

Automotive sector in Poland



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Sector profile

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1. INTRODUCTION

The automotive industry is the second largest industry in Poland in terms of turnover. After weakening of the industry at the beginning of the transformation, there has been significant development of companies operating in the automotive sector, largely thanks to foreign companies. The value of foreign direct investment in the automotive industry has increased in the years 2004-2012 by more than 200%, and at the end of 2012 amounted nearly to EUR 8 billion. This represented about 4.5% of the total FDI inflow to Poland during this period.

The aim of this report is to analyse the most recent trends observed in the sector and to present the attractiveness of the industry for potential investors.

The term “automotive sector” includes enterprises running businesses under section 29 of the Polish Classification of Activities: “Production of motor vehicles, trailers and semi-trailers”. The section includes the following three groups:

- **production of motor vehicles**, including production of passenger cars, buses, motor vehicles for transport of goods and other vehicles. This group also includes producers of engines for motor vehicles and tractors,
- **production of vehicle bodies, production of trailers and semi-trailers,**
- **production of parts and accessories for motor vehicles.**

Section 29 of the Polish Classification of Activities does not include producers of motorcycles, military vehicles, tires, car batteries and windows.

1.1. Europe and the world

Environmentally friendly cars will soon cease to be an option – they will become a necessity

Fujio Cho, President of Toyota Motors,
North American International Auto Show, 2004

The economic recovery in Europe in 2013 and maintaining a positive trend in the coming years is crucial for the Polish automotive sector. This is a key factor for the Polish automotive industry, whose more than 98% of production is exported.

Economic growth in Europe is still insignificant, but in the last months of 2013 the situation improved. The first time in several years the number of new passenger cars registrations increased in comparison to the previous year.

- Also optimistic is the newest data on registration of new vehicles in Europe, **which indicate an increase in the number of registrations in the next 10 months following June 2014.**
- Forecasts of the European Automobile Manufacturer's Association (ACEA) indicate that **sales in Europe may increase in 2014.** The organisation reports that in the **first half of 2014 registration of new vehicles increased by 6.5%.**

In 2011, China took over the EU's role of the world leader in the production of passenger cars. Due to the global nature of the automotive market, Polish and European products compete not only with local producers, but also with the global ones. An additional difficulty is that the markets of developed countries, which are traditionally the main recipients of the automotive industry, reached a saturation point and have limited opportunities for a significant increase in sales. Potential economic recovery in the EU can, however, result in a return to production growth in the automotive sector in Europe.

1.2. Investments in the industry – global view

Over the past 10 years 8613 FDI projects were reported globally in the automotive industry¹, whose value exceeded EUR 493 billion. As a result of these investments, more than 3 million jobs were created. The average value of a project amounted to nearly EUR 78 million. In the 12 months since May 2013 **more than half of global investment expenditures** in the sector came from the **10 largest companies**, among which the first 3 places were **Volkswagen, General Motors and Toyota Motors**. Most capital came from Germany (EUR 117.2 billion), Japan (EUR 110.9 billion) and the USA (EUR 95.7 billion)².

As far as target countries of the investments are concerned, China is the leader, where EUR 102.8 billion³ were invested. Half of that amount went to the USA (EUR 41.9 billion) and India (EUR 39.4 billion). Poland, according to a ranking by fDi Markets, placed 8th with almost EUR 12 billion invested in 263 projects. Behind Poland are countries such as Germany (EUR 6.8 billion) and the Czech Republic (EUR 7.3 billion).

- The automotive sector in the EU generated over EUR 839 billion of turnover in 2013, which amounted to 6.9% of European Union's GDP⁴.
 - In the entire EU there are 12.9 million people employed in the sector, i.e. 5.3% of all its labour force.
 - 3 million people employed in the production departments of the industry constitute 10% of the entire employment in the production sector in the EU.
 - 290 factories of the sector located in 25 EU member states produce 16.2 million passenger, light commercial vehicles and trucks a year.
 - **The sector is the largest investor in R&D in the EU; the investment expenditure of the industry constitutes 25% of all R&D expenditures in the EU.**
 - 56% patent applications in the industry come from the EU.
 - **The balance of trade of the sector in the EU is positive and amounts to EUR 92 billion**, while the total balance of trade deficit in the EU exceeds EUR 100 billion.
-
- The automotive industry in the EU is the largest private R&D investor and spends 4% of its revenue, i.e. EUR 32 billion and submitting 9 500 patent applications a year.
-

Conquest of new markets

Development opportunities for the world, including European automotive industry are sought in the market of **developing countries**. This is indicated by the level of motorisation (the number of vehicles per 1000 residents). This indicator shaped differently in individual regions of the world. For example, in 2012, its level was 791 in the USA and 647 in Canada, 563 in the EU, 539 in Japan and South Korea. In contrast, this indicator was markedly lower in emerging markets: in Russia (317), Brazil (187), Turkey (173), China (79) and India (18).

The process of dissemination of motorisation in developing countries is more and more dynamic, but the increase of export to these countries itself will not be able to immediately compensate the decrease in production in Europe. Among other **development opportunities for the automotive industry** the following can be mentioned:

- Developing **environmentally friendly solutions**, i.e. replacing the currently used fuels with new types of fuels or developing new types of motor vehicle drives.
- A change in the operating principles of automotive markets: **offering services and not goods**. Abandoning the existing model of vehicle sale and provision of service in favour of new mobility solutions, in which the provider tries to provide services related to transport (hiring, short-term hiring etc.) which meet the recipient's needs to the largest possible extent.
- Developing extreme segments of the market: budget and premium cars. The low-cost segment may count on demand from developing countries and less well-off consumers from local markets.
- In the context of **the Transatlantic Trade and Investment Partnership (TTIP)**, resulting in the abolishment of customs tariffs, it is important for the automotive industry to maximise the trade potential through achieving sector's regulatory compatibility with the USA.

¹ The automotive industry is referred here as the entirety of activities including production, sale, marketing, R&D, logistics and education and training; FDI Markets data.

² FDI Markets.

³ FDI Markets.

⁴ ACEA, Mapping the automobile industry 2014.

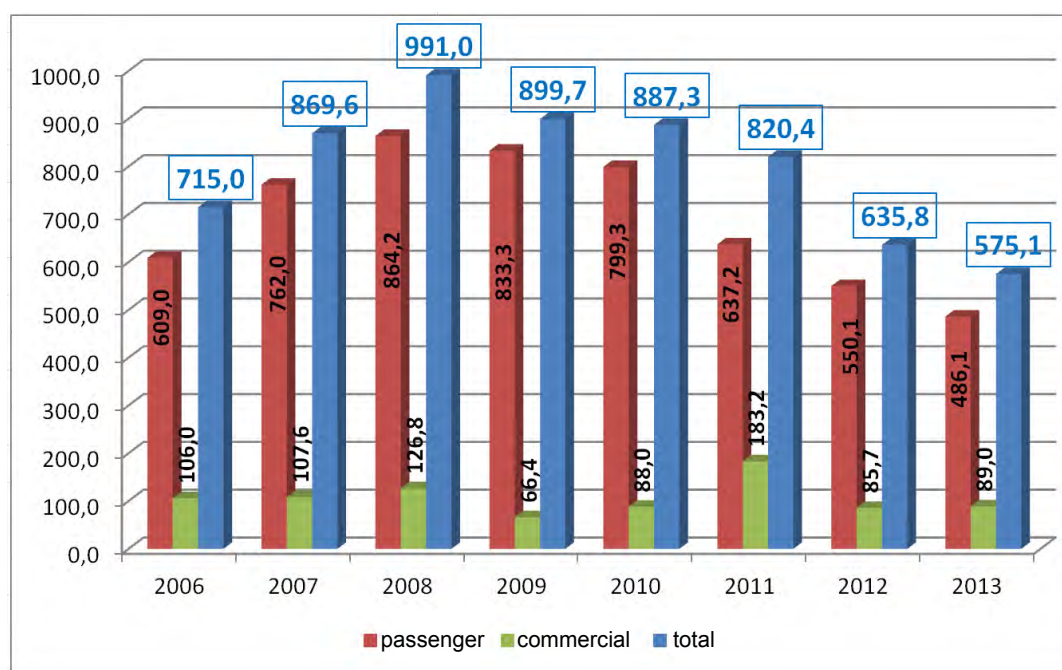
2. AUTOMOTIVE SECTOR IN POLAND

The automotive industry was directly and indirectly responsible for 8.6% of the total gross added value generated in the Polish economy⁵. **In 2013, sold production of the Polish automotive industry reached PLN 109.2 billion, i.e. nominally 6.3% more than in 2012.** Directly, the automotive production sector employed 158.4 thousand persons, which is 6.5% of all employed in manufacturing⁶. Taking into account also employment in related industries, transport and services, **effective employment in the industry amounts to a million persons**⁷.

.....
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.....

2013 saw a decrease in production of passenger cars in Poland by 12% compared to 2012. However, in the first six months of 2014 a marked market revival could be observed as passenger car production increased by 4% and 15% growth in production was recorded⁸. At the same time, there was a **20% increase** in sold production of **motor vehicle bodies**, trailers and semi-trailers as well as of **parts and accessories** by 11%.

Graph 1. Number of produced passenger and commercial cars in Poland in 2006-2013 (in thousands)



Source: PAliIZ elaboration based on data from Samar.

2.1. Enterprises and labour market

In 2013 there were 437 economic entities⁹ in the automotive industry, including:

- 140 enterprises with over 250 employees.
- The most numerous group were producers of parts and accessories for motor vehicles operating 311 businesses (including 118 employing over 250 persons).

⁵ GUS (Central Statistical Office), Nakłady i wyniki przemysłu w 2013 r. (Industry expenditures and results in 2013), data for enterprises employing more than 9 persons.

⁶ GUS (Central Statistical Office), Nakłady i wyniki przemysłu w 2013 r. (Industry expenditures and results in 2013), data for enterprises employing more than 9 persons.

⁷ PZPM (Polish Automotive Industry Association), Raport branży motoryzacyjnej 2014 (Automotive Industry report 2014).

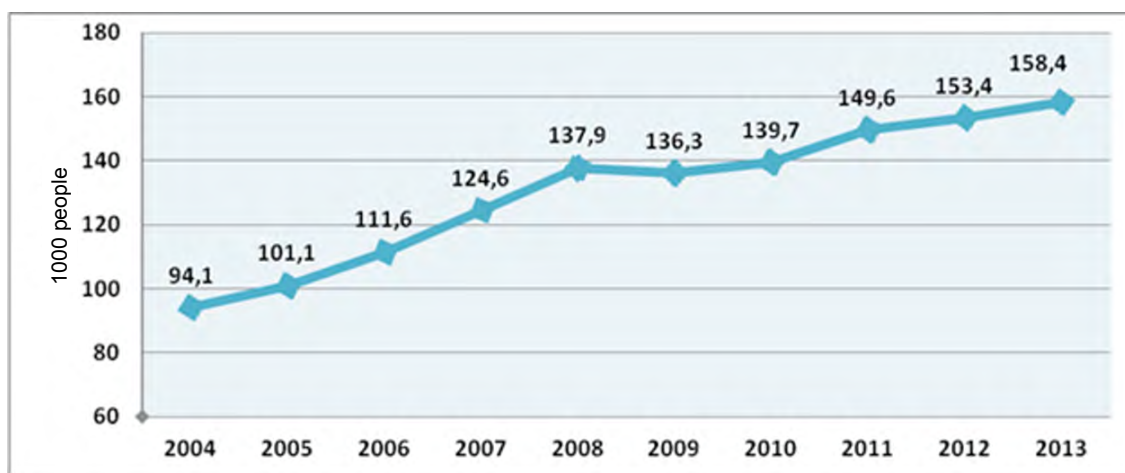
⁸ Samar.

⁹ With employment larger than 9 persons.

- There were 42 entities classified in the group of producers of motor vehicles, including 15 employing over 250 persons.
- In 2012, **211 companies**¹⁰ among the firms operating in the sector had foreign capital. **The cumulative value of their foreign capital exceeded PLN 10.8 billion in 2012.**
- According to industry estimates, there are over 900 producers of automotive parts and accessories operating in Poland, and their total revenues increased in 2013 by 10%, exceeding PLN 60 billion¹¹.

The automotive sector records an increase in employment every year. In the period from **2006 to 2014**, average **employment** in the industry **increased by over 30%** to the level of **almost 160 thousand people**. Noteworthy is the fact that labour efficiency in the automotive sector is **by approx. 40% higher than on the entire processing industry**¹².

Graph 2. Employment at production of motor vehicles, trailers and semi-trailers in Poland in 2004-2013



Source: PAliIZ elaboration based on data from Samar.

Remuneration and labour market

Average monthly gross remuneration in the automotive sector in Q1 2014 was PLN 4158.47 (EUR 933), which corresponds to 112% of average remuneration in the processing industry. Salaries in the sector are at the same time significantly varied: **the average remuneration in production of cars and vehicles is 81% higher** than in the group of enterprises that produce **bodies, trailers and semi-trailers** as well as **57% higher** than in firms **producing parts and accessories**¹³.

2.2. Car producers in Poland

Total production of **passenger cars and commercial cars up to 3.5 tons in Poland amounted to 575.1 thousand vehicles in 2013**. Compared to 2012 it meant a decrease by 9.5%. Almost 98% of production of passenger cars produced in the country is exported.

In the sector of **passenger and commercial cars the largest producer is Fiat Auto Poland**. Models produced by the company are Fiat 500 Lancia Ypsilon and Ford Ka. In 2013, Fiat plants produced 295.7 thousand vehicles, which is 15% less than in 2012. 99.5% of production from that factory, **the largest factory of the corporation in Europe**, was exported. One of the causes of decrease in production was halting the production of the Panda model (first generation) in Poland with the end of 2012. Production of the new Fiat Panda model was moved to Italy.

¹⁰ With employment larger than 9 persons.

¹¹ Stowarzyszenie Dystrybutorów i Producentów Części Motoryzacyjnych (Association of Distributors and Producers of Automotive Parts).

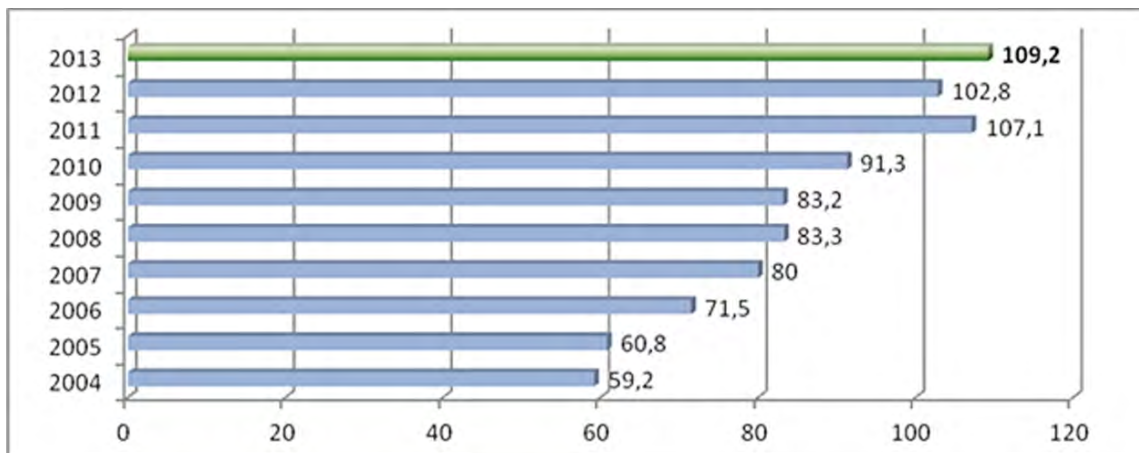
¹² Based on data from GUS (Central Statistical Office) for enterprises employing over 9 persons.

¹³ GUS, Industry expenditures and results in 2013. Data for enterprises employing over 49 persons.

General Motors Manufacturing Poland recorded a 13.4% decrease in production. Its plant in Gliwice produced 108.3 thousand passenger cars in 2013, which gave the company an 18.9% share in the market. The plant in Gliwice produced Opel Astra III and IV models in several body versions and the Cascada cabriolet. It is planned to launch production of Astra V in 2015.

Average monthly production of passenger cars in the period between January and September 2014 was 40.8 thousand cars and was on average 3% higher compared to the corresponding period of 2013.¹⁴

Graph 3. Value of sold production of passenger cars, trailers and semi-trailers in Poland in 2004-2013 (in billions PLN)



Source: PAIIZ elaboration based on data from GUS.

Other production

In Poland, apart from passenger cars, there are also prominent truck and bus factories. Polish production of trucks is mainly attributed to the **MAN factory in Niepołomice**, which produced over **9908** vehicles in 2013. Most of MAN's production (7565 vehicles) was intended for export. Another factory is **Jelcz Komponenty** in Jelcz-Laskowice, specialising in production of profiled off-road and road vehicles for the military. In 2014-2018 the company will produce 910 such vehicles for the Polish armed forces.

Poland is one of European leaders in production of buses. In 2013 Polish plants **produced 3715 buses**. This result is **4.3% better** than in 2012. Still, the leader among bus producers in Poland is **MAN**, which produced 1512 buses in 2013, which is 169 more than the year before (+12.6%). **Solaris Bus&Coach** placed second with 1229 buses (30.5% more compared to 2012) and 75 trolleys. In total, Solaris built 1304 motor vehicles, a record number in the history of the company. Volvo placed after Solaris as it produced 699 vehicles. Factories operating in Poland exported 3303 buses in 2013, i.e. almost 89% of production, 6.7% more than in 2012¹⁵.

2.3. OEM producers

In Poland there has been a dynamically developing network of suppliers in the automotive industry, who produce automotive parts and components.

- In Poland there are over **1.3 thousand automotive parts and components suppliers**, out of which 500 employ over 9 workers, and about 130 enterprises employ over 250 people¹⁶

Automotive parts manufacturers are also suppliers of parts for car manufacturers (VM) and independent distribution network (IAM):

¹⁴ PZPM, Production of motor vehicles in Poland in monthly terms according to data from GUS, 2010 – 2014.

¹⁵ PZPM, Automotive Industry Report 2014.

¹⁶ <http://www.mg.gov.pl/files/upload/22216/Znaczenie%20branzy%20moto.pdf>

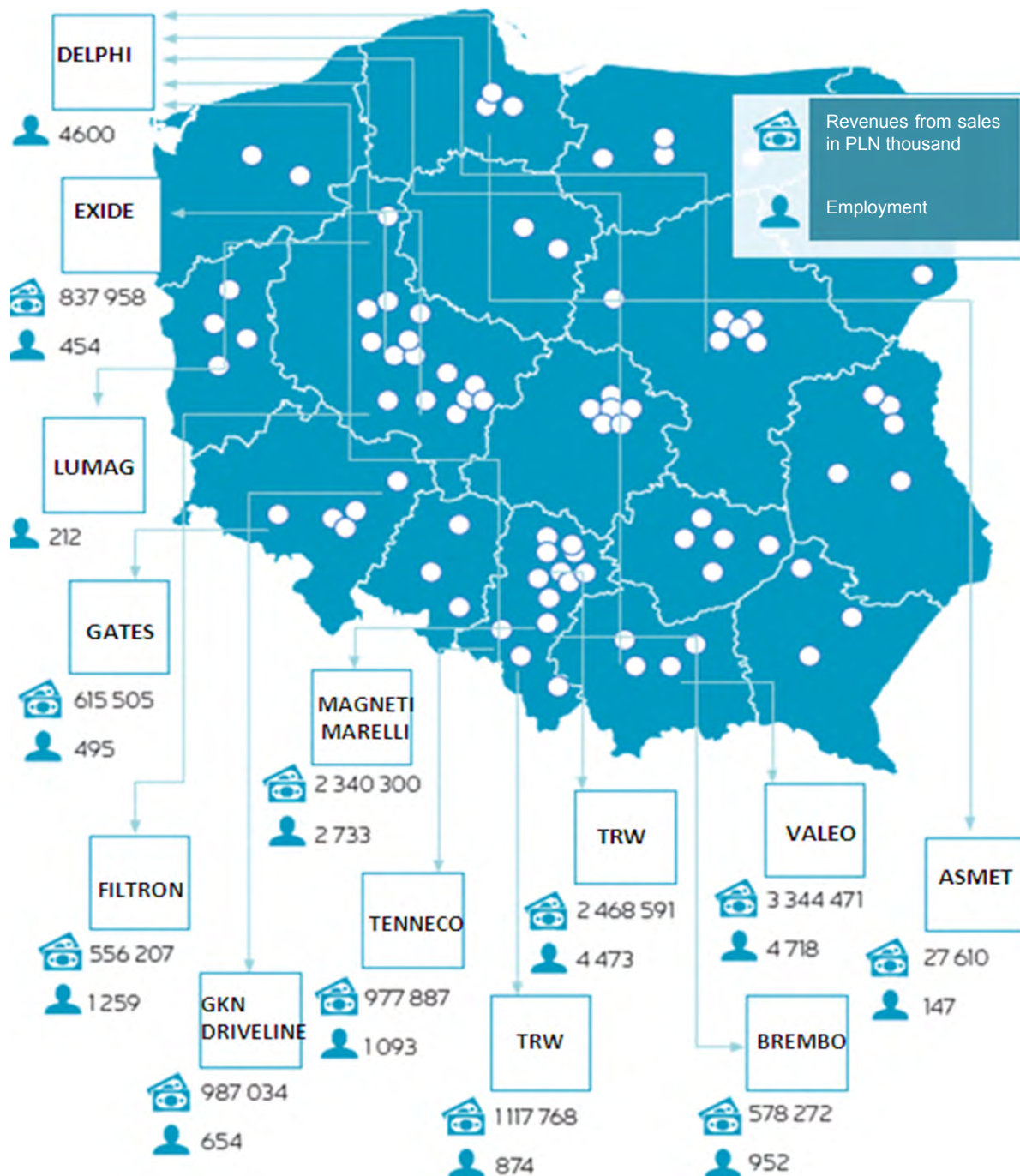
- **80% of manufactured parts** for mounting the new cars came from independent producers, and only 20% is produced by the car manufacturers itself¹⁷.
- Automotive industry in Poland creates about **85 thousand active trading companies** and services, forming the entire value chain of automotive market in Poland: from importing vehicles through their sales and service in until the recycling.
- **In 2013, parts and accessories were manufactured in 900 national factories**, that reached a value close to USD 60 billion. Therefore, Poland is called the centre for automotive parts manufacturers.
- **Half of the production** of automotive parts in Poland is **exported**.
- Independent part manufacturers make up almost **75% of jobs** in the automotive industry
- Among the major exporters are **the Valeo Group** (EUR 0.73 billion), **TRW Steering Systems Poland** (EUR 0.51 billion), **GNK Driveline Poland** (EUR 198 million) and **Brembo Poland** and **Gates Poland** (more than EUR 120 million)¹⁸.
- The global leaders in OEM production have localized its factories in Poland, but there are **also dynamic enterprises with the Polish capital**, for example **Lumag, Asmet and GG Profits**. Considering the revenues from sales, a number of these companies are one of the forefront companies operating in Poland¹⁹.
- **Investments in the OEM manufacturing have stimulated a modernization of the automotive industry** through implementation of cutting-edge technologies, new jobs creation and unemployment reduction, and **the estimated value of the cumulative investment in the OEM segment in Poland exceeded EUR 5 bn.**

¹⁷ Automotive industry in Poland 2014, Figures, Summaries, Analyses, SDCM, PAliIZ, 2014

¹⁸ Ibid.

¹⁹ Ibid.

Figure 1. Main automotive parts and components manufacturers in Poland



Source: *Automotive industry in Poland 2014, Figures, Summaries, Analyses, SDCM, 2014.*

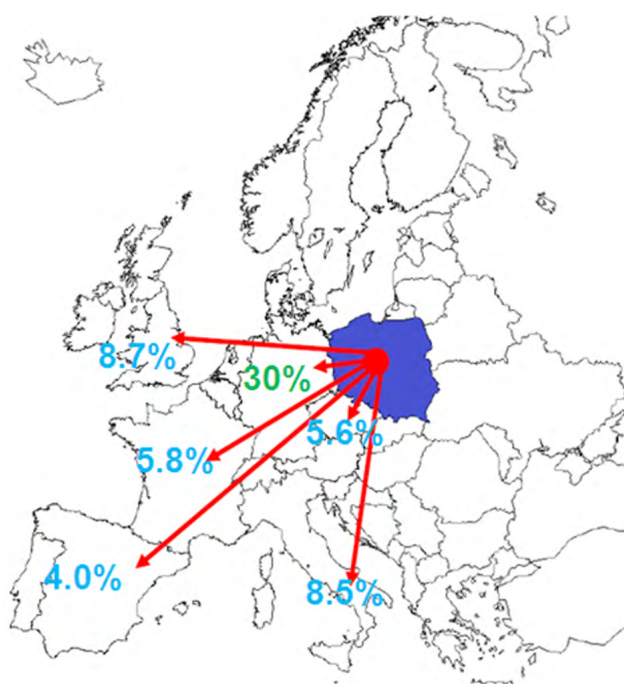
2.4. Sector trade turnover

In 2013, 78% of revenues from sales in the automotive industry came from export sales. The value of exported production of the automotive industry amounts to 21% of the value of exported production of the processing industry and 17% of the sales value of entire industry²⁰.

In 2013, the value of exports of the Polish automotive industry amounted to **EUR 17.91 billion, which is almost 1% more** (EUR +174.1 million) than in 2012.

²⁰ GUS, Industry expenditures and results in 2013.

Figure 2. Main export directions of the automotive industry in 2013

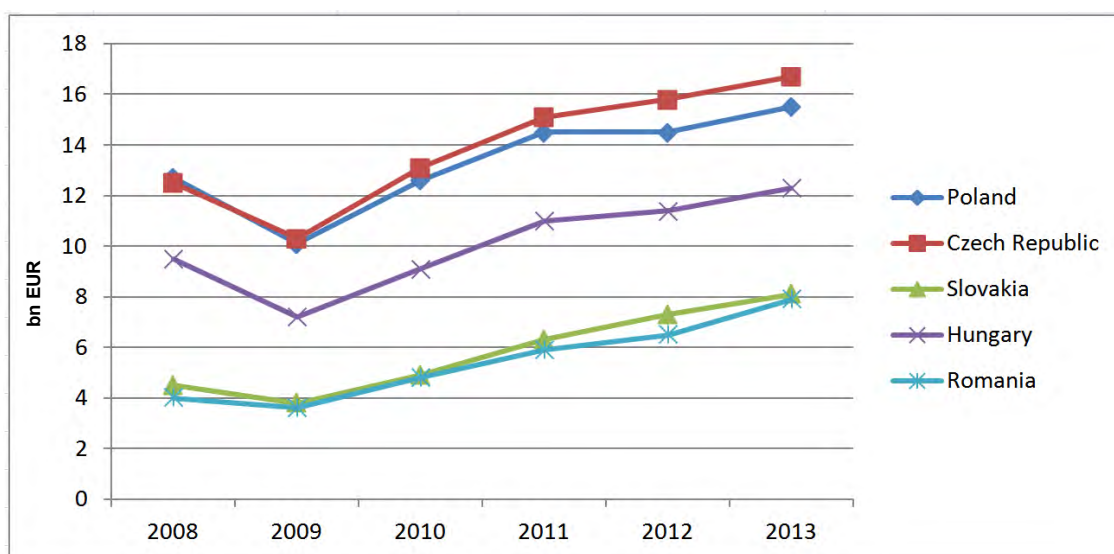


Source: PALIZ elaboration based on data from GUS.

A vast majority of automotive products gets to consumers in EU countries (80.38% of all exports, i.e. EUR 14.4 billion). The most important recipients were Germany (30%), Great Britain (8.7%) and Italy (8.5%). In the case of exports to countries outside the EU, a 9% increase was recorded (e.g. to Turkey by 13%).

The largest group was parts and accessories (38%) then passenger cars (28%) and diesel engines were third (12%).

Graph 4. Exports of automotive components, parts and accessories^{21}**



Source: PALIZ elaboration based on data from KPMG, Eurostat.

²¹ **Together with tires, windows, batteries, engines and insofar not listed in analyses electrical equipment of vehicles and mechanical parts of combustion engines.

Automotive industry exports in Q1 2014

In the period of first six months of 2014, the value of automotive industry exports from Poland amounted to EUR 9.5 billion, i.e. 1.8% more than in the corresponding period of 2013²². Prospects for exports in the industry depend to a large extent on the geopolitical developments in Ukraine. The Russian and Ukrainian markets are destinations whose importance for the automotive industry cannot be ignored. **Russia is the 8th recipient of the Polish automotive industry, Ukraine is 14th.**

.....
Experts estimate, that exports of the industry in 2014 will increase by approx. EUR 1.5 billion to the level of EUR 19.4 billion.
.....

According to preliminary estimates, the total value of the Polish automotive industry foreign sales in the entire 2014 will increase by approx. EUR 1.5 billion (over 8%) to the level of **EUR 19-19.4 billion**²³.

2.5. Registration of passenger and light commercial vehicles

In the entire 2013 there were over 332 thousand new passenger and light commercial vehicles registered in Poland, which means a **6.42%** increase compared to 2012.

The best selling brands in Poland are **Skoda, Volkswagen, Toyota, Ford and Opel**. Among the most popular models in 2013, Skoda Octavia was first (11463), Fabia was second (10800) and Ford Focus was third (8021) moving three spots up. Volkswagen Golf was 4th (7731) and Opel Astra, produced in Poland, was 5th with 7553 sold vehicles²⁴.

In the typical phenomenon of the Polish market, re-export, estimated 10% of cars sold by car dealers in Poland were shipped abroad.

In 2013, 711 865 used passenger cars were brought to Poland²⁵, i.e. **8.3% more than in 2012**. Cars over 10 years old were the most numerous group of imported used cars and accounted for 48.3% of all imported cars. The share of cars at the age from 5 to 10 years was 43.9%, and vehicles up to 4 years – 7.7%.

²² Automotivesuppliers.com.

²³ Automotivesuppliers.com.

²⁴ PZPM, First registrations of passenger and commercial cars up to 3.5t in 2013.

²⁵ Ministry of Finance (data for 2013).

3. AUTOMOTIVE INDUSTRY PROJECTS SERVED BY PALIZ

For many years automotive industry projects are leading manufacturing investments supported by Polish Information and Foreign Investment Agency S.A. The automotive sector has also been recognised by the Polish government and considered as a priority for the Polish economy. The structure of the projects conducted by PALIZ is as follows:

- In the period 2004-2013 among 465 projects implemented by PALIZ, **85 projects** (18%) were implemented in the **automotive industry**, including companies such as **Fiat, Volkswagen** or **Delphi**.
- The **value** of these investments amounted to more than **EUR 3.3 billion** (30% of all projects completed with the participation of the Agency) and the increase in employment through these projects is estimated at more than **21 thousand FTEs**.
- The **average value of a project** amounted to more than **EUR 38 million**, and the **average number of new jobs created** was **248 employed** per project.
- Most of the projects came from Germany (20), Japan (19), USA (17), and France (9).

Table 1. Implemented investment projects by PALIZ in the automotive industry in 2004-2014

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 ^{22*}
Number of projects	10	11	3	8	14	2	5	8	16	10	6
Value (in millions EUR)	128	572	38	231	298	227	106	595	816	312	1170
Employment	2890	3816	485	2375	3020	650	1040	1280	3400	2600	3067

Source: PALIZ.

Table 2. Projects implemented by PALIZ in 2014^{27}**

Ref.	Investor	Country	Value (in millions EUR)	Employment	Place of investment
1.	Gedia	Germany	25	35	Nowa Sól
2.	Delphi Automotive	USA	27.5	100	Ostrów Wielkopolski
3.	Volkswagen	Germany	800	2300	Września
4.	VOSS Automotive Polska sp. z o.o.	Germany	13	400	Nowa Wieś Legnicka
5.	General Motors Manufacturing Poland Sp. z o.o.	USA	300	200	Tychy
6.	Sitech Sp. z o.o.	Germany	5	32	Głogów
7.	Company's name classified	Italy	35	25	Niepołomice
8.	Kirchhoff	Germany	6	20	Mielec
9.	Global Steering Systems	USA	7	200	Opole
10.	Woobo Tech co. Ltd	South Korea	15	80	Rybarzowice
			1238	3336	

Source: PALIZ.

1. **January** – the official opening of the second Ronal Poland plant in Walbrzych (WSEZ Invest-Park) producing alloy wheels (2 million pieces a year). The value of the greenfield investment was PLN 502 million, target employment – 480 persons.

^{26*} as of the end of July 2014.

^{27**} as of the end of July 2014.

2. **February** – announcement of the decision by GM regarding the commencement at General Motors Manufacturing Poland (GMMP) in Tychy the production of the diesel engine (four-cylinder 1.6-liter) in 2017. Investment value of EUR 300 million.
3. **April** – Michelin's announcement of the decision to expand the company's plant in Olsztyn, which will produce a new generation of tires for agricultural vehicles. The value of investments – more than PLN 413 million. - the official launch of production of the MDB engine (modular diesel engine series EA288) in Volkswagen Motor Poland's plant in Polkowice.
4. **June** – inauguration of production of the modernised VVT-i engine in the factory of Toyota Motor Manufacturing Poland (TMMP) in Wałbrzych. – Nexteer Automotive's announcement of the decision to start the construction of a new production plant for electric power steering systems in Tychy (next to the existing factory). Construction of the facility will be part of an investment valued at PLN 335 million associated with the development of the EPS technology by the company. The project is to begin in 2014 and end at the turn of the years 2015 and 2016.
5. **July** – opening of BASF plants in Środa Śląska. The investment valued at EUR 150 million will create jobs for about 400 people. The plant will produce SCR catalysts (Selective Catalytic Reduction) and particulate filters for diesel cars. - official launch of a new production line at the Jelcz Sp. z o.o factory. The Jelcz- Laskowice factory will produce trucks for the Polish army under a contract signed in November 2013. Current employment is 430 persons.

Many years of experience of PALIZ show that the determining factors for the attractiveness of the Polish automotive sector from the point of view of investors are the quality and **availability of skilled labour force**, dynamically developing **infrastructure** and competitive costs of work. The key issue is also the **proximity of markets** in Western Europe and Central and Eastern Europe and the **strategic localisation of Poland** in Europe. Investors also appreciate the attractive investment incentives, including cash grants and tax exemptions.

3.1. Case study: Volkswagen – one of the largest automotive industry investment in the 21st century

*Our experiences from production of Caddy in Poland were excellent.
The region of Września offers ideal economic policy, infrastructure and labour market conditions for us*

Dr Eckhard Scholz,
Member of the Board at Volkswagen Commercial Vehicles

The decision to locate the Volkswagen factory in Września is the first such significant greenfield automotive industry investment in Poland since the launch of the General Motors factory in Gliwice in 1998. **It is also one of the largest to date automotive investments in Europe in the 21st century.** Therefore, it is even more important that it was located in Poland. **It is also the biggest project so far serviced by PALIZ. During the negotiation process, the company was presented with more than 22 greenfield offers, of which 11 potential locations were visited.**

.....
The VW project in Września is one of the largest automotive investments in Europe in the 21st century. The investment value will amount to EUR 800 million, and the number of new jobs created will be at least 2300 FTEs.

The plant will be built in Września in the grounds of Wałbrzych SEZ on an area of 220 hectares and will produce VW Crafter light commercial vehicles. The value of the investment will be **EUR 800 million**, and the number of new jobs created will reach at least **2300**. The project has been approved by the Ministry of Economy (ME) as a project of vital importance to the economy and has received financial support from the state budget in the amount of PLN 62.5 million. According to the plans of the German company, the project will be implemented in phases and the first cars will leave the factory in 2016. Ultimately, the plant is to produce 100 thousand cars per year.

The creation of the plant also brings additional benefits:

- significant external effects – an increase in orders from Polish co-operators,
- a significant impact on the labour market (creating from 4 to 7 jobs at co-operators for each new job created in the plant),
- the possibility of obtaining new investment projects of company's sub-suppliers.

The plant in Września will be another VW's investment in Poland. The production activities of the **Volkswagen production plant in Poznań are located in three places.** In Poznań – Antoninek, Wilda district and in Swarzędz near Poznań. Further locations are Volkswagen Motor Poland Sp. z o.o. in Polkowice, Volkswagen Bank Polska in Warsaw, Sitech Sp. z o.o. Polkowice and Głogów, MAN Truck & Bus Polska Sp. z o.o. in Sady near Poznań, Niepołomice, Starachowice and Nadarzyn near Warsaw and Scania Production Słupsk S.A. in Słupsk and in Nadarzyn.

In March this year, VW launched at the expense of EUR 250 million a new production line in Polkowice, in the Legnica SEZ, producing diesel engines. It was another significant investment of the German automotive concern this year in Poland. It is worth mentioning that VW is committed to the development of professional training. On the initiative of Volkswagen Poznań, County Office and School Complex No. 1 (Zespołu Szkół nr 1) in Swarzędz created a class with extended curriculum in mechatronic fitting, where students are underage workers of Volkswagen Poznań. VW also cooperates with Poznań University of Technology, Adam Mickiewicz University, and the University of Economics in Poznań.



3.2. Research and development in the Polish automotive industry

Tightening the cooperation between industry and schools of higher education and research and development units is one of the objectives of our economic policies

Janusz Piechociński

Deputy Prime Minister of the Polish Government, the Minister of Economy

The cooperation of companies from the automotive industry with the scientific research circles in Poland has become increasingly widespread in recent years. Noteworthy is the fact that the Ministry of Economy plans to amend the Act on SEZ to extend the scope of the tasks of these zones by co-operation with vocational schools. The Ministry of Infrastructure and Development plans to allocate **PLN 200 million** for this purpose, and this initiative will be implemented **under the Operational Programme: Knowledge – Education – Development 2014-2020**. In addition, the automotive sector investors are increasingly turning to **co-operate with local universities and research institutes**, and the government intends to support this partnership with a dedicated research and development programme called "INNOMOTO", designed for the automotive industry. In June 2014, an agreement was signed between the Ministry of Economy and various industry organisations, establishing the programme.

Poland, as a key exporter and manufacturer of automotive industry products in Europe, along with production activities, initiates R&D solutions. The automotive industry can thus benefit from the potential of Polish research institutes and research and development centres. A perfect example would be the Delphi Technical Centre in Kraków, operating since 2000. Today, the centre employs more than a thousand employees, mostly Polish engineers, many of whom took training in Delphi centres abroad.

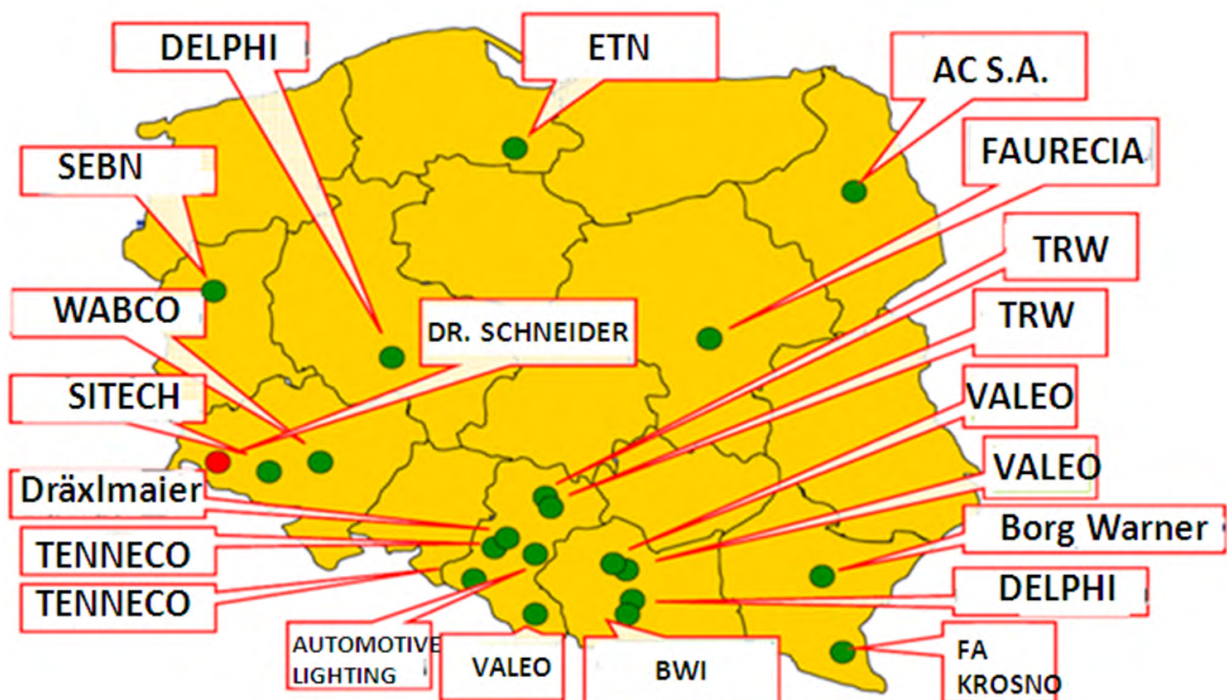
One of the initiatives is the Enterprise Development Project (Projekt Rozwoju Przedsiębiorstw) proposed by the Ministry of Economy, which provides a comprehensive support system with particular emphasis on the aspects of innovation. It is an integral part of the document entitled **The National Smart Specialisation** (Krajowa Inteligentna Specjalizacja) indicating R&D and innovation fields in which Poland may have a large potential for development and develop a competitive advantage in Europe and the world. Three main lines of the proposed actions are:

- maintaining or expanding the current production base, together with the maintenance of jobs in the sector,
- expansion of markets for Polish automotive products to EU countries and countries outside Europe,
- striving for renewal of the car park in Poland, including by changes in the tax system and the promotion of alternative drives and fuels.

3.3. Case study: Faurecia Grójec R&D Center S.A.

Many companies operating in the automotive industry in Poland have research and development centres. Among vehicle manufacturers, research and development centres are as follows: **VW Poznan, Solaris, AMZ Kutno, Fiat Auto Poland, and General Motors Manufacturing Poland**. Among the supplier companies of the automotive industry **Delphi, WABCO, TENNECO, Valeo, TRW or Sitech and Faurecia** can be mentioned.

Figure 3. Selected R&D centres of the automotive industry in Poland



Source: *Automotivesuppliers.com*.

Faurecia is an international company operating in the automotive industry, which has been present in Poland since 1996. **Faurecia Grójec R&D Center S.A.** has been operating since 2002, and its engineers have been cooperating for many years with Faurecia Group research centres located throughout the worldwide.

The Faurecia centre in Grójec develops and implements a new model of car chair track, is working on the front seats for Porsche, as well as seats for Ford.

Faurecia also works actively with universities, including **Warsaw University of Technology and the Lodz University of Technology**. The scope of cooperation includes commissioning of research (metallography, chemical composition, strength tests), the development of tool designs and consultation in the selection of materials and surface treatment. There are also scholarship and internships for students.

In summary, collaboration of automotive companies and scientific circles can potentially create synergies, improving the competitiveness of the industry. Universities have extensive research facilities, access to research equipment and technological innovations, they can gain experience in cooperation with industry. This also gives a broad overview of the real needs of producers, which can be solved in an innovative way by co-financing of research by industry. Research can thus be commercialised, and the automotive industry is stimulated to further

development. These actions are part of a strategy to improve the competitiveness of the European economy under the Horizon 2020 programme.

4. INVESTMENT POTENTIAL OF THE SECTOR IN POLAND

The automotive sector has been recognised as a priority by the Council of Ministers, which is one of the elements of the concept of re-industrialization implemented in Poland²⁸. A process of a gradual transition from a traditional economy to a material-based economy based on the potential of technological innovation can be observed in Poland. The ability to introduce innovations allows maintaining competitiveness in the global market in the long run. This fact is reflected in the number and type of projects conducted by PALIZ, among which the automotive industry, modern services and R&D&I are the leading areas.

The importance of the automotive industry from the point of view of the concept of re-industrialization is extremely important to the extent that the Polish government decided to offer financial support to firms undertaking projects in this sector. It is very important that the automotive industry was among only 6 sectors of the Polish economy are considered a priority.

The automotive sector in Poland **has all the assets** to not only **maintain the strong position in the European market**, but also to **improve this position**. This is indicated by the availability of skilled labour force, a developed base of suppliers and the proximity to major manufacturers in Europe, an absorptive domestic market, and a wide range of available investment incentives.

4.1. The availability of skilled labour force in regions with high concentration of the automotive industry

The automotive sector in Poland has a large supply of skilled workers of both lower and higher level. Mechanical specialisations are among the most popular in the context of vocational education, and **engineering majors** are increasingly popular in higher education. In 2013, the title of mechanical technician was granted to 4061 higher secondary school graduates and technical schools, while the professional title of **the technician of mechanics and electrician mechanic** of vehicles was granted to **5020 graduates** of vocational schools²⁹. In Poland, there are also **18 public technical schools of higher education** and several non-public ones offering courses in **15 automotive-related majors**³⁰. At the end of 2013, Polish universities were **attended by 1 549 877 people**, of which 106 005 studied automotive-related engineering majors (89 951 at BS programme, and at 16 046 MS programme)³¹. It is important to note that the **number of students** in the provinces with **highly developed automotive industry** is relatively high (**Silesian Voivodeship** (13 882), **Dolnośląskie Voivodeship** (14 525) and **Wielkopolskie Voivodeship** (9 477)). In addition, in 2012/2013 the number of graduates in majors related to the automotive industry was 20 880 (13 320 BSs and 7 154 MSs).

.....
Every year in Poland 10 thousand people graduate from vocational schools and technical schools and 20 thousand graduate from schools of higher education with professional education in automotive.

Also noteworthy are the **plans to support vocational education**. The Ministry of National Education (MEN) wants to allocate resources to support vocational education, including the promotion of cooperation between employers and schools and educational institutions of various types and levels in the vocational educational, testing and counselling process. By **2020, the ministry plans to allocate EUR 800 million to support vocational education**, and the method of allocating the majority of these funds is to be determined by the regions. The so-called **dual system of education**, that is, one in which students learn their profession directly in the enterprises is to be disseminated. Also activities related to the functioning of the Integrated Qualifications Register are planned,

²⁸ Programme for supporting investments of major importance to the Polish economy for the years 2011-2020, Ministry of Economy, 2014.

²⁹ Central Examination Commission (CKE), 2014.

³⁰ Information Processing Centre (Ośrodek Przetwarzania Informacji), March 2014.

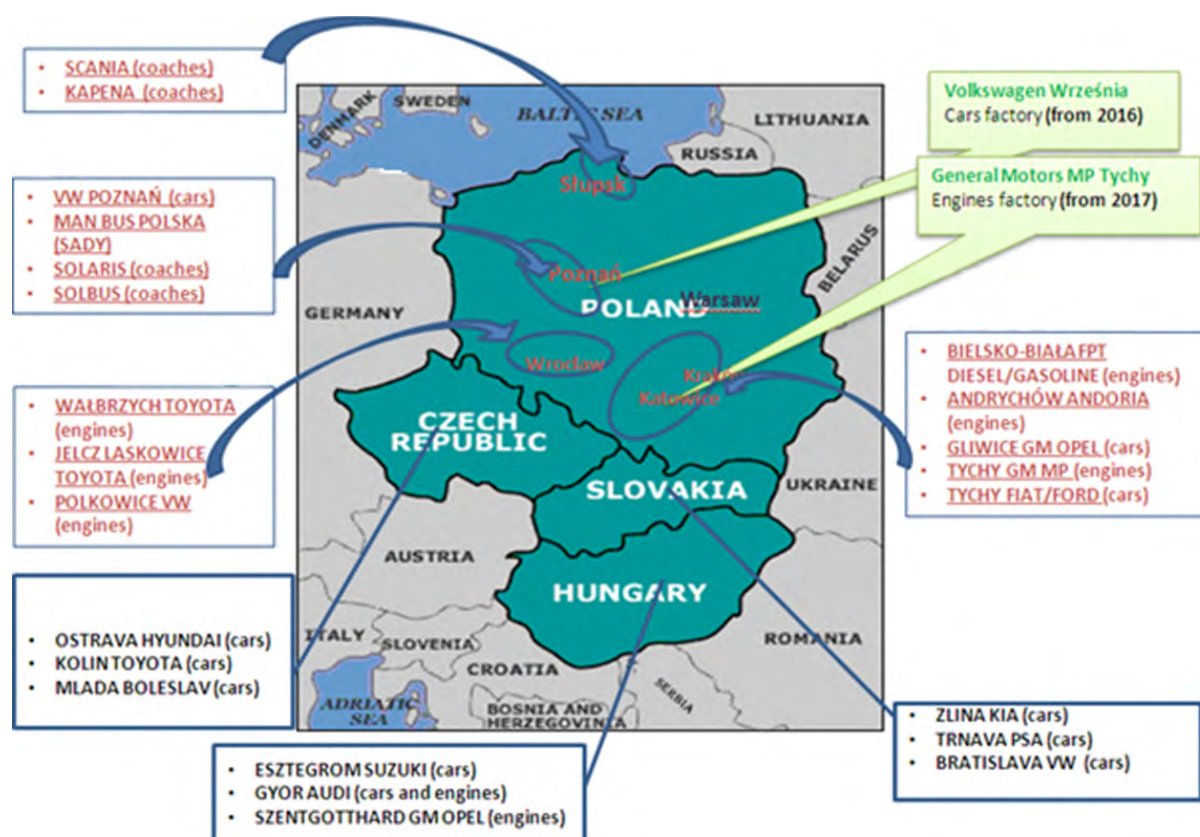
³¹ Information processing Centre, March 2014.

including the inclusion to the integrated system qualifications originating outside of the education system and the system of higher education³².

4.2. Easy and quick access to major producers of vehicles and automotive industry suppliers in Central and Eastern Europe and Western Europe

Due to its **attractive location in the centre of Europe**, Poland has the potential to interact with a wide range of manufacturers and suppliers from virtually every corner of Europe. Another advantage is the fact that the state of the transport infrastructure in Poland is being dynamically modernised. In the years 2004-2013, Poland was had approximately EUR 28.7 billion at its disposal for transport infrastructure projects.

Figure 4. Producers of engines and cars in the CEE region



Source: Elaboration by PAliiZ.

Since 2004 a total of 673 km of motorways were built and 808 km of expressways were built or modernised. In comparison with 2003, it is an increase by 165% and 357% respectively³³. In the period **2014-2020** further **EUR 23.8 billion** will be allocated for infrastructure.

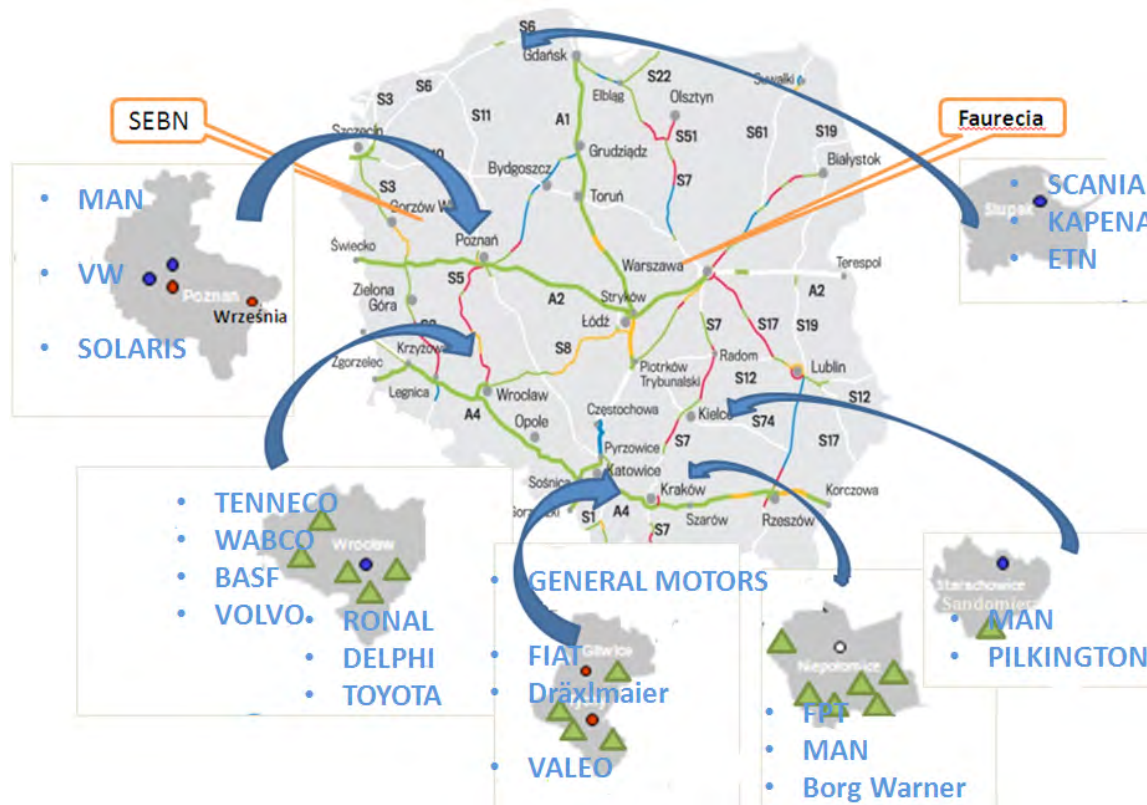
Of approx. 40 factories located in Central and Eastern Europe operating in the automotive sector as many as 16 are located in Poland. Toyota's production plants produce diesel engines for Toyota, Peugeot and Fiat, Fiat produces engines for its own needs and for Ford, diesel engines for Opel Astra and the Corsa are produced in Tychy and Volkswagen factory in Polkowice is the manufacturer of engines for passenger cars and commercial vehicles for both their vehicles as well for Audi, Seat and Skoda. Toyota Motor Manufacturing Poland in Wałbrzych produces engines and gearboxes for its own purposes and for Citroen and Peugeot.

³² MEN, http://men.gov.pl/images/do_pobrania/kszt%C5%82cenie_zawodowe_zmiany.pdf.

³³ GUS

Parts and accessories are already produced by nearly 1,000 suppliers in Poland. Per every Pole working in the car assembly departments there are four employed in the manufacture of parts and accessories. **An employee of the automotive industry generates annually PLN 610 thousand, while the average for the whole Polish industry is PLN 348 thousand.**

Figure 5. Main clusters of the automotive industry in Poland



Source: *Elaboration by PAIIZ.*

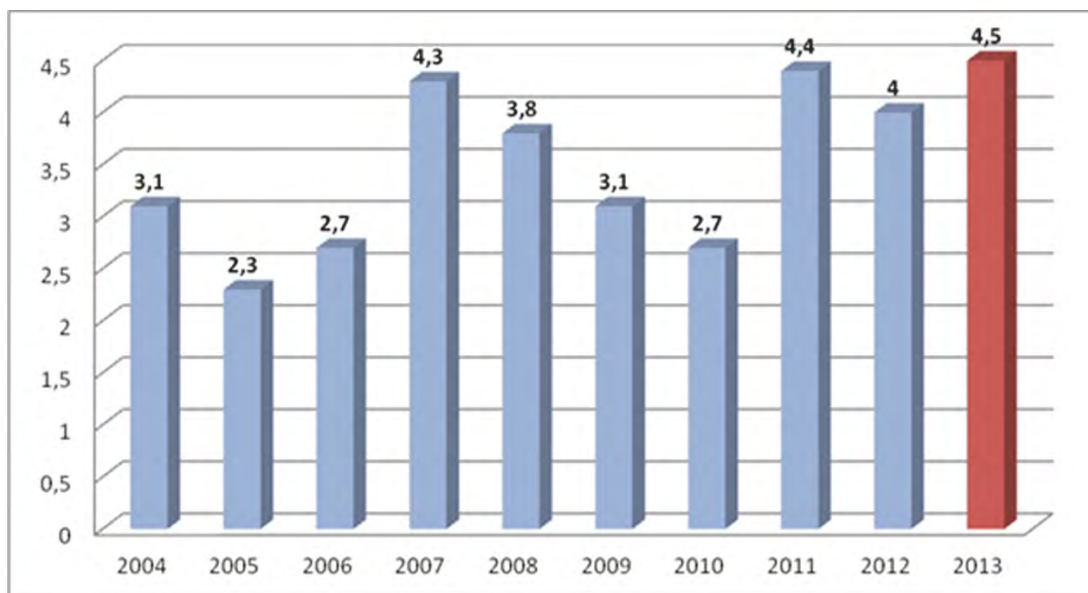
In the area of manufacturing of motor vehicles the Silesian Voivodeship is the undisputed leader. Behind are the next voivodeships – Wielkopolskie and Dolnośląskie. Other means of transport are produced mainly in Pomorskie Voivodeship. Also important manufacturers are Podkarpacie and Silesian and Dolnośląskie Voivodeships. Wholesale and retail trade of motor vehicles is, in turn, most prominent in Mazowieckie Voivodeship. Worth noting is the increase in interest in the region of Eastern Poland as a place of investment potential for the automotive sector. An example would be Kirchhoff investments in the Mielec SEZ or Borg Warner (in Podkarpackie Science and Technology Park AEROPOLIS) or Good Year (in Debica).

PAIIZ keeps a database of greenfield properties (<http://infobase.paiz.gov.pl/index1.php>) and brownfield properties (<http://www3.paiz.gov.pl/brownfields>) available for investors, also from the automotive industry.

4.3. Growth potential for sale of new cars in Poland and a high rate of return on investment

As already mentioned at the beginning of the report, the estimated cumulative value of foreign direct investment in the automotive industry in Poland at the end of 2013 amounted to PLN 30.9 billion, and at the end of 2014 that value, according to analyses by the Polish Automotive Industry Association (PZPM) should increase to PLN 34.1 billion. **Capital expenditures in 2014 are to reach, according to estimates by PZPM, approx. PLN 4.8 billion.**

Graph 6. Investment expenditures – production of motor vehicles, trailers and semi-trailers in Poland in 2004-2013 (billions PLN)



Source: *Elaboration by PAliIZ based on GUS data.*

As indicated by the latest available Eurostat data, in 2012, revenues of automotive industry producers in Poland amounted to EUR 26.6 billion, while revenues of companies engaged in the trade of motor vehicles, parts and accessories, as well as providing repairs related to the automotive industry amounted to EUR 27.6 billion. For comparison, total revenues of manufacturing companies in the automotive sector in the Czech Republic are higher than in Poland (EUR 33.1 billion), but due to a smaller domestic market, sales and repairs generate less revenue (EUR 13.8 billion). Employment in the entire automotive industry in the Czech Republic was 234.8 thousand persons, of which 150.3 thousand in the manufacturing sector and 84.5 thousand in trade and services. It is worth noting that Poland is a major manufacturer of commercial vehicles, not only in Central and Eastern Europe, but Europe in general.

Return on equity in the automotive sector consistently remains at a high level. The highest rate was recorded in 2013, which is a significant increase compared to 2008. This indicates an improving situation of companies in the automotive sector.

Table 3. Return on equity in the Polish automotive industry in 2008-2013³⁴

	2008	2009	2010	2011	2012	2013
ROE (return on equity)	12.3%	13.6%	13.8%	13.7%	13.8%	17.7%

Source: *Own calculations based on data from GUS.*

³⁴ For enterprises employing over 49 persons.

4.4. An attractive system of investment incentives, including grants and tax exemptions³⁵

One of the key factors influencing the attractiveness of Poland as a country with a large potential for the automotive industry is the high level of availability and variety of support instruments.

Szymon Żółciński,
expert at CridoTaxand

The new EU financial perspective 2014-2020, apart from guaranteeing significant financial resources directed to the Polish economy is also associated with the new state aid rules, both in terms of regional investment aid and support for research and development or environmental protection. The revised rules are applicable to financial support instruments both from the EU and national funds.

As part of the new batch of European funds, entrepreneurs will be able to take advantage of a number of operational programmes, some of which – like in the previous financial perspective – will be available at the national level, and some within the 16 regional operational programmes.

Graph 7. New Financial Perspective 2014-2020 in Poland



Source: CridoTaxand, 2014, Based on the Partnership Agreement.

Support under the new financial perspective will be directed to essentially three types of projects:

- **R&D projects,**
- **Investment projects** related to **implementing R&D results/creating R&D centres,**
- **Pro-environmental projects.**

4.4.1. R&D projects

As part of this area, support will be allocated among others to the implementation of industrial research and development and therefore on the development of new, innovative technologies and products (up to the prototype stage). Support is provided for both individual entrepreneurs' projects as well as in the case of implementation of projects, in co-operation with scientific institutions.

³⁵ Szymon Żółciński, expert at CridoTaxand, author of section 4.4. of this paper. Detailed information on the new EU perspective can be found in "EU Funds 2014-2020" ("Fundusze UE 2014-2020") prepared by experts from CridoTaxand: Michał Gwizds, Magdalens Kosewskis-Kwaśny and Szymon Żółciński, C.H. Beck (August 2014).

Programmes that provide for support for R&D projects are (depending on the scale of the project):

- **Operational Programme Intelligent Development (OP ID),**
- **Operational Programme Eastern Poland (OP EP),**
- **16 Regional Operational Programmes (ROP).**

In the case of R&D, supporting projects in the areas referred to as smart specialisations will be important (national and regional). Due to the high risks associated with the implementation of innovative R&D projects, funding research and innovation within this area will be based largely on grants.

Aid level:

Aid may be used to cover a part of the cost of conducting the R&D project (including the cost of wages, used materials, depreciation of equipment, outsourced research services). The aid levels depend on the type of R&D works and are as follows:

- **100%** in the case of basic research,
- **50%** in the case of industrial research,
- **25%** in the case of experimental development works.

In the case of this type of support, it will be possible to obtain a bonus for small and medium enterprises (+ 20 percentage points for small and micro enterprises and 10 percentage points for medium-sized enterprises), and further increase the level by 15 percentage points in the case of cooperation with the SME sector or research organisation/research unit/company from another EU state or a commitment to broad dissemination of research results.

4.4.2. Investment projects related to implementing the results of R&D and creating R&D centres

The new financial perspective provides for directing support to implement new, innovative technologies resulting from previously realised research and development and produce on their basis innovative goods or provide innovative services.

Also directing support for the creation of infrastructure conditions necessary to conduct R&D by enterprises is expected (support in the creation or expansion of R&D centres).

Programmes that provide for support for projects related to the implementation of R&D results/creating R&D centres are (depending on the scale of the project):

- **Operational Programme Intelligent Development (OP ID),**
- **Operational Programme Eastern Poland (OP EP),**
- **16 Regional Operational Programmes (ROP).**

and programmes financed from domestic funds:

- **Special Economic Zones:** permission to operate a business under a SEZ entitles the entrepreneur to obtain an exemption from corporate income tax in respect of activities carried out in the SEZ.
- There are two possibilities to obtain a permit for operating in a zone:

Figure 5. Graph of possibilities for obtaining a SEZ operation permit



Source: *CridoTaxand*, 2014.

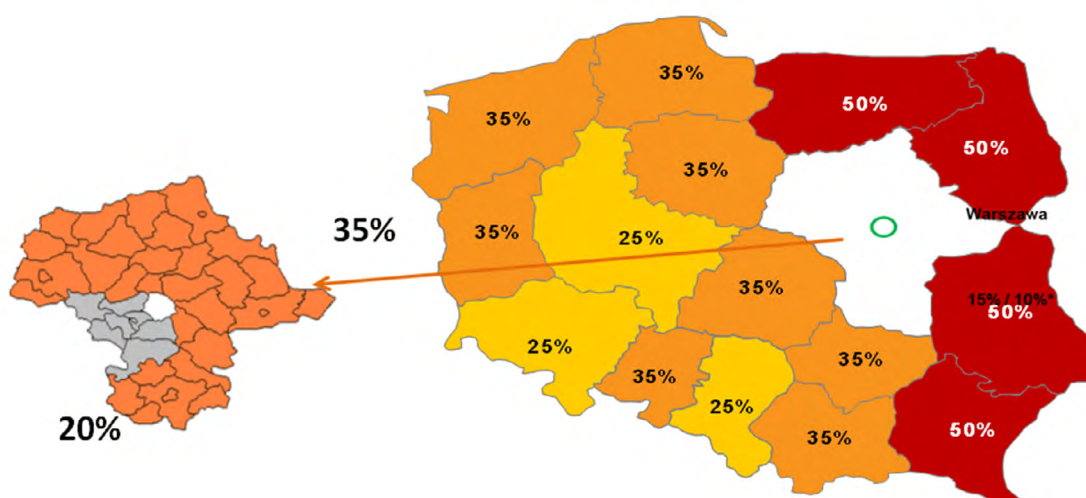
Aid (granted in accordance with the regional aid map as referred to below) is calculated for the **costs of new investments** or for **creating new jobs** (two-year costs of gross wages, plus mandatory employment-related payments).

- Investment grant within the “**Programme for supporting investments of major importance to the Polish economy for the years 2011-2020**”³⁶ (in which the automotive sector is specified as a priority sector).

Aid level:

Regional investment aid was the most important type of assistance to entrepreneurs in the previous perspective. From 1 July 2014 the maximum levels of subsidising available in different regions of the country were reduced – only the eastern voivodeships maintained the support level of 50%.

Figure 6. Maximum regional aid levels in the new financial perspective 2014-2020



Source: *CridoTaxand*, 2014.

Similarly to the previous perspective, the levels of support for small and medium-sized enterprises may be increased by up to 20 percentage points (for small and micro enterprises) and 10 percentage points (for medium-sized enterprises).

The support is intended to cover a part of the investment costs (including expenditure on the purchase of land, construction works, purchase of equipment and software), or the cost of job creation (two-year salary costs).

³⁶ Within which, it's possible to obtain a financial support for investment outlays (from 2% to 12,5% of the eligible cost of investment) or to obtain support for new job creation (from 3 200 PLN to 15 600 PLN of aid per one job created).

4.4.3. Pro-environmental projects

As part of this area, support will be directed towards projects aimed at reducing the negative impact of economic activities on the environment. The key areas for the automotive sector will include projects in the following fields:

- increasing energy efficiency, including through the use of energy efficient technologies,
- reduction of emissions into the atmosphere,
- early adaptation to future EU standards/compliance with the requirements stricter than EU standards or raising the level of environmental protection in the absence of EU standards,
- efficient resource and waste management,
- constructing/upgrading renewable energy systems.

Aid level:

In the case of horizontal aid for environmental protection and the power industry the new rules cause the intensity of aid (and the range of eligible costs) to depend on the type of project and the size of the enterprise.

The levels of support for large companies are at the level from 5% (in the case of projects that provide for early adaptation to future EU standards) to 50% (in the case of projects regarding meeting the requirements stricter than EU standards or raising the level of environmental protection in the absence of EU standards [eco-innovation projects]).

As in the case of the other two areas, the levels of support for small and medium-sized enterprises may be increased by up to 20 percentage points (for micro and small enterprises) and 10 percentage points (for medium-sized enterprises). In addition, entrepreneurs will be able to benefit from the regional bonus (+5 percentage points in Mazowieckie Voivodeship, + 15 percentage points for other regions).

Given the current state of the operational programmes, launching the first competitions for financing from the financial perspective 2014-2020 should be expected at the turn of the Q2 and Q3 2015.

4.5. Special Economic Zones

Special Economic Zone (SEZ) is part of Polish territory which is administered separately, allocated for the running of businesses on preferential terms. The SEZ is a place which is subject to special treatment and tax exemptions where an entrepreneur can establish a business on a specially prepared site and run it without paying income tax.

If a company decides to invest in one of the SEZ's, the income which it receives from business carried out on its terrain will be exempt from income tax (CIT – from legal persons or PIT – on physical persons, depending on the legal form used to run the business).

In an SEZ the entrepreneur can obtain the following privileges:

- tax exemption (CIT or PIT),
- a site fully prepared for development by the investor at a competitive price,
- free assistance in dealing with formalities in connection with the investment,
- exemption from property tax (on the territory of certain gminas).

Aid (granted in accordance with the regional aid map, described above) is calculated for new investment costs or for creating new jobs (two-year gross salary costs increased by obligatory employment-related payments).

Permission to operate in SEZ

The administrative-legal basis for being able to receive public assistance in a SEZ, is permission to set up a business in the SEZ, which is granted by the SEZ board.

Not every type of business can benefit from tax exemptions in a special economic zone. The right to benefit from tax exemptions due to new investments in SEZ are granted to an entrepreneur provided that:

1. there is no transfer of any kind in the ownership of fixed assets, which are connected to investment expenditure – for a period of 5 years from the date of their entry into the inventory of fixed assets and intangible or legal expenses, according to the provisions on income tax, in the case of small and medium sized businesses for a period of 3 years;
2. the business is conducted for a period of at least 5 years, whilst in the case of small and medium sized enterprises for at least 3 years; In the case of benefiting from aid for creating new jobs, provided that:
3. new jobs are maintained for at least 5 years from the date of their creation (3 years in the case of small and medium sized enterprises).

The maximum permitted level of aid for an entrepreneur depends on:

- investment localisation,
- the level of investment expenditure *or*,
- new employee costs,
- *and* the size of the enterprise applying for tax exemption.

Government grants

Government grants are provided on the basis of ***Programme for supporting investments of major importance to the Polish economy for the years 2011-2020*** (further as the *Programme*), adopted by the Council of Ministers on July 5, 2011.

Form of support

Support is provided in the form of a grant on the basis of a agreement concluded between the Minister of Economy and the investor. The agreement lays down conditions for the payment of the grant, which is paid proportionately to the degree of fulfilling investor's commitments.

Beneficiaries

Support can be applied for by companies planning investments in the following priority sectors:

1. **automotive sector**,
2. electronic and household appliances sector,
3. aviation sector,
4. biotechnology sector,
5. food processing sector,
6. modern services sector,
7. **research and development (R&D).**

Support can also be applied for by companies planning manufacturing investments in other sectors if a project's minimum eligible costs are PLN 750 million and minimum 200 new jobs or PLN 500 million and 500 new jobs (significant investments).

The Programme provides support for investments under the two following categories.

Table 4. Support for creation of new jobs (employment grant)

Sector	New jobs	and	Eligible costs of the new investment (millions PLN)	Amount of aid per one job (PLN)
automotive , electronics, aviation, bio-technology	250		40	from 3 200 to 15 600 (~ EUR 800 – EUR 3 900)
modern services	250		1,5	
R&D	35		1	
important investment in other sectors	200 500		750 500	

Source: *Elaboration by PAliIZ.*

Table 5. Aid for eligible costs of a new investment (investment grant)

Sector	New jobs	and	Eligible costs of the new investment (millions PLN)	Amount of aid (% of eligible costs)
priority sectors (including the automotive sector)	50		160	2 – 12.5
important investment in other sectors	200 500		750 500	
R&D	35		10	up to 10

Source: *Elaboration by PAIIZ.*

As part of the System only investment projects whose implementation in Poland is subject to obtaining a financial grant from the state budget are supported.

The operator of the *System* and the authority providing public aid is the Ministry of Economy. Polish Information and Foreign Investment Agency S.A. is responsible for the preparation and presentation to the Inter-ministerial Team for Foreign Investment (hereinafter referred to as the Team) dossiers of investment projects and for preparation of all documents necessary to carry out the whole procedure of providing financial support.

Each project is subject to individual assessment by the Team, based on specific criteria set out in the *System*.

The aid granting procedure:

1. The investor submits information to PAIIZ on a planned project using a standard form, signed by authorised representatives of the investor.
2. PAIIZ analyses the information submitted by the investor and submits to the Team Leader the project information and a financial aid offer with justification.
3. The Team recommends granting aid and submits the recommendation to the Minister of Economy in order to take a final decision on granting the aid.
4. PAIIZ informs the investor on the Team's recommendation. The investor decides to accept or refute the offer.
5. After accepting the offer by the investor, the investor applies to the Minister of Economy for issuing a letter of intent on the possibility to commence the investment.
6. The Minister of Economy sends to the investor a letter of intent on the possibility to commence the investment.
7. The Minister of Economy concludes a financial support agreement with the investor.

The aid granting procedure may be prolonged in the case of applying additionally for other forms of aid than the government grant (tax exemption in the Special Economic Zone and/or grants from EU structural funds).

5. MAIN INDUSTRY INSTITUTIONS AND ORGANISATIONS

1. Polish Automotive Industry Association

BTC Office Centre
Al. Niepodległości 69
02-626 Warszawa
Tel.: +48 22 322 71 98
Fax: +48 22 322 76 65
www.pzpm.org.pl

2. Polish Automotive Chamber

Ul. Grażyny 13/15
02-548 Warszawa
Tel.: (22) 646 08 18, (22) 440 84 59
Fax: (22) 845 25 73
e-mail: sekretariat@pim.org.pl
www.pim.pl

3. Automotive Market Analysis Institute SAMAR

Ul. Wąwozowa 11/4
02-796 Warszawa
Tel.: +48 228 597 552, +48 228 597 553
E-mail: contact@samar.pl
www.samar.pl

4. Association of Distributors and Producers of Automotive Parts

Ul. Za Dębami 3
05-075 Warszawa
Tel./Fax: +48 22 773 00 18
E-mail: info@sdcm.pl
www.sdcm.pl; www.r2rc.pl

5. MotoFocus

ul. Za Dębami 3
05-075 Warszawa
Tel./Fax: +48 22 773 8774
www.motofocus.pl

6. AutomotiveSuppliers.pl s.c.

Ul. Staniewicka 14
03-310 Warszawa
Tel. +48 22 215 05 05
Fax +48 22 435 88 23
Email: review@automotivesuppliers.pl
www.automotivesuppliers.pl

7. Automotive Industry Institute

Ul. Jagiellońska 55
03-301 Warszawa
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Fax: 22 777 70 20
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8. Crido Taxand Sp. z o.o.

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