

Automotive sector in Poland

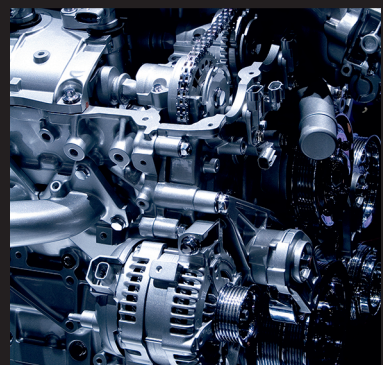


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The Automotive Sector in Poland

Sector Profile

| | |
|--|----|
| Did you know that | 3 |
| Executive summary | 3 |
| Investments in the Sector | 4 |
| Major Players in the Automotive Sector | 5 |
| Case Study – Volkswagen in Września | 6 |
| The European Centre for Manufacturing Advanced Automotive Parts and Components | 7 |
| Research and Development | 8 |
| Growing demand for new cars in Poland..... | 9 |
| Human Potential | 9 |
| Investment Competitiveness of Poland | 10 |
| Available Forms of Public Aid | 10 |
| Regional Aid 2014-2020 | 12 |

Did you know that

The automotive sector is a significant part of the Polish economy and is responsible for 7.4% of the gross added value¹. In 2014, production in the Polish automotive sector reached EUR 113.1 billion, i.e. nominally 3.6% more than in 2013.

- The accumulated amount of foreign direct investments (FDI) in the automotive sector in Poland is estimated at EUR 12 billion².
- In 2014, 578.4 thousand passenger cars and commercial vehicles were produced, an increase of 0.6% against the previous year.
- Directly, the automotive production sector employed 166.2 thousand (an increase of 5% against 2013), this represents 8.1% of all employment in manufacturing³. Taking into account the employment in related industries, transport and services, effectively, employment in the automotive industry amounts to approximately one million people⁴.
- Employment costs in the automotive sector are competitive and constitute 25.1% to 29.3% of the EU average. The average monthly salary amounted to PLN 4,313 in 2014, with PLN 6,267 in the production of cars and vehicles and PLN 3,896 in the production of parts and components⁵.
- Labour efficiency in the automotive sector is approx. 30% higher than in the entire processing industry. An average employee in the automotive sector creates PLN 680 thousand per year, while the average for the Polish industry as a whole is PLN 480 thousand⁶.
- In 2014 the automotive sector export from Poland totalled EUR 18.6 billion⁷. This is an increase of 1.15% against 2013, meaning that approximately 77% of revenues from sales in the automotive sector came from export sales⁸.
- 98 % of the 578.4 thousand cars manufactured in Poland were exported.

Executive summary

Poland has become one of Europe's leaders in the automotive industry. Thanks to its investment attractiveness, leading international players have located their manufacturing plants here, including both passenger cars and commercial vehicles, as well as buses and vehicles for the transport of goods.

However, the sector's development in Poland was possible not only as a result of foreign investments but also thanks to the growing potential of Polish manufacturers. Despite the world economic crisis, the Polish automotive industry continued to generate high revenues amounting to PLN 119 billion at the end of 2014⁹.

Foreign investors are the sector's driving force and they appreciate the competitiveness of the sector. Foreign direct investments in the automotive sector amounted to over EUR 8.6 billion (according to the NBP) at the end of 2013 and this is more than double the previous decade's investments. This constituted approximately 5% of the cumulative value of FDI¹⁰.

Global corporations have been increasingly choosing Poland as the location for their new investments in Europe. Due to growing employment costs in China, investors are once again looking closely at the Central and Eastern European region, and particularly at Poland, as a good alternative due to its growing productivity, and investment incentives such as tax exemptions and grants.

¹ GUS (Central Statistical Office), Nakłady i wyniki przemysłu w 2014 (Industry Expenditures and Results in 2014), data for enterprises employing more than 9 persons.

² FDIMarkets

³ GUS (Central Statistical Office), Nakłady i wyniki przemysłu w 2014 (Industry Expenditures and Results in 2014), data for enterprises employing more than 9 persons.

⁴ PZPM (Polish Automotive Industry Association). Raport branży motoryzacyjnej 2014 (Automotive Industry Report 2014).

⁵ GUS (Central Statistical Office), Nakłady i wyniki przemysłu w 2014 (Industry Expenditures and Results in 2014), data for enterprises employing more than 49 persons.

⁶ GUS (Central Statistical Office), Nakłady i wyniki przemysłu w 2014 (Industry Expenditures and Results in 2014), data for enterprises employing more than 9 persons.

⁷ The Ministry of Economy, 2015 (www.mg.gov.pl/Bezpieczenstwo+gospodarcze/przemysl/Przemysl+motoryzacyjny/Eksport+przemyslu+motoryzacyjnego).

⁸ Automotivesuppliers.pl.

⁹ GUS (Central Statistical Office), Nakłady i wyniki przemysłu w 2014 (Industry Expenditures and Results in 2014), data for enterprises employing more than 9 persons.

¹⁰ Narodowy Bank Polski (the National Bank of Poland).

Investments in the Sector

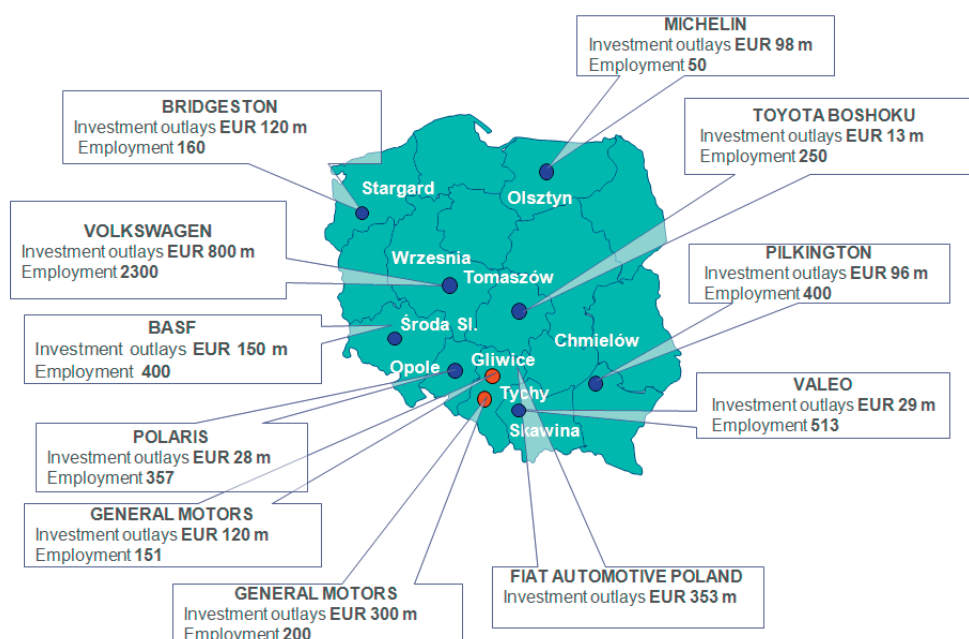
According to the investors, the factors which make the automotive sector particularly attractive include:

- the convenient location of Poland in the centre of Europe and the proximity of approximately 40 large automotive industry plants;
- the developed network of sub-suppliers and co-operators which exceeds 900 plants of which over 500 companies hold ISO/TS 16949 quality certificates;
- the availability of a highly skilled labour force;
- an attractive system of investment incentives, including non-reimbursable grants and tax exemptions.

The automotive sector in Poland is attractive for the largest players in the sector as indicated by both new investments and by the re-investments made by companies already present in Poland.

- Accumulated foreign direct investments in the automotive sector in Poland are estimated at approx. EUR 12 billion (according to fDi Markets)¹¹.
- In 2004 – 2015, a total of 535 investment projects worth more than EUR 13 billion were implemented with the assistance of the Polish Information and Foreign Investment Agency.
- As a result of investment outlays, companies established 148,129 new work places of which 25,718 persons found employment in the automotive sector.
- Over the last decade, the Agency completed 100 projects from the automotive sector totalling more than EUR 4.6 billion.
- The largest investors currently present on the Polish market are Fiat, VW, GM, TRW, Faurecia, Toyota, Man, Kirchhoff, Ronal and Mando.

Fig. 1. The latest investment events in the automotive industry



Source: PAIIZ study.

¹¹ FDI Markets.

Major Players in the Automotive Sector

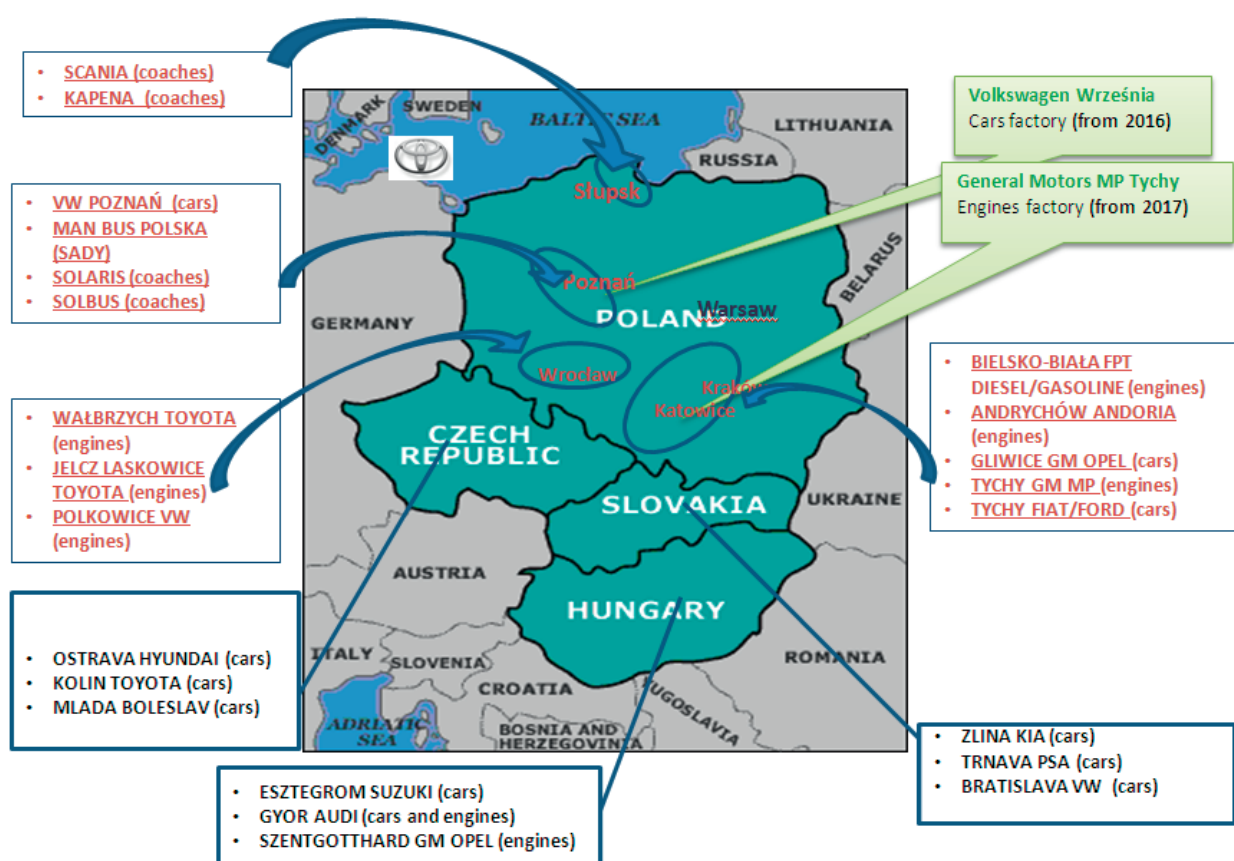
Poland is being increasingly chosen by investors operating in the automotive industry. Among approximately 40 automotive plants located in Central and Eastern Europe and operating in 16 are located in Poland.

In 2014, 578.4 thousand passenger cars and commercial vehicles were produced, an increase of 0.6% against the previous year. Further increases in production is expected due to the commissioning of a plant manufacturing VW Crafter in Września in 2016 (maximum production capacity will amount to 100 thousand vehicles). Large production plants also operate in Tychy, Gliwice and in Wałbrzych.

Toyota plants manufacture engines for themselves, Peugeot and Citroen; Fiat produces engines for their own needs and for Ford. The Volkswagen factory in Polkowice is a producer of engines for passenger cars and commercial vehicles for VW, as well as for Audi, Seat and Skoda. The Toyota Motor Manufacturing Poland in Wałbrzych manufacture engines and gearboxes for itself, Citroen and Peugeot.

Also, General Motors' decision to launch production of the latest generation of Opel Astra is another significant investment. The production in the Gliwice plant commenced in September 2015. The investment outlays related to the implementation of the project amounted to approximately EUR 150 million.

Fig. 2. Engines and cars producers in the Central and Eastern Europe



Source: PaliIZ study.

Case Study – Volkswagen in Września

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 automotive investments in Europe in the 21st century. Therefore, it is significant that Poland was chosen for the location. It is also the biggest project serviced by PAliIZ so far. During the negotiation process, the company was presented with more than 22 greenfield offers, of which 11 potential locations were visited before Września was chosen.

The plant will be built in Września in the grounds of Wałbrzych SEZ on an area of 220 hectares and it 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 creation of the plant brings additional benefits:

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

Fig. 3. Greenfield offers presented to Volkswagen



Source: PAliIZ, 2015.

The European Centre for Manufacturing Advanced Automotive Parts and Components

The competitiveness of the producers of parts and accessories is largely determined by the three basic parameters: quality, cost, and timely and reliable supplies. The companies from this sector operate in Poland due to the constant development of machinery, and Polish know-how as well as quality are rated among the most competitive in Europe. Local suppliers from Poland also aid the reduction of logistic expenses as they enable “just in time” supplies.

Almost 1,000 suppliers already manufacture parts and accessories in Poland. As a result Poland is one of the leading locations for manufacturing automotive parts and components both for national and international vehicle factories and for the secondary market. It is estimated that more than 2/3 of the 30 largest global producers of parts and components already have their plants in Poland. The developed network of sub-suppliers of parts and components is of key importance for the efficient functioning of plants producing vehicles and engines.

Poland is increasingly being recognised as the European leader in manufacturing parts and components for the automotive sector. The most important moments in this sector in 2014 included:

- the official opening of the Ronal Polska plant in Wałbrzych within the area of the Wałbrzych Special Economic Zone. This investment amounted to PLN 502 and 48- jobs were created;
- the announcement of General Motors decision to launch a diesel engines production plant in Tychy in 2017 (producing three types of 1.2 l engines). The target investment value of the project amounts to PLN 300 million;
- the opening of the BASF plant in Środa Śląska: EUR 150 million investment will offer employment to 400 people. The factory will manufacture SCR (Selective Catalytic Reduction) catalytic converters and particulate filters for diesel cars;
- the launching of the test manufacture of quads in the Polaris Polska factory in Opole. In 2015 production output will amount to 25 thousand vehicles. The investment project is worth PLN 100 million. Target employment will amount to approx. 500 jobs;
- Nexteer Automotive Poland implemented an investment plan worth over PLN 335 million constructing an electric steering systems manufacturing plant in Tychy;
- The Valeo group constructed a production hall in its laboratory and research centre worth approximately PLN 115 million.

The enterprises dealing in manufacturing automotive parts and components include both companies which have a majority of Polish capital: e.g. Lumag (platings, brake linings and brake pads), Asmet (exhaust systems), Filtron (filters), Groclin (equipment), and ZAP Sznajder, LOXA Batterien, as well as Autopart (batteries), Boryszew S.A. (external and internal vehicle components), Asmet and GG Profits.

Entities with a majority of foreign capital operate in the following fields:

- Control and breaking systems – Brembo (Dąbrowa Górnicza, Częstochowa), Mando Corporation (Wałbrzych), Nexteer Automotive (Tychy, Gliwice), TRW (Czechowice-Dziedzice, Pruszków, Bielsko-Biała).
- Interior fittings – Sitech (Polkowice, Głogów), Lear (Tychy, Jarosław, Mielec, Legnica), Faurecia (Grójec, Jelcz, Wałbrzych), Johnson Controls (Świebodzin, Skarbimierz, Siemianowice Śląskie, Bieruń, Żory).
- Tires – Bridgestone (Stargard Szczeciński, Poznań), GoodYear Dębica (Dębica), Michelin (Olsztyn)
- Lightning and electronic components – Sungsam-zem Polska (Elk), Automotive Lighting (Sosnowiec), Aures (Sosnowiec), Valeo (Tychy, Chrzanów, Czechowice – Dziedzice), Delphi (Gdańsk, Jeleśnia), Pol-Elektra (Łochowice).
- Body glass – Saint Gobain (Dąbrowa Górnicza, Żary, Koło), PGW Pittsburgh Glass Works (Komorniki Śląskie), Guardian (Częstochowa), Pilkington (Sandomierz, Chmielów).
- Batteries – Exide Technologies (Poznań), Johnson Technologies (Katowice).

Research and Development

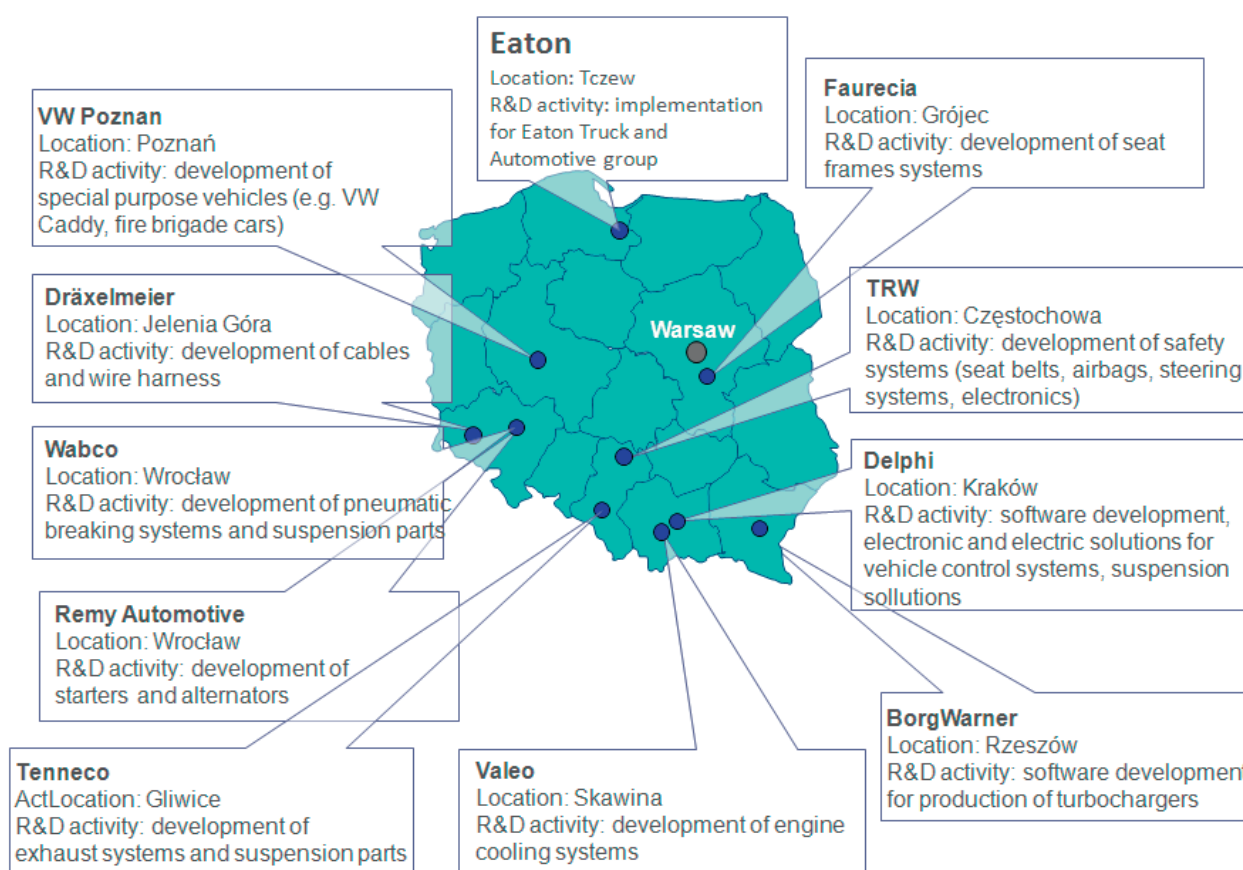
The automotive sector in Poland is one of the most innovative branches in the economy and investments and research and development centres are necessary for developing and implementing new technologies as they will enable the profitability of production in the long term. According to the estimates, in 2013 the R&D investments in the automotive sector companies operating in Poland amounted to PLN 4.8-6.0 million¹² and will be increased in the years to come.

Independent producers of parts, competitive in the market, invest no less than 8 to 10% of their own revenues in design work and new technologies development¹³ which makes them directly the authors of changes and progress in the automotive sector.

Cooperation between companies from the automotive sector with the widely understood research and development sector in Poland is becoming more prevalent in the last years. Following manufacturing plants, the sector companies locate and develop R+D centres as well as more and more frequent SSC/BPO in Poland:

- R+D centres are held by the following producers of vehicles: VW Poznań, Solaris, AMZ Kutno and Fiat Auto Poland,
- R+D centres are held by the following producers of parts and components: Delphi, WABCO, TENNECO, Eaton, Valeo, TRW, as well as Sitech and Faurecia,
- BPO/SSC centres have been launched in Poland by: General Motors (Tychy) and Toyota Motor Europe (Wrocław).

Fig. 4. R&D Centres in the Automotive Sector in Poland



Source: PAIIZ study, 2015.

¹² Automotive Sector in Poland Numbers, summaries, analyses. SDCM (the Association of Distributors and Producers of Automotive Parts), 2014.

¹³ Ibid.

Growing demand for new cars in Poland

327,219 of new vehicles were registered in the Central Register of Vehicles in 2014. The result was an improvement by 12.9% against 2013. This resulted mainly from the first quarter sales, due to the derogation clause which allowed for total VAT deduction from the price of a vehicle meeting the Lisak's formula, i.e. "convertible delivery" vehicles.

The possibility of total VAT deduction by companies generated a cascade of orders for the convertible delivery vehicles. The situation also affected the structure of new passenger cars buyers in Poland – 61.3% of them are companies and only 38.7% of the buyers are individual clients.

In 2015 an increase by 4.9% up to 410,868 of passenger cars and commercial vehicles is expected in total sales in Poland¹⁴.

Human Potential

The automotive sector in Poland has very large potential with access to many qualified professionals of both lower and higher level. Mechanical engineering schools are one of the most often chosen in vocational education, while the engineering faculties are increasingly popular at universities.

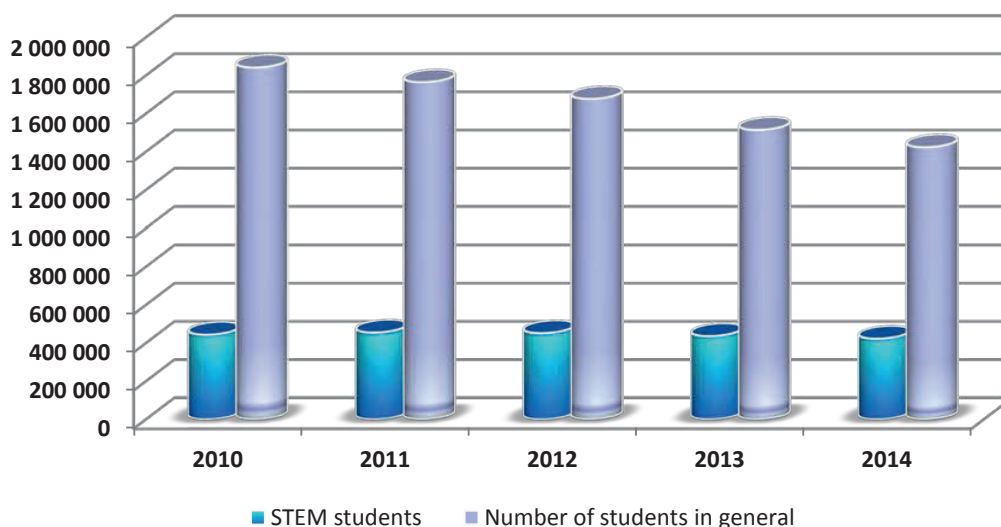
In 2013, professional titles of technicians/mechanics were received by 4061 graduates of post-secondary vocational schools and technicians, while the titles of technicians/mechanics of motor vehicles were received by 5 020 graduates of vocational schools.

18 public universities of technologies operate in Poland as well as a dozen of non-public ones, educating students in 15 specialities related to the automotive industry¹⁵. At the end of 2013, the number of students in Polish universities amounted to 1 549 877 of which 106 005 in engineering faculties related to automotive industry (89 951 in the first-cycle study, and 16 046 in the second-cycle study)¹⁶.

It must be stressed that the number of students in voivodships with well-developed automotive industry is relatively high: Śląskie 13 882, Dolnośląskie 14 525 and Wielkopolskie 9 477. In the academic year 2012/2013, the number of graduates on faculties related to the automotive industry amounted to 20 880 individuals (13 320 in the first-cycle study, 7 154 in the second-cycle study)¹⁷.

In addition, there is a steady increase of the interest in STEM curriculum studies (Science, Technology, Engineering, and Mathematics).

Chart 1. Students in Poland in general and STEM students in 2010-2014.



Source: PAliIZ study based on data from MNiSW (the Ministry of Science and Higher Education), 2015.

¹⁴ Poland Autos Report - Q2 2015, EMIS Intelligence, 2015.

¹⁵ Ośrodek Przetwarzania Informacji (Information Processing Centre), March 2014

¹⁶ Ibid.

¹⁷ Graduates of Chosen Faculties in 2012/2013 - GUS data, April 2014.

Investment Competitiveness of Poland

Global corporations choose Poland eagerly as the location of their new investments in Europe. The investment competitiveness of Poland is confirmed in many international rankings created by institutions monitoring the investment climate:

- In the standard report regarding foreign direct investments – World Investment Report published by UNCTAD, Poland is among 20 largest recipients of foreign direct investments with their amount reaching USD 13.9 billion.
- According to the survey by the German-Polish Chamber of Commerce (AHK), third time in a row Poland proved to be the most attractive location for investments in Central and East Europe.
- According to the Bloomberg 2014 rating, Poland is the best country for operating a business in the region.
- In the FDI Intelligence report, Poland is third, just after China and the US, as the best location for manufacturing investments in the world.
- The competitiveness of the Polish industry was pointed out in the European Competitiveness 2014 Report by the European Commission in which it is stressed that Polish industry in 2008-2014 enjoyed the highest increase in the production volume in the EU by over 20%.
- On the other hand, the Investment Attractiveness of Europe 2015 Report by E&Y indicates that Poland is once again the most attractive state in Central Europe for investment location.
- The confirmation of convenient conditions for running business in Poland lies also in the highest ever ranking of Poland in Doing Business 2016, with our country listed on 25 place. An attractive investment climate is one of the key factors influencing the automotive sector development in Poland.

Available Forms of Public Aid

Investors implementing new investments in the automotive sector in Poland may count on assistance in the form of public aid. The aid is available on national level – as government grants and on regional level, as investment incentives available in special economic zones.

In Special Economic Zones, i.e. divided areas designated for running business operations on preferential conditions, the entrepreneurs may rely on the availability of fully equipped area, assistance in legal and administrative procedures and for income tax exemptions and property tax exemptions. The amount of regional aid depends on the location of an investment, the amount of incurred outlays and the size of an enterprise applying for the aid.

The entrepreneurs planning their investments in the automotive sector may also use the government “Programme for the support of investments of considerable importance for Polish economy”. The Programme provides for financial contributions to new investment (the investment grant) and contribution to costs of creating new jobs (the employment grant) . The funds are paid in proportion to the degree of performance of obligations specified in the agreement between the investor and the Minister of Economy. The aid available under the Programme may be joined with other forms of support.

Communes also offer incentives to entrepreneurs as they are entitled to establish exemptions and to specify the rates of taxes and local fees, including the property tax rate.

Table 1. Financial Contributions for Creating New Jobs (the employment grant) ¹⁸

| Sector | New Jobs | And | Eligible Costs of the New Investment (in PLN million) | The Amount of the Aid per one Workplace (in PLN) |
|--|------------|-----|---|--|
| Production:* | 250 | | PLN 40 M | from 3 200 to 15 600*** |
| ▪ automotive | | | | |
| ▪ biotechnology | | | | |
| ▪ electronics with household appliances | | | | |
| ▪ aviation | 35 | | PLN 1.5 M** | |
| ▪ agriculture and food processing | | | | |
| BSS | | | | |
| R+D | 200 or 500 | | PLN 1 M** | |
| Significant Investments in other manufacturing sectors 200 or 500 | | | PLN 750 M or PLN 500 M | |

Source: PAIIZ.

Financial contribution is not granted to the investments located in a district where unemployment rate is lower than 75% of national average.

** With no account taken of office space leasing costs.

*** Additional 20% for the location in eastern Poland

**** Additional 5pp for the location in eastern Poland

Table 2. Financial Contribution to the Eligible Costs of the New Investment (the Investment Grant)

| Sector | New Jobs | And | Eligible Costs of the New Investment (in PLN million) | The Grand Amount (% of the Eligible Costs) |
|---|------------|-----|---|--|
| Production:* | 50 | | PLN 40 M | from 1.5% to 7.5%**** of eligible costs |
| ▪ automotive | | | | |
| ▪ biotechnology | | | | |
| ▪ electronics with household appliances | | | | |
| ▪ aviation | | | | |
| ▪ agriculture and food processing | | | | |
| Significant Investments | 200 or 500 | | PLN 750 M or PLN 500 M | |
| R+D | 35 | | PLN 10 M** | up to 10% of eligible costs |

Source: PAIIZ.

* Financial contribution is not granted to the investments located in a district where unemployment rate is lower than 75% of national average.

** With no account taken of office space leasing costs.

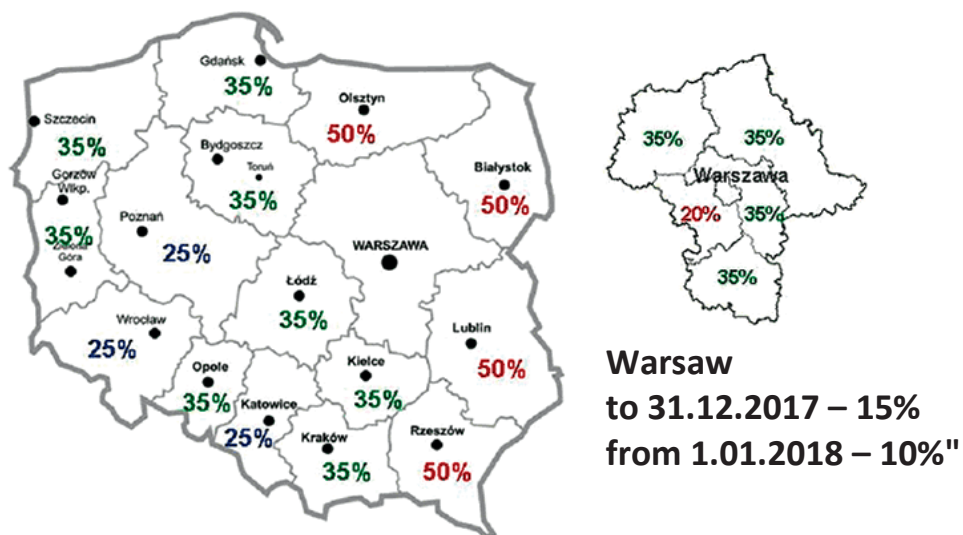
*** Additional 20% for the location in eastern Poland

**** Additional 5pp for the location in eastern Poland

¹⁸ For more information see: www.paiz.gov.pl/strefa_inwestora/grant_rzadowy.

A new regional aid Map for 2014 - 2020 is valid in Poland from 1 July 2014. According to this Map, the basic maximum level of regional public aid, i.e. the percentage share of the aid in the eligible costs, amounts to:

Fig. 4 Regional Aid Map for 2014 - 2020¹⁹



Source: PAIIZ.

¹⁹ For more information see: www.paiz.gov.pl/strefa_inwestora/zachety_inwestycyjne_w_sse#.

Polish Information and Foreign Investment Agency
ul. Bagatela 12, 00-585 Warsaw
Tel.: 00 48 22 334 98 75
E-mail: invest@paiz.gov.pl

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