunications industry in Poland, provide most of the equipment for fixed-line networks. Other suppliers include Ericsson, Motorola, and Nokia. Most large manufacturers maintain their own offices in Poland.

sent as minority investors in telecommunications operating companies. These include: French Vivendi (in Elektrim-Telekomunikacja), Swedish Telia (in Netia), French Telecom (in Centertel), Deutsche Telecom (in Era GSM), Vodafone AirTouch (in Polkomtel), and British National Grid (in NG Koleje Telekomunikacja). Formus, GTS International and CEL Polska are also U.S. investors in telecommunications services.

A number of foreign companies are pre-

#### **MARKET ACCESS**

A typical method of entering the Polish market is through a Polish representative/partner, who can offer experience and knowledge of the local market and can watch for business opportunities. For export sales to Poland, an agent or distributor is usually used. In most cases, foreign companies that do not have a direct presence in Poland seek local companies to handle the type-approval process and to look for business opportunities. Companies with representative offices in Poland focus on promotion of the company and its products, while actual sales are done through distributors.

Telecommunication operators tend to contract for turnkey projects, which include all kinds of equipment as well as its implementation. It is strongly recommended, therefore, that foreign manufacturers promote their products to major equipment providers such as Alcatel, Lucent, Siemens, Ericsson, and others if there is no conflict of interest.

#### **END USER PROFILE**

Corporate end-users are the most desirable clients for all telecommunications services, and they generate the most profit. The Warsaw metropolitan region, with 1 million private subscribers and 300 000 business

subscribers, is the most lucrative area for providing services.

Netia estimates that business users bring five times more profit than private users. Elektrim estimates that a business user generates 75 per cent of its income. TPSA's customers are 85 per cent individual users and 15 per cent corporate. The largest competing operator, Netia, claims to have 20 per cent business users. Individual users very seldom purchase value-added services, usually satisfying themselves with the basic service, including a monthly subscription fee and additional message unit and long distance charges.

Individual fixed-line users are linked only to TPSA and are difficult for other operators to reach. The extent of this difficulty can be seen in the astounding number (millions) of individuals who cannot get access to fixed line services at all.

Most operators focus on corporate users, who are more likely to be interested in value-added services. In some areas new operators have an advantage over TPSA because of their new fibre optic network. So far, new operators have been able to recruit 24 of the 500 largest companies in Poland, including some multi-national companies. In response, TPSA has stepped up its marketing efforts for corporate clients and has significantly improved its service for them.

#### INTERNET

The Internet in Poland is still in an early stage of development, with approximately 2.5 million users and 2 000 e-commerce sites. Recent market surveys estimate that companies working in the "new economy" generate 6 per cent of Polish GDP. The value of the e-commerce market in Poland for the year 2000 is estimated at USD 35 million (by ING Baring) to USD 45 million. [WOOD]

#### **MARKET OVERVIEW**

There are approximately 2.5 million registered Internet users in Poland, but about 17 per cent of the population has some access to the net, generally at their place of employment [CEEBIC]. Over 90 per cent of private users connect to the Internet by a modem through Telekomunikacja Polska

S.A. (TPSA), the national telecommunications operator.

Wireless broadband networks are being developed by Formus Polska, Crowley International (Data Star network), Pro Futuro and Tele2. TPSA is also investing in wireless broadband technology, and is currently conducting a pilot project in Warsaw.

TPSA, Tel-Energo, Telbank and NG Koleje Telekomunikacja are the telecommunications operators maintaining backbone networks in Poland, leasing lines and offering corporate users virtual private networks. A local telephone operator, Szeptel, is in the process of building another countryside backbone for data transmission. Other major Internet service providers, such as NASK and Internet Partners are developing their own infrastructure. Poland is currently developing an Internet2 network using optical DWDM (Dense Wavelength Division Multiplexing) technology based on existing academic metropolitan area networks.

#### INTERNET SECURITY

Either system integrators implementing projects or independent auditing companies do security audits at various levels. In case of ISO procedures, independent companies must do audits.

Industry specialists report that most private users and a large percentage of Polish companies and organizations are not adequately aware of security issues. As a result of the efforts of industry specialists, press campaigns and published information about spectacular security-breaking cases, security awareness has been steadily increasing. It is estimated that half of all users have no security systems and the other half use security packages available in the Internet free of charge.

Security issues are of great concern by management of all kinds of financial institutions, service providers and companies already involved in (or thinking about) ecommerce applications. Most banks already offer their services through the Internet, are in the process of implementation or have plans to do so in the near future. All banking projects offer secure transactions based on strong multi-level authentication systems, have advanced firewall systems and intrusion detection systems. Banks do not release specific information about their

network security, but the general opinion is that it is at the state-of-the-art.

There are no general standards for security products in Poland. The government has introduced procedures for ensuring security in the public sector, especially in the area of protecting non-public information. Only certified products can be used in public administration networks.

#### **E-COMMERCE AND SECURITY**

There are several initiatives aiming to provide security measures in e-commerce. PolCard, provider of the most popular credit card authorization service, has been the first to offer on-line authorization services. PolCard recently launched an online screening feature to increase transaction security. Computer Land's eCard, the Export Development Bank and WBK also provide on-line authorization services with their software and security packages. Cavern sc, a Polish representative of Planet Payment authorization centres, also offers on-line authorization.

CRTI, established by Interia.pl, Prokom Internet, Softbank and tp.Internet S.A. in mid 2000, is also focusing on settlement of Internet transactions. Centrast (established by tp.Internet and jointly owned by TPSA, the National Bank of Poland, Associations of Polish Banks, National Clearing House, Warsaw Stock Exchange, Polcard, Telbank, and several banks) is developing security infrastructure for financial transactions in a common e-banking network. A Polish company, Unizeto, offers third-party certification services in cooperation with the National Clearance Agency. Telbank-Enigma Certification Office offers certification services for banks and e-commerce companies. Polbox has just launched a new Digital ID service allowing users to create their own e-signature and use encrypted emails. This service is free for private users. Another company, iTel, is about to launch a secure platform for e-commerce.

#### **MARKET TRENDS**

Awareness of the importance of computer security issues is rapidly increasing. The market for security solutions is splitting between the high-end of the market, which is increasingly investing in reliable and proven solutions, and the low-end users, who are implementing publicly available free packages. Industrial users tend to purchase security solutions from suppliers already providing

their hardware, software and networking products. The Polish market definitely tends to invest in solutions proposed by well-known suppliers, which have already proven useful elsewhere and are considered as industry standards or comply with industry standards.

#### **LEGAL FRAMEWORK**

Poland controls the importing, exporting and usage of encryption software and hardware, in accordance with European Union agreements. There are no problems associated with bringing (for personal use) a laptop computer with encrypted software into Poland.

The general outline of legal procedures for importing encryption hardware and software is as follows: the importer or the enduser in Poland is responsible for working with Polish authorities to obtain an opinion and an import permit for bringing the product into Poland and is held responsible for its proper use. The foreign supplier is expected to provide a technical description of the product. It usually takes 3-4 weeks to obtain an import permit for encryption software/hardware. There is a separate procedure to allow the use of specific encryption products in Polish public installations. This procedure is initiated at the same government office. [CEEBIC]

#### **E-COMMERCE**

#### **GENERAL OVERVIEW**

This section considers the development of e-commerce in Poland. First of all we review the general prerequisites for the successful development of e-commerce. Further we take a closer look at the B2B (business to business) and B2C (business to customer) areas of e-commerce respectively.

To start with, among the general factors for the development of e-commerce are the level of Internet penetration, development of the telecommunications and affordability. When it comes to the level of Internet penetration, it expanded rather extensively during the 90s with growth slowing down somewhat in the year 2000. As a result the level of Internet penetration in Poland currently is ab. 14 per cent [ACC]. This is lower compared to the levels of UK (38 per cent), Germany (32 per cent) and France (19 per cent). However this makes the Polish on-line

community the largest in the Central Europe, simply due to the size of the Polish population. As mentioned the Internet growth has levelled off due to the lack of hardware, Poland still has a very low PC penetration level, lack of Internet connections, low education about Internet among certain population segments. In addition to that a large barrier to the expansion of the Internet is low incomes in Poland as well as the monopoly status of TPSA, which keeps the Internet charges artificially high.

Overall the volume of e-commerce in Poland, Hungary, Czech Republic and Slovakia is estimated to USD 650m in 2001. While Czech Republic currently is the leader in the volume of e-commerce in Eastern Europe, Poland is expected to overtake it by 2005 on the grounds of population. [EIU]

#### **B2B E-COMMERCE**

Due to the described above limitations in the development of Internet usage by consumers and telecommunications, one can expect private companies to be the primary growth engine of e-commerce in Poland. According to the survey conducted by Accenture in Poland in 2001, 48 per cent of Polish companies plan to increase expenditures on e-commerce in the nearest 12 months. Moreover 47 per cent of companies claim that their initiatives with e-commerce have been successful, while 33 per cent claim that market conditions made them less enthusiastic about the ecommerce. The most popular application for e-commerce is sales and marketing, followed by purchasing.

According to Accenture's report, use of the B2B commerce is expected to grow over the next year. This is supported by the following results of the Accenture survey. For instance 77 per cent of the companies' executives are familiar with B2B exchanges and half of them plan to use such exchanges for all their buying and supplying. This fact signifies good prospects for the development of B2B e-commerce in Poland. A real example of such B2B exchange is ce-market.com, which is an online metal market exchange.

#### **B2C E-COMMERCE**

The development of the B2C e-commerce is lagging behind the development of the B2B e-commerce. The main barriers for that are low levels of PC penetration, high

Internet connection charges by TPSA, low incomes that, as mentioned above, have slowed down the growth of the Internet penetration. Furthermore only 20 per cent of the Polish online retailers allow credit card payments and only 8 per cent of the Polish online shoppers use credit card online [ACC]. This kind of general market situation clearly makes further expansion of the B2C e-commerce rather difficult.

From the consumer needs prospective, two important factors for the consumers are the need for control and trust. Consumers feel a larger need to control the shopping environment, than in the case of usual shopping experience. Additionally they need to have a high degree of trust to online retailers in order to use them. This may be problematic to achieve in the Polish retail industry, which is very dynamic and unstable. Therefore one can expect a low degree of trust from the Polish consumers to the online retailers in Poland.

One area of B2C e-commerce that may currently have larger potential than Internet-based consumer e-commerce, is wireless e-commerce. Mobile communications market has had, and still is having explosive growth with 18 per cent penetration level in the year 2001. This has almost doubled during the last year. Apart from the fact that this type of B2C e-commerce is likely to grow faster than Internet penetration levels, it can allow for payment alternatives that get around the problem of credit card payments on the Internet. This solution also overcomes the limitation that credit card penetration level in Poland may be low. Moreover by utilizing the existing reputation of mobile operators, retailers can win the trust of the consumers, a factor that is crucial for consumers in order to start using this mode of shopping.

#### **Major Trade Events**

#### **National Telecommunications Symposium**

in Bydgoszcz, 12-14 September 2002 Technical and scientific seminar of telecommunication specialists accompanied by an exhibition (approximately 160 companies). Very focused audience.

Organizers: Instytut Telekomunikacji Akademii Techniczno-Rolniczej

Al. Prof. S. Kaliskiego 7 85-796 Bydgoszcz tel 48/52/3408395 fax 48/52/3408330

http://kst.atr.bydgoszcz.pl/english.htm

#### INTERTELECOM,

in Lodz, 21-24 February 2002 International Fair of Telecommunications - event devoted exclusively to the telecommunications sector.

Approximately 300 exhibitors.

Organizers:

Lodz International Fair ul. Wolczanska 199

90-057 Lodz

tel. 48/42/6372934

fax 48/42/6372935

http://www.mtl.lodz.pl/indexen

INFOSYSTEM,

in Poznan, 23-26 April 2002

The International Fair of Electronics, Telecommunication and Computer Engineering. Range of products is very wide and covers all related sectors. Approximately 400 exhibitors.

Organizers:

Poznan International Fair

ul. Glogowska 14 60-734 Poznan

tel. 48-61-8692592

fax 48-61-8665827

http://www.mtp.com.pl/en/menu.htm

#### The Largest Internet Portals

Onet.pl (www.onet.pl) - reported to be the best known portal, visited by 58% of Polish Internet users.

Wirtualna Polska (www.wp.pl) - the second best known, visited by 54% of Polish Internet users.

Source: EIU Country Profile 2001

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European Information Technology Observatory (Online)

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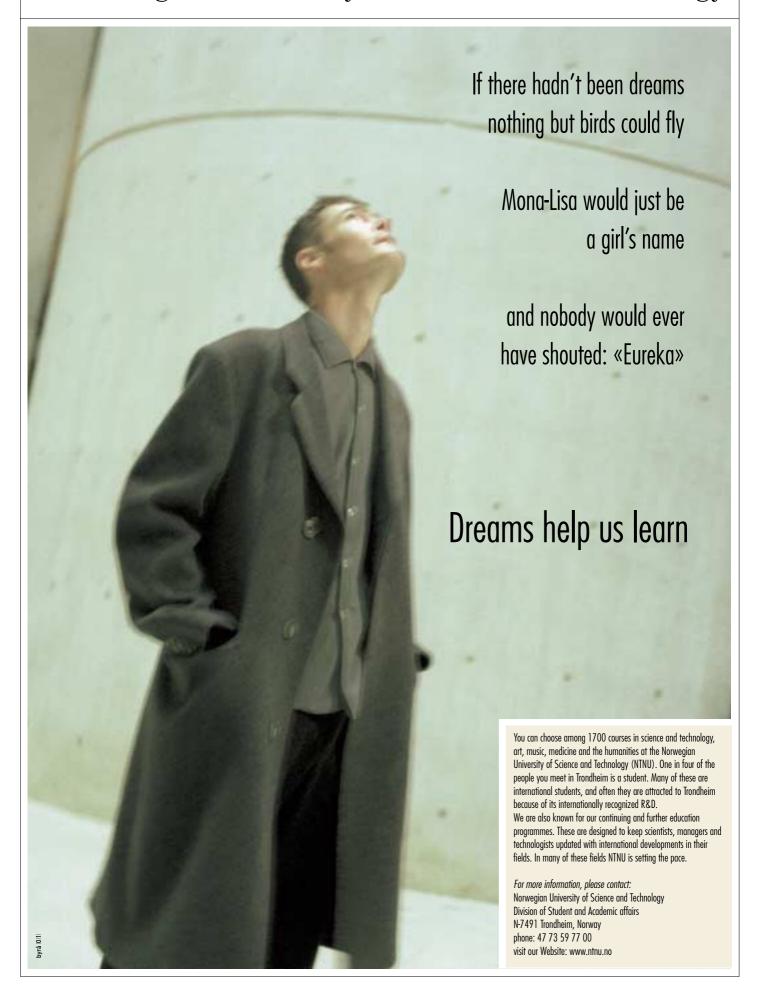
#### Meetings and people that have contributed to the report

Dato	Loaction	Company / Institution	Title
28.12.01	Kielce	Biovac Sp.z.o.o.	Chairman of the board, Managing Director
03.01.02	Warszawa	Embassy	Ambassador
03.01.02	Warszawa	Embassy	First Secretary
04.01.02	Warszawa	Mostostal Siedlce	,
04.01.02	Warszawa	Mostostal Siedlce	Project Manager
04.01.02	Warszawa	Kotlin	President
07.01.02	Warszawa	REMA 1000	President
07.01.02	Warszawa	REMA 1000	Director of Marketing & PR
07.01.02	Warszawa	Danske Bank Polska	Vice Presient, head of business development
07.01.02	Warszawa	Danske Bank Polska	Treasurer
07.01.02	Warszawa	Optimus	
07.01.02	Warszawa	PAIZ	Managing Director
07.01.02	Warszawa	PAIZ	Junior Specialist in PR
07.01.02	Warszawa	PAIZ	Senior Project Officer
07.01.02	Warszawa	Ministry of Economy	
08.01.02	Warszawa	Telenor Satellite Polska S.A.	
08.01.02	Warszawa	Alcatel Polska S.A.	
08.01.02	Warszawa	Statoil Polska Sp.z.o.o.	Managing Director Poland
08.01.02	Warszawa	Royal Norwegian Embassy	
08.01.02	Warszawa	Royal Norwegian Embassy	Market Adviser
08.01.02	Warszawa	Royal Norwegian Embassy	Senior Marked adviser
09.01.02	Warszawa	Institute of Labour and Social Studies	Professor
08.01.02	Warszawa	SEGEL	Business Adviser
10.01.02	Bochnia	Contimax	Managing Director
14.01.02	Gniewino	Big Fish S.A.	Chairman of the board, General Manager
15.01.02	Gdansk	Mostostal Gdansk S.A.	Manager, Radiation protection officer
15.01.02	Gdansk	Mostostal Gdansk S.A.	Chief of Technical Office
16.01.02	Gniew	Ulstein Fama	
	Sopot	Det Norske Veritas	Prokurent
17.01.02	Sopot	Det Norske Veritas	Country Manager
17.01.02	Gdynia	Wilbo	Chairman of the board
17.01.02	Gdynia	Wilbo	Vice-Chairman of the board, Director of Production
17.01.02	Gdynia	Wilbo	Specialist of Financial Analysis and Planning
17.01.02	Sopot	University of Gdansk	Professor
14.01.02			
15.01.02	Swinoujscie	Morska Stocznia Remontowa	Commercial Manager
16.01.02	Swinoujscie	Morska Stocznia Remontowa	
15.01.02	Swinoujscie	Odraport	
16.01.02	Szczesin	Unitor Polska Sp.z.o.o.	Ships Equipment Division
16.01.02	Szczesin	Unitor Polska Sp.z.o.o.	Ships Equipment Division
10.07.01	Oslo	Telenor ASA	PR & Projects Manager
13.08.01	Oslo	Norwegian Trade Council	
27.04.01	Oslo	Embassy of the Republic of Poland	Representative
06.11.01	Oslo	Embassy of the Republic of Poland	Commerciel Councillor
06.11.01	Oslo	Embassy of the Republic of Poland	Commercial Attache
06.11.01	Oslo	Embassy of the Republic of Poland	Financial Attache
10.12.01	Oslo	Hydro Energy	Key Account Manager
18.12.01	Oslo	SND	First Vice President
	Oslo	Private	Advisor

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# The Project Country of IB 2002/2003 Turkey

Turkey is a secular democratic state governed under the 1982 constitution. The Turkish parliament continues to push through legislative reforms, and on February 4th 2002 the IMF executive board approved a new three-year stand-by agreement, increasing the funds available to Turkey to US\$ 16 billion. Turkey is a dynamic, emerging market economy, with a reputation for private sector entrepreneurship - there are already more than 4600 enterprises with

foreign partnership in operation in various sectors. The population is young, with over 67 million people. The newest IT technology is quickly adapted and imported from the West. Turkey is strategically located between Europe and Asia, in close proximity to 70 per cent of the world's energy resources. The country has a large potential in the paper/pulp and aquaculture sector, as well as a strong maritime sector.



#### **Earlier Project Countries:**

Singapore	1984/1985	Brazil	1985/1986	Australia	1986/1987
Italy	1987/1988	China	1988/1989	Thailand	1989/1990
Russia and					
<b>Batlic states</b>	1990/1991	Portugal	1991/1992	Mexico	1992/1993
Hungary	1993/1994	Chile	1994/1995	South Africa	1996/1996
India	1996/1997	Indonesia	1997/1998	Baltic States	1998/1999
Brasil	1999/2000	Poland	2001/2002		





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