POLISH INFORMATION AND FOREIGN INVESTMENT AGENCY

The Automotive Industry in Poland

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Executive summary

Poland is one of the best locations in the world for automotive investments. Our country offers relatively inexpensive but highly-qualified human resources and a long-standing tradition in the industry. The presence of the most significant companies in the sector is not without merit, providing a complex network of cooperative relations and availability of sub-suppliers.

Therefore it is not surprising that Poland is the second largest producer of cars in the region, with the level of production exceeding 900 thous. vehicles per year. Poland is most of all an important producer of finished passenger cars and engines, but its position as a producer of car and bus parts is also strong.

Nearly the whole production of the Polish automotive industry is sent for exports . In 2009 its value amounted to € 15.7 billion, i.e. 16% of all Polish exports. The majority of exports are directed at the EU, where the largest recipients are Germany and Italy, i.e. the countries with the largest investments in the sector.

Foreign investments are the basis of the Polish automotive sector. Nearly all international concerns operate in Poland, responsible for the majority of production and generating orders both for foreign and local sub-suppliers. The total value of foreign investments in the sector is estimated at the level of approx. € 5 billion.

The Automotive Sector

In the whole of the European Union, 2 million people work directly in the automotive sector. 10 million more are employed in industries related to motorisation. Thus, this is one of the key sectors in the global and European economy. That is why the fact that Poland occupies one of the key locations on the map of the automotive sector in Europe is so crucial.

Favourable conditions for the development of the automotive sector

Poland offers some of the best conditions for the automotive sector in the world. Due to relatively inexpensive but well-educated and efficient human resources, low risk associated with running business activity and unlimited access to the EU market, Poland is regarded as one of the five best locations for automotive ventures in Europe.

Table 1. Conditions for the automotive sector in Europe

No.	Country	Points (max 100)
1	Germany	69.8
2	Great Britain	68.4
3	France	64.5
4	Italy	64.2
5	Poland	61.1

Source: The authors' own study on the basis of Business Monitor International

The Automotive industry in Central and Eastern Europe

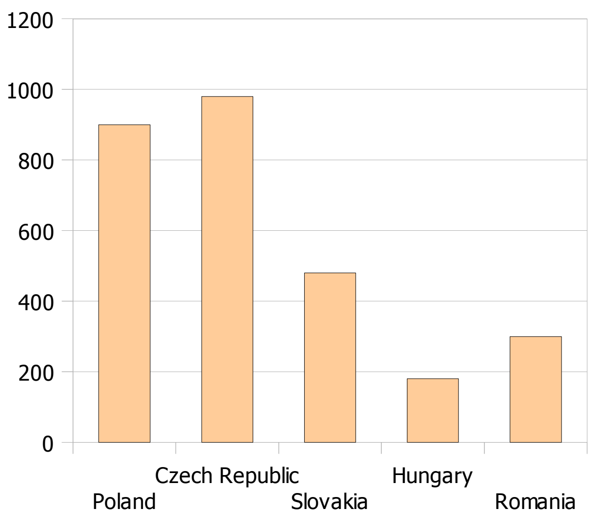
The countries of the region, despite dozens of years of communism, are at present very important locations for the automotive industry. Poland is the second largest producer of passenger cars, after the Czech Republic, and a powerful player in the production of commercial vehicles.

Table 2. Motor vehicle production in Central and Eastern Europe

Year	Passenger cars	Commercial vehicles	Total
Poland			
2007	695 000	97 703	792 703
2008	842 000	103 959	945 959
2009	819 000	65 133	884 133
Czech Republic			
2007	925 060	13 588	938 648
2008	934 046	12 521	946 567
2009	967 760	6 809	974 569
Slovakia			
2007	571 071	0	571 071
2008	575 776	0	575 776
2009	461 340	0	461 340
Hungary			
2007	278 982	7 609	286 591
2008	342 359	3 696	346 055
2009	180 500	2 040	182 540
Romania			
2007	234 103	4 045	238 148
2008	231 056	14 252	245 308
2009	279 320	17 178	296 498

Source: The authors' own study on the basis of Organisation Internationale des Constructeurs d'Automobiles (OICA)

Figure 1. Motor vehicle production in Central and Eastern European countries (thous.)

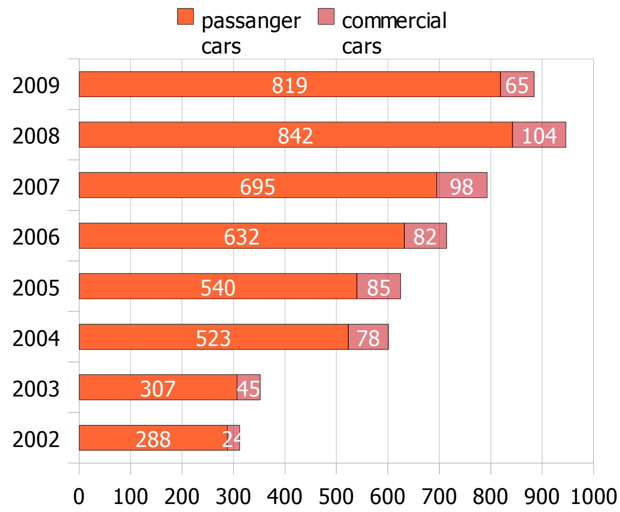


Source: The authors' own study on the basis of Organisation Internationale des Constructeurs d'Automobiles (OICA)

The Production of motor vehicles in Poland

Despite the long tradition of car production in Poland, a real boom followed its entrance into the European Union. As compared to the period before the EU accession, at present approx. 2.5 times more cars are produced in Poland.

Figure 2. Motor vehicle production in Poland in the years 2002-2009 (thous.)



Source: The authors' own study on the basis of Organisation Internationale des Constructeurs d'Automobiles (OICA)

Poland is most of all a producer of passenger cars. For instance, the Opel Astra III and IV, the Fiat Panda and the Fiat 500, the Lancia Ypsilon, the Ford Ka, and the Chevrolet Aveo are produced in Poland.

Another important subsector is the production of car engines and parts, used mainly in the production process of vehicles in other factories. Engines for Toyota, Peugeot and Citroen are produced in Toyota plants. In Fiat factories low-capacity engines for Fiat and Ford are produced. In Tychy, in turn, a diesel engine factory for Opel Astra and Corsa operates. The Volkswagen plant in Polkowice produces diesel engines for passenger cars and delivery vans for Volkswagen, Audi, Seat and Skoda.

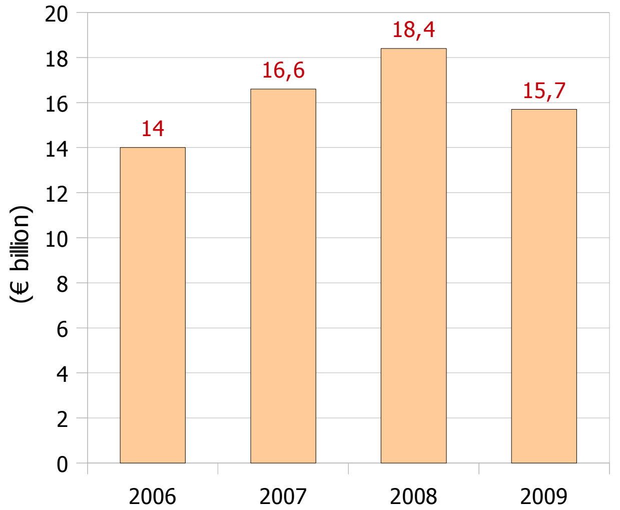
Moreover, a large group of Polish sub-suppliers, whose products are at the world level and at competitive prices, works for the purposes of foreign companies. The most widely-known Polish producer is Inter Groclin, producing car seats and trim, among others, for BMW, Mitsubishi, Audi, VW, Opel, Volvo, Suzuki, Mercedes and Porsche.

The tyre industry is also well developed, operating on the basis of Polish factories acquired by international companies. In Dębica, tyres with such brands as Goodyear, Dunlop and Fulda are produced. In Olsztyn, Michelin, Kormoran, and Kleber tyres are produced. Also, the Japanese company Bridgestone have built new factories in four locations in Poland (Poznań, Wolsztyn, Żarów, Stargard Szczeciński).

Exports by the sector

Entering the European Union had a particular significance for the Polish automotive industry due to the fact that as much as 98% of production is sent for export. In 2009 the exports of the car industry amounted to € 15.7 billion, i.e. 16% of total Polish exports . Despite the decline in relation to the 2008 record, the percentage proportion did not change, which points to the stable position of automotive industry in the total volume of Polish exports.

Figure 3. Exports by the Polish automotive industry in the years 2006-2009 (€ billion)

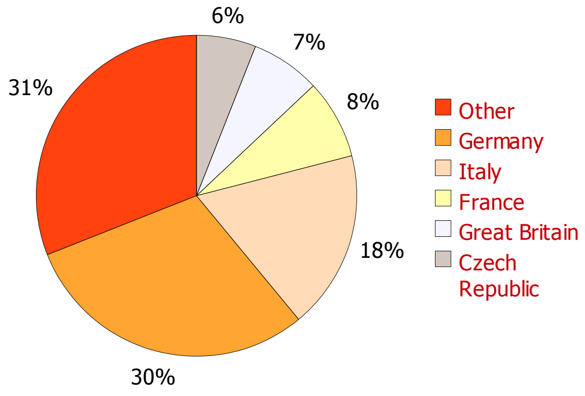


Source: KPMG

The total volume of exports consists of the sales of cars in the amount of € 6.7 billion (43% of the whole exports of the sector), exports of parts and accessories with a value of € 4.7 billion (30% of exports) and exports of diesel engines with a value of € 1.8 billion (12% of exports).

As much as 90% of the total exports of the automotive industry was sent to European Union countries. Definitely the most significant importer was Germany, to which products of the automotive industry worth € 4.8 billion were sent. The next position was occupied by Italy (exports in the amount of € 2.9 billion) and France (exports worth € 1.1 billion).

Figure 4. The most important export-target countries in the Polish automotive sector



Source: AutomotiveSuppliers.pl

The key players in the sector

The situation in the Polish automotive industry is the result of the activity of global concerns. Practically all of the most important global companies are present.

Fiat. The company has been present in Poland since the 1920s. Cars of the brand Polish Fiat, produced in Poland under Fiat's licence, supported the motorisation of Poland both in the pre-war period and in the times of the People's Republic of Poland. The cult models 125 and 126 were produced not only for the purposes of the internal market, but also for export, not only to the countries of the communist block, but also to Western Europe, African, Asian and Southern American countries. After the fall of communism, newer models were gradually introduced into production, from the Cinquecento and the Uno to the modern Panda and Fiat 500. In 2007 the company celebrated the 7.5-millionth car produced by Fiat in Poland.

General Motors/Opel. The Opel factory has operated in Gliwice since 1998. Such models as the Zafira, the Agila, and even the Suzuki Wagon have been constructed there. The main model is, however, the Opel Astra, including all the models from the first generation to the currently-produced fourth generation. At present the factory has the production capacity at the level of 220 thous. cars per year, and employs 3 000 people. Already in 2007 the company has celebrated the production of the millionth car produced by this Polish factory.

Toyota. The company owns two factories in Poland - in Jelcz-Laskowice and Wałbrzych. Toyota Motor Manufacturing Poland in Wałbrzych produces petrol engines and transmissions for various models of Toyota, Citroen and Peugeot. The value of the investment amounts to approx. € 540 million, and 2000 people are employed. The production capacity is 360 thous. engines and 720 thous. transmissions. Toyota Motor Industries Poland produces 2.0 and 2.2-litre diesel engines. The value of the investment is approx. PLN 1 billion, and nearly 700 people are employed.

Volkswagen. The factory in Poznań has operated since 1993 and is a significant producer of commercial vehicles - the VW Transporter and Caddy. In the past also the Skoda Felicia and Fabia models. The level of employment is almost 5 000 people, and the annual value of sales amounts to approx. € 2 billion. Diesel engines with a capacity of 1.6 and 2.0 litre are also produced in Poland for the purposes of all the brands owned by the company.

MAN Nutzfahrzeuge. The company is a powerful global player in the production of trucks and buses sold under the brands MAN and Neoplan. In Poland the company has three factories; in Poznań and Starachowice buses are produced, and the new factory in Niepołomice near Kraków produces trucks. € 150 million were invested in the production of buses, and € 100 million in the production of trucks. The company employs over 3 000 workers. The company is at present the biggest bus producer in Poland. Poland is attractive for the company not only as a location for production, as since 2006 in Poznań the MAN Financial and Accounting Centre has been operating, dealing with the accounting transactions and bookkeeping of operations for Polish and international companies of the concern.

Solaris. It is not only a 100% Polish company, but also a company still owned by the family of its founders. It is also the second biggest bus producer in Poland, and in 2009 it produced 1095 buses and 35 trolleybuses. At present half of the production is exported not only to Europe but recently the company has supplied 225 buses to Dubai. Employment in the company exceeds 1600 people.

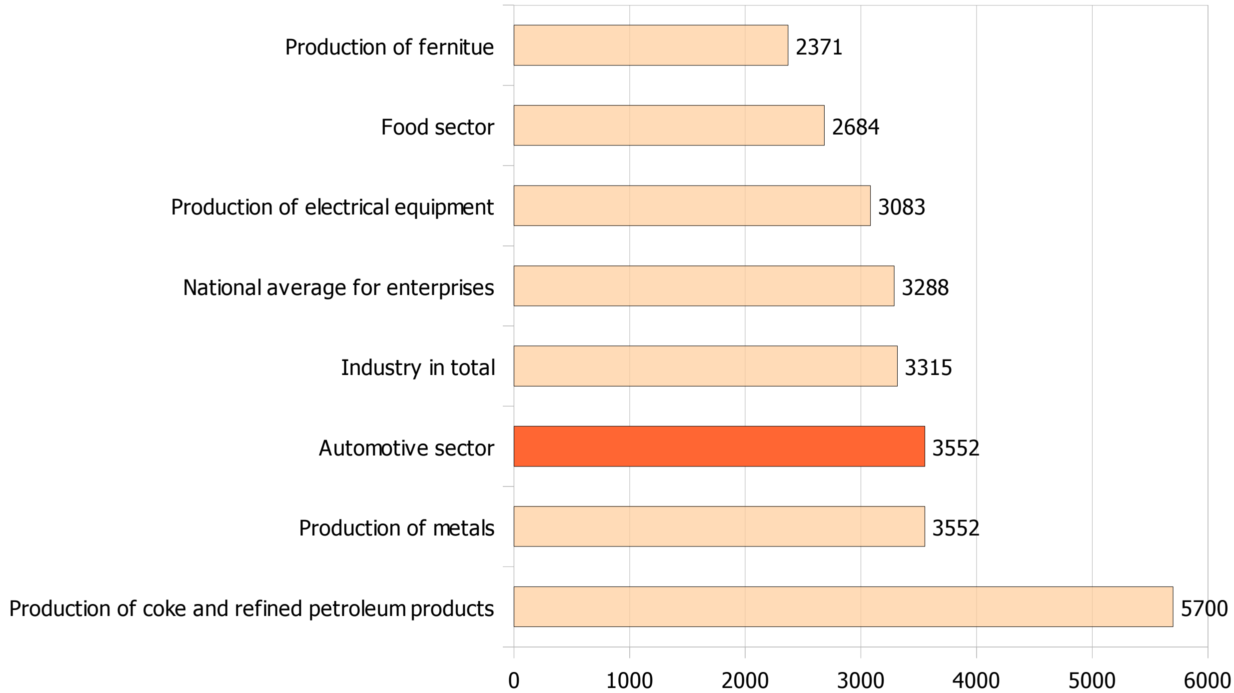
Volvo. Buses have been produced in Poland by the company since 1995. At present the Volvo Poland Buses factory in Wrocław is the largest bus factory of the company in Europe. It produces buses and the latest model of the backhoe loader. The company is the third bus producer in Poland, and in 2009 it manufactured 739 buses. The value of sales amounts to € 500 million annually, and 2600 people are employed in the plant.

Scania. Since 1993 the company has produced transit buses in the plant in Słupsk. In 2009 over 729 buses were produced. Employment amounts to approx. 700 people, and sales exceeds € 100 million annually.

Qualified staff for the automotive industry

Poland, due to its long-standing history in the automotive industry and the large scale of its production, for a number of years has had a system of education preparing for work in the automotive sector. Approx. 200 thous. people study in secondary technical schools. Over 30 thous. people study engineering majors such as mechanics and mechanical engineering, which guarantees the proper inflow of top-level staff. At present 136 thous. people are employed in the sector, i.e. 5% of all those employed in the industry. In 2009 the average remuneration in the sector amounted to PLN 3 325 and was slightly higher than the average for industry, which is PLN 3 315, and than the national average in the middle of 2009 - PLN 3 288.

Figure 5. Average monthly remuneration in the automotive sector in relation to the economy



Source: The authors' own study on the basis of KPMG and the CSO.

Public aid for entrepreneurs

Governmental aid. The mainly supported sectors are the automotive sector, the aviation sector, the IT and electronics sector, BPO and the R&D sector. Aid is received on the basis of the minimum number of newly-created jobs or the value of incurred investment outlays.

Supported sector	Minimum number of jobs	and	Minimum value of investment
Support for creating new jobs			
Automotive, aviation, biotechnological, IT and electronics	250	40 million PLN	From PLN 3 200 to PLN 18 700 per job
BPO	250	-	
R&D	35	3 million PLN	
Other	500	1 billion PLN	
Support for investment in fixed assets			
Automotive, aviation, biotechnological, IT and electronics	50	160 million PLN	1-10% of the investment's value
Other	500	1 billion PLN	

Note: average exchange rate of € 1 = approx. PLN 4.0 (August 2010)

European Union funds. For the years 2007-2013 Poland has had a huge guaranteed supply of EU funds – over € 67 billion.
Entrepreneurs can apply for funds from the following Operational Programmes (OP):
:: 5 national Operational Programmes:

- Infrastructure and environment,
- Innovative economy,
- Human Capital,
- Development of Eastern Poland,
- Technical assistance,

:: 16 Regional Operation Programmes,
:: European Territorial Cooperation Programmes.

Exemptions from CIT (19% rate). Available in Special Economic Zones, i.e. in selected regions of Poland where business activity is run under special conditions. Exemptions from income tax amount to 30%-50% of investment outlays, or the two-year cost of employing workers, whichever is higher.

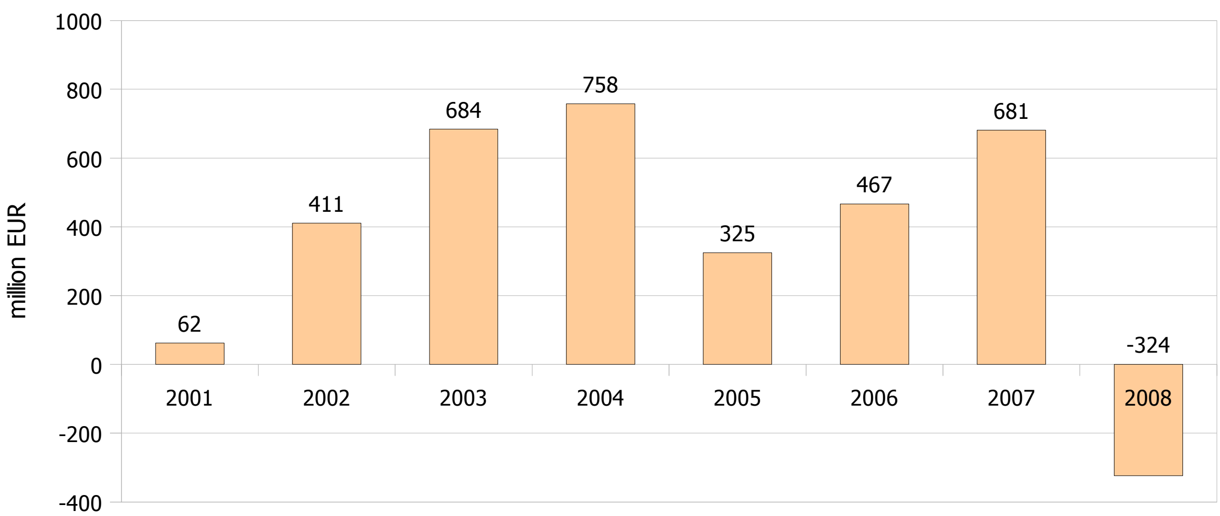
Exemptions from property tax. Exemption depends on the number of newly-created jobs and whether the Local Government applies a policy of tax exemptions. Rates of property tax are set locally, and maximum annual rates amount to PLN 20.51/m^2 for buildings, PLN 0.77/m^2 for land and 2% of the value of constructions.

Foreign investments in the automotive industry

Despite the fact that in Poland at the end of 2009, 2329 enterprises, which were mainly Polish, operated in the sector of motor vehicle production, the Polish car industry is based on foreign investments. Apart from Solaris, all large plants producing vehicles and parts are foreign companies.

The launching of activities by global giants have also attracted many foreign sub-suppliers to Poland. In general, the value of cumulated foreign investments in the automotive sector in Poland at the end of 2008 is estimated at the level of € 4.8 billion, i.e. approx. 13% of all investments in industry; however, it should be noted that investments in this sector involve investments in other industries: the metal, electronic, machinery and services sector.

Figure 6. The inflow of direct foreign investment to the automotive sector in the years 2001-2008 (€ million)

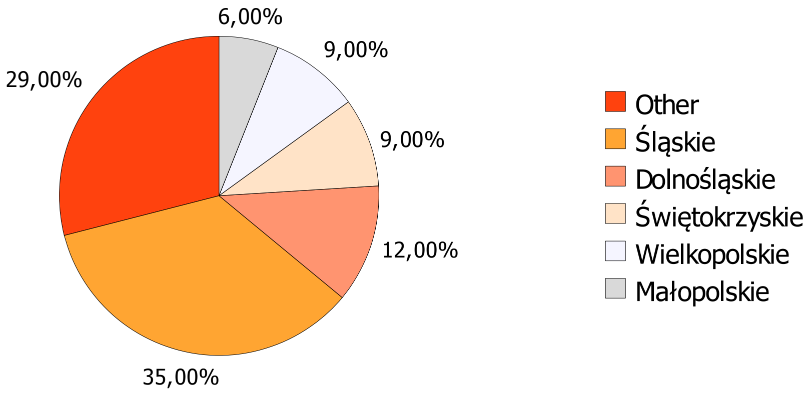


Source: NBP

The automotive sector is one of the industries which has been most badly affected by the economic crisis. Therefore, the year 2008 brought a decline in the previously-observed increasing trend and was a year of departure of foreign capital from the industry. Together with the improvement in the economic situation, a rapid return of investments in Polish motorisation is projected. According to estimates by the Financial Times, the level of investments of the *greenfield* type in the automotive sector in 2009 was not high and amounted to approx. USD 120 million, but in the 1st half of 2010 investments in the amount of over USD 500 million were recorded.

A considerable majority of the Polish automotive industry has been located in regions situated near the Eastern border: in Śląskie and Dolnośląskie. It is conditioned on the fact that the entire production of parts and finished vehicles is sent for exports.

Figure 7. The most important targets of automotive investments



Source: The authors' own study on the basis of FDI Intelligence

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