CENTRAL EUROPE AUTOMOTIVE REPORT

COVERING THE
CENTRAL EUROPEAN AUTOMOTIVE INDUSTRY
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TM

POLAND

Major Players Stake Claims; Big Growth Ahead

General Motors is engaged in final negotiations for its DM 500 million investment in a new manufacturing plant in southern Poland. The plant is likely to be located in Gliwice and will employ 2,000 people. Production is expected to begin in 1998 and annual capacity will be between 70,000 and 100,000 passenger cars. G.M. is negotiating with the federal and state governments regarding an incentive package that will include special tax treatment, creation of a special economic zone, and infrastructure construction. G.M. has indicated that its investment may be increased by an additional DM 200 to 300 million if the first phase of its expansion is successful. The additional investment would boost annual production to 150,000 cars. [*for more on G.M., see this issue's Profile interview. ed.*]

The South Korean car maker *Daewoo's* contract to purchase Polish car manufacturer FSO was legalized in February of this year. By the year 2001, the factory will produce 220,000 cars and 300,000 engines per year. Within three years after the beginning of production, Daewoo expects to purchase 60%-80% of parts produced in Poland. In August 1995, Daewoo also took over a commercial vehicle production factory in Lublin and is planning to invest USD 340 million in the facility. By the year 2000, it expects to produce 40,000 commercial vehicles a year and assemble 50,000 Daewoo passenger cars in Lublin. [*for more on Daewoo, see Opportunity Spotlight on p. 8. ed.*]

Ford started assembling Escorts and Transit delivery vans in late 1995 in a greenfield facility in Plonsk. Ford plans to assemble 20,000 Escorts and 10,000 Transits per year.

Fiat Auto Poland during the first nine months of 1995 sold in Poland over 46,000 locally-manufactured Cinquecentos, 45,000 Fiat 126ps, and over 9,000 Unos. Poland is the only location where the Uno model is made. Fiat is planning to increase its current USD 400 million investment in Poland by USD one billion.

In late 1995, **Michelin** purchased a majority stake in Polish tire maker **Stomil Olsztyn**. Michelin has pledged that by the year 2000 it will invest USD 151 million in Stomil, primarily for the manufacture of steel-corded truck tires.

Goodyear purchased a 32.7% stake in **Tyre Company Debica**, and will eventually increase its stake to over 50%. Goodyear plans to invest USD 60 million in the company which will begin production of whole-steel tires.

Delphi Harrison Thermal Systems is currently negotiating for the purchase of the Polish mechanical equipment factory **Zaklady Przemyslu Mechanicznego** in Ostrow

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POLAND

PROFILE

G.M.'s New Factory Creates Supply Opportunities

Jaroslaw Dabek is Supply Manager with General Motors Poland in Warsaw. G.M. has committed to investing $330 million in a green-field factory in southern Poland. The factory will be located in one of the best developed industrial areas in Poland, giving G.M. access to a skilled work force, good rail and road infrastructure, and two international airports. G.M. plans to begin production in the second half of 1998. To coordinate the purchase of supplies for the new facility, a Central European Purchasing Office will be established in Warsaw.

Jaroslaw Dabek

CEAR: What's your strategy for purchasing parts and components for the new Poland factory?

Dabek: Localization. Our goal as a Central European purchasing team is to localize up to 70% of our parts and components. We're looking to purchase from suppliers in

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***Feature Country** Continued From page 1*

Wielkopolski. ZSM has 900 employees and produces automotive coolers and heaters, radiators, and portable gas heaters. [*for more on Delphi, see Opportunity Spotlight on p. 8. ed.*]

Earlier this year, the **Timken Company**, a U.S. manufacturer of bearings and alloy steel, announced the acquisition of **FLT Prema Milmet**, the tapered roller bearing business of a Polish manufacturer. FLT's bearing division has annual sales of approximately USD 15 million. Bearings produced at the facility are supplied to **G.M.**, **Ford**, **Daewoo**, **Volkswagen**, and **Fiat**. The Timken Company will invest USD 15 million to upgrade FLT's facilities.

Auto Market Figures: There are over 7 million passenger cars in Poland, and according to forecasts by the Polish government, this number is expected to grow to 10 million in the year 2000 and to 15 million in the year 2010. There are also over one million trucks and 90,000 buses traveling the roads of Poland. According to a 1994 survey conducted by the **Pentor** public opinion and market research institute, over 50% of Polish families have one car, and 2% of Polish households own two cars. Residents of Poland's central and central west regions own the largest number of cars. Poles favor small capacity cars with engines up to 2000 ccm. Polish-made vehicles account for 70% of all registered cars, and cars made in Western countries account for 20%. Installed capacity in Poland is estimated at 500,000-550,000 cars per year. In 1994, Polish companies produced 338,000 cars, 29,264 trucks, 14,000 farm tractors, and 1,395 buses.

Annual car sales in Poland in recent years have been close to 250,000 and are expected to grow to 450,000 by the year 2000. It is estimated that the Polish car market can absorb 330,000 to 400,000 new cars annually until the end of this century. Total imports in 1995 were 57,100 cars. Cars are imported from Germany (37%), Italy (22%), France (13%), U.K. (8%), and Japan (6%). The sale of imported cars increased over 17% in 1995, and the sale of imported commercial vehicles was up 57%. During the first eleven months of 1995, passenger and commercial vehicles manufactured and assembled in Poland accounted for 78% of the new motor vehicle market in Poland. During that period, **Fiat Auto Poland's** market share was 40%, **FSO** held a 29% share, and the **Lublin Motor Vehicle Factory's** share was just over 3 %.

In 1995, USD 340 million worth of parts and components were imported into Poland. Imports of parts and components has grown by 30% over the last three years. Over 39% of the imported parts and components came from Italy, 27% from Germany, and 1.4% from the U.S. U.S. and German made parts and components are considered the most reliable of the third country imports. The total market size for parts and components in Poland, including locally produced material, is estimated for 1996 to be USD 640 million. The percentage of cars serviced in authorized service stations (who must use original parts) in Poland is increasing. As there are still many aging cars on the Polish roads, the market for non-original parts in Poland is expected to experience significant growth for the next five to seven years. The Ministry of Industry has identified the automotive equipment market as an industrial branch that has one of the best chances for rapid and sustained growth in Poland.

Economy: The Polish economy continues to show robust growth. GDP growth in 1995 was 6.5% and is expected to grow 5.5% this year. Although privatization is dragging, the private sector accounted for approximately 60% of the GDP in 1995. Inflation was around 21% in 1995 and is expected to drop to 17% in 1996. Productivity gains of some 15% have helped boost exports. The average wage in Poland in 1995 was $281, 4.8% higher in real terms than in 1994. Unemployment is dropping and is approximately 14%.

Investment: Foreign investment in Poland in 1995 was $2.5 billion, with the majority of that going to industry, especially the food, and electro-engineering industries. The U.S. is the largest investor and accounts for 25% of all foreign investment. A survey of 864 Polish companies with foreign participation was conducted in October 1995 by the **Polish Agency for Foreign Investment (PAIZ)**. The survey found that the most important factor in a firm's decision to invest in Poland is low labor costs. Other important factors are the size of the Polish market, prospects for economic growth, and the supply of qualified labor. Investor fears uncovered by the survey were unfavorable changes in regulations, high taxes, political instability, and price growth. PAIZ also surveyed Poles and found that the vast majority of Poles were in favor of foreign investment.

According to Jacek Siwicki, Senior Vice President with **Enterprise Investors**, opportunities exist for outside investors in several automotive companies held by the fund. Enterprise Investors is a closed, private fund, that will have USD 500 million under management by the end of this year. The fund owns 49% of **Szot International**, an auto parts manufacturing facility in Poland. Szot has sales of approximately USD 2 million and currently supplies leading international automobile companies. Szot produces rubber and rubber metal products for the auto industry. Enterprise Investors is also invested in **Stomil Sanok**, a manufacturer of technical rubber goods, including seals, gaskets, and V-belts. The company controls close to 60% of the domestic market for non-tire automotive rubber products and exports to Western Europe, Russia, and the Ukraine. In 1995, a profit of USD 3.4 million was earned on sales of USD 47 million. Stomil has a joint venture with a German partner to produce automotive components, and is interested in creating joint ventures with other foreign partners. Stomil shares will be listed on the Warsaw Stock Exchange in late 1996. **Contact:** Jacek Siwicki, Enterprise Investors, ul. Nowy Swiat 6/12, 00-400 Warsaw, Poland; tel: (48 22) 625-1964, fax: (48 22) 625-7933.

Trade: Strong exports have fueled much of Poland's growth; exports increased some 37% in 1995. Exports in 1995 were $23.1 billion and imports were $29.1 billion. Trade with EU countries accounts for about 70% of Poland's exports and 65% of imports. Trade with Germany commands 38% of Poland's exports and 27% of imports. Sixty percent of the Polish companies with foreign investors surveyed by PAIZ export to Germany, and an increasing number are increasing their exports to Russia and the Ukraine. Exports to the Ukraine grew by 165% in 1995. Less than 10% of Poland's trade is conducted with Russia. Poland is a member of CEFTA, along with Hungary, Czech and Slovak Republics, and Slovenia. An Association Agreement was entered into with the EU in 1992; full membership is expected by the year 2000.

Automobile parts and components imported from EU and CEFTA countries enjoy a 9% custom duty rate, from the Czech and Slovak Republics and Hungary, a 7.5% rate, and from other GATT countries, a general custom duty rate of 15%. Parts imported into Poland for assembly purposes are subject to a 0% rate. All parts are subject to a 3% border tax. This rate will be reduced to 0% in 1997. Import restrictions, such as quotas, do not apply to automotive parts and components.

Imported parts and components require a turnover certificate if imported into Poland in commercial quantities. A certification agency will test the product to determine whether the product is consistent with Polish standards. Tests are not necessary if the importer presents an international homologation certificate issued by state agencies authorized by the General Secretary of the U.N. A safety "B" certificate is also required for all auto parts. The certification period can last several months and testing costs for a single auto part can be thousands of dollars. Spare parts that were verified under U.N.-ECE rules are exempted from certification. Contact: Janusz B. Berdowski, Polish Center for Research & Certification, ul. Klobucka 23a, 02-699 Warsaw, Poland; tel: (48 22) 430-595, fax: (48 22) 471-222.

Infrastructure: In 1994 goods were distributed in Poland by the following means: motor (78.8%), rail (16.2%), pipeline (2.6%), maritime navigation (1.7%), inland navigation (.6%). Over the next 15 years, 2,600 kilometers of toll motorways will be built in Poland that will link Germany with Belarus, and Ukraine, Russia, and the Baltic coast with Czech Republic, Slovak Republic, and Austria. Total cost of this project is expected to reach USD 8 billion.

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THE INVESTMENT ANALYST

PRIVATIZATION CREATES AUTOMOTIVE OPPORTUNITIES

Charles Highett

The Polish Mass Privatization Program came into reality last July after three years of delays. It is the largest privatization project in Poland with about 10% of Poland's industrial base participating. A potential investor must understand the structure of the program to appreciate the opportunities created by it for foreign investors.

About 500 Polish companies have volunteered to participate in the program, all of them meeting certain size and wealth criteria. The key element of the program is the creation of 15 National Investment Funds (NFI's). Each NFI is managed by a fund manager whose role is to assist in the restructuring of the participating companies, and whose ultimate goal is increasing the value of the fund. In addition to playing the role of the traditional Western fund manager, fund managers are involved in such activities as strengthening the management and leadership skills in the companies. Fund managers are also responsible for introducing external investors, financial and operational restructuring, and the eventual launching of the fund and some of the companies on the stock market.

The share allocation within each company taking part in the program is as follows: 33% is held by the fund with lead shareholding; 27% is held by 14 funds each holding a 1.98% share; 25% is held by the State Treasury; and 15% is held by employees. The fund with lead shareholding effectively has control of the company through the Supervisory Board as the 27% held by the other 14 funds is generally voted in favor of the lead shareholder's recommendation.

<u>**Opportunity:**</u> In the past, strategic investors in Poland have faced many obstacles. Problems were encountered in overcoming red tape and working out solutions that satisfied both unions and management. Worker councils were a powerful force as they had the right to elect and deselect members of the management, including the chief executive. With the creation of the NFIs, many of these obstacles have been overcome. A potential investor can now discuss investment opportunities and strategies with a Polish/Western style fund manager who understands the companies in his portfolio and who will move deals along as quickly as is prudent.

PIAST is a National Investment Fund managed by **Eurofund Management Polska** Sp. z o.o., a company owned by **Banque National de Paris** (BNP) (75%), and **Polish Investment Bank** (PBI) (25%). Among its 33 lead shareholdings it has 4 companies in the automotive sector, one of which is the automotive battery producer "**ZAP**" (**Zaklady Akumulatorowe Piastów**). ZAP has a 70 year history in battery production and is a leading producer of automotive batteries in Poland; ISO 9001 certification will be obtained later this year. Located near Warsaw, the company is well positioned to supply its products to OEMs and after-market customers. Annual production is approximately 600 thousand batteries and turnover is USD 20 million. In 1995, total assets were valued at USD 10.1 million, net profit was USD 1.3 million, and the total number of employees was 460. ZAP's goal is to increase its revenue by a minimum of 50% in the next 3 years.

Zap manufactures more than 50 types of batteries which conform to international standards such as DIN, IEC, and SPE. ZAP supplies all the OEM producers of cars, buses, and trucks in Poland, including **Daewoo-FSO**, **Daewoo Motor Poland**, **URSUS**, **FSC Starachowice**, and **FA SANOK**. ZAP is also the main supplier of batteries for military use. The company is actively increasing its export of batteries to Eastern Europe countries.

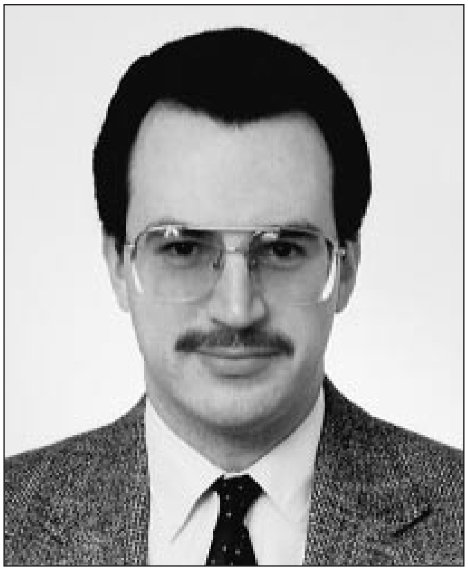
ZAP's production lines are equipped with modern **Wirtz** casting machines, an automatic assembly line, and a computerized control system for plate formation and battery charging. Dry and wet charged batteries produced by ZAP are made of low antimony and lead-calcium alloys. ZAP is developing its distribution network to take advantage of the growing after-market and is focusing on exclusive dealers. ZAP intends to move to the next generation of continuous platemaking recently introduced in the U.S. by Wirtz, such as a paperless system and conroll technology. ZAP currently sells 100% of its capacity, but is looking for partners who can provide market opportunities and new technology.

Charles Highett is Marketing Director with Eurofund Management Polska. Contact Mr. Highett or Wieslaw Kosieradzki, Portfolio Director, Eurofund Management Polska, ul. Foksal 3/5, PL-00-366 Warszawa, Poland; tel: (48 22) 278-700 or 267-341, fax: (48 22) 278-700. ■

POLAND

LEGAL ADVISOR

SETTING UP A COMPANY: ESSENTIAL ADVICE



Matthew V. Piwowar

As Poland moves closer to OECD membership, its laws governing the operation of businesses by foreigners are undergoing continuous transformation. Although most of these changes have been positive, the Polish laws governing the establishment and operation of a business by a foreign or domestic entity are still quite different than those found in the West. It is important, therefore, that an investor meet with legal counsel early in the planning process. A short meeting with counsel who is familiar with both U.S. and Polish corporate and tax laws can save a company time and money.

Foreign investors accustomed to working in the U.S. will often go through the process of creating a business plan, finding a joint venture partner, agreeing to terms, and setting up financing based only on the advice of their U.S. general counsel or with no advice at all. They are often shocked to find that, unlike in the U.S. where a limited liability company can be formed in a few days or less for around $500, the registration of a company in Poland can take between three to five weeks and often costs between $2000 to $4000. As a result, they may be unable to meet financing or other deadlines in their business plan.

By contrast, other foreign investors spend weeks or even months creating a complex company agreement only to have its registration delayed by the commercial court who is overwhelmed by the agreement's complexity and foreign concepts. Although the commercial court in Warsaw is becoming more sophisticated, a complex company agreement can still cause delays. In most cases, the best strategy is to file a company agreement with the commercial court for a basic limited liability company early in the planning process. While waiting for registration, the business plan and financing can be finalized. After registration the company agreement can be easily amended in order to meet the needs of the investors and to include more western style provisions. Such amendments usually pass through the court with less scrutiny than the original company agreement. In the meantime, the investors have a legal entity through which they can carry on business activities, make in-kind contributions, close financing, and file applications for various permits. Additionally, if it is later found that a more costly joint stock company is required instead of a limited liability company, the limited liability company can be converted into a joint stock company.

Another common mistake made by foreign investors is to focus on Warsaw as the only location for the company's seat and place of operations. The past few years of robust growth have caused the cost of doing business in Warsaw to skyrocket. Real estate prices and rental rates in Warsaw can be two or three times the prices in other Polish cities. Unless an investor's business is in the service industry and requires access to the larger and wealthier Warsaw market, then serious consideration should be given to other cities in Poland. If a city other than Warsaw is chosen, the company agreement should still be filed with the commercial court in Warsaw. It is often faster to register in Warsaw and then later transfer the seat of the company to the commercial court in the other city.

Under the current legal structure there is a significant advantage for a foreign investor to make its contributions to capital of the Polish company in the form of in-kind contributions. Equipment imported for the purpose of making an in-kind contribution receives beneficial customs duty treatment, provided that the in-kind contributions stays with the company for at least three years. As a result, a new company can greatly reduce its costs by having its foreign parent or joint venture partner make in-kind contributions of the equipment necessary to start operations. An investor, however, should not assume that it can simply import assets and declare them to be in-kind contributions when they reach the customs office at the border. Legal counsel should be given early notice of the intention to make such contributions in order to arrange for the proper asset valuations and documentation of the contribution.

The actual formation and operation of either a limited liability company or a joint stock company in Poland by a foreign investor is governed primarily by the Act of June 14, 1991 on Companies with Foreign Participation ("Foreign Investment Law") and the Commercial Code enacted in 1934. At the time of this article's writing, however, a new law to replace the Foreign Investment Law is passing through parliament. Although the exact content of the proposed new Foreign Investment Law is unknown, it is anticipated that it will eliminate many of the old permit requirements and simplify the process of establishing a business by foreigners. Such changes are necessary in order for Poland to be admitted to the OECD.

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CENTRAL EUROPE AUTOMOTIVE REPORT

To Our Readers:

Ronald F. Suponcic, Jr.
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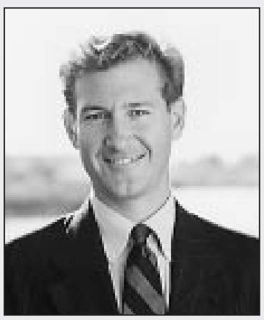

Jeffrey A. Jones, Esq.
Editor-in-Chief

The CENTRAL EUROPE AUTOMOTIVE REPORT™ is distributed worldwide to automotive manufacturers and suppliers who do business in, or are interested in doing business in, the markets of Central Europe, the EU, Russia, and the former Soviet States.

Our Mission

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1996: July-Romania, August-Not Published, September-Slovenia, October-Hungary, November-Czech, December-Slovak

1997: January-Poland, February-Bulgaria, March-Slovenia, April-Hungary, May-Czech, June-Slovak, July-Poland, August-Not Published, September-Romania, October-Slovenia, November-Hungary, December-Czech ■

POLAND

POLISH SUPPLIERS OF PARTS & COMPONENTS

The Polish suppliers of automotive parts and components listed below are potential joint venture or direct investment candidates for Western companies. As indicated, many of these companies are current suppliers to the large auto manufacturers in Poland. As the number of vehicles manufactured in Poland grows, the need for improved technology, management, and capacity utilization creates opportunities for cooperation between Polish manufacturers and Western companies.

Company	Product	Contact	Customers
1. Polmo Brodnica	Exhaust system, filter shell, air cleaners	Ireneusz Mierzejewski tel: (48 51) 182-441 fax: (48 51) 183-734	FSO, Fiat, Peugeot
2. Polmo Praszka	Vacuum pumps, circulating water pumps, pneumatic brake systems, castled springs, die & mold casting	Leszek Bartczak tel: (48 34) 591-318 fax: (48 34) 591-503	FSO, G.M., Fiat
3. ZPC Ursus	Iron castings (cylinder heads)	Marina Okrasa tel: (48 22) 667-3497 fax: (48 22) 667-2442	FSO
4. PZL Kalisz	Crankshafts, oil pumps, push rods, castings	Janusz Ochonczenko tel: (48 62) 37-290 fax: (48 62) 37-084	FSO, Allison

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POLAND

FOCUS ON INVESTMENT

INVESTING ON THE WARSAW STOCK EXCHANGE

Anna Frankowska

Trading in Securities: When the Communist Party relinquished control of the government after being defeated in the first parliamentary elections held in Poland since the 1930's, one of the new laws passed provided for the establishment of a new securities market. The Stock Exchange reopened on July 2, 1991 in its new location, the former Polish Communist Party headquarters. The opening of the Stock Exchange in this very place poignantly symbolizes the end of the old economic system.

Although the Polish securities market is in the nascent stages of development, as of the end of March 1996, there were 72 companies listed on the Warsaw Stock Exchange. Last December, strategic stakes in two tire producers listed on the exchange were sold. A majority stake in **Debica S.A.** was sold to the American **Goodyear Corporation** for over USD 115 million, and the French tire giant **Michelin** bought a majority stake in **Stomil Olsztyn** for over USD 112 million with a commitment to invest a further USD 150 million over the next four years.

The capitalization of the stock market is the equivalent of approximately USD 5 billion, and the value of shares traded at each session averages USD 60 million. It is estimated that 25% of the listed shares are held by foreign investors. There are currently two markets operated by the Warsaw Stock Exchange: the primary, where "blue chip" companies are listed, and the parallel. The criteria used by the exchange to evaluate whether shares of a company should be listed are similar to those typically used by other exchanges to evaluate share offerings and include capitalization, profit levels, and shareholder structure.

The Law of March 22, 1991 on Public Trading of Securities and on Trust Funds (the "Securities Law"), which was substantially amended in late 1994, sets out the basic requirements governing public trading of securities in Poland. Generally, all public trading in securities must be conducted exclusively through an entity operating a brokerage firm. To purchase shares listed on the Warsaw Stock exchange, a foreign investor typically contacts his local broker who in turn contacts a licensed Polish firm who carries out the order.

To promote market transparency, the Securities Law provides that the offer of securities to the public requires a permit from the Securities Commission and specifies the basic requirements that an offering prospectus must meet. It must be emphasized, however, that there is no requirement that a prospectus be prepared in English or that the financial statements be prepared in accordance with GAAP; translations of prospectuses and other reports on companies are available from local brokers. Generally, the disclosure requirements are similar to those applicable in Western countries.

The Securities Law contains several provisions related to the acquisition of substantial amounts of shares in a company, and contains notice or permit requirements relating to the purchase of shares that represent 5%, 10%, 25%, 33%, and 50% of the votes entitled to vote at the general meeting of shareholders. The acquisition of 10% or more of the total number of votes of publicly traded shares may only be made through a public invitation to sell or exchange shares. Moreover, a person who acquires shares of a company representing 33% of the total number of votes must announce an invitation to subscribe for the sale or exchange of the remaining shares prior to exercising any voting rights. Generally, however, no notice or permit requirements apply to typical small scale portfolio investments.

Tax issues: Except as otherwise provided in treaties on avoidance of double-taxation entered into by Poland, income tax on dividend income is equal to 20% of profit obtained. The tax on dividends received is deductible from income tax calculated according to the Act on Corporate Income Tax and can be carried forward. Until December 31, 1996, income of individuals resulting from the sale of shares introduced in public trading and purchased in an initial public offering or on the stock exchange are exempt from income tax, and income of legal entities resulting from the sale of shares introduced in public trading and purchased on the stock exchange are exempt from income tax, provided that, in both cases, such sale is not the object of commercial activity. While it is likely that the deadline of December 31, 1996 will be extended, no decision has yet been made.

Income obtained by foreigners from the sale of shares and dividends may be transferred abroad. According to the Law on Foreign Investments, a foreign investor may, after payment of applicable tax, the payor of which is the company, purchase in a foreign exchange bank foreign currency for the money obtained from the company as profits. Foreign currency purchased in compliance with certain requirements may be freely transferred abroad without a separate foreign exchange permit. Moreover, a foreign investor may maintain a bank account in USD and wire transfer money from his account abroad.

Anna Frankowska is an attorney at the law firm of Altheimer & Gray. The Chicago-based firm opened an office in Warsaw, Poland in September 1990, thereby becoming the first U.S. firm to open an office in Poland. The firm's practice areas include privatizations, joint ventures and foreign investment, securities, real estate development, banking and finance, and insurance. Apart from Chicago and Warsaw, the firm has offices in Prague, Bratislava, Kiev, and Istanbul. Altheimer & Gray, ul. Nowogrodzka 50, 00-950 Warsaw, Poland; tel: (48 22) 629-8357, fax: (48 22) 628-3640. ■

OPPORTUNITY SPOTLIGHT

The presence of major automotive manufacturers, suppliers, and unique smaller companies in Poland creates opportunities for foreign or local companies in the form of joint ventures, direct investment, supply contracts, consulting arrangements, and technical cooperation. This month's Opportunity Spotlight features several companies whose activities in Poland create tremendous opportunities for companies involved in the automotive industry.

Supply Opportunities:

Daewoo-FSO: Daewoo's massive USD 1.1 billion investment in the Warsaw car maker **FSO** will create many opportunities for parts and components suppliers. Daewoo has also committed to investing USD 340 million by the year 2000 in the **Motor Vehicle Factory** in Lublin (**Daewoo Motor Polska**). At the FSO factory, the Polonez model will be manufactured until 1999 and be replaced with the T-100, J-100, and M-100. Over 63,000 Polonezes were sold in 1995. The T-100 will be launched in 1998 and the J-100 will be produced in 1999. At the Lublin factory, Daewoo will continue to produce commercial vehicles and has started assembling the passenger car Nexia. The Lublin factory will also produce parts and components such as rear axles, shock absorbers, couplings, castings, and forgings.

At the FSO plant, Daewoo will ultimately have the capacity to produce 340,000 vehicles and its goal for the Lublin factory is 200,000 vehicles. Thus, Daewoo's long-term plan is to produce over 500,000 vehicles in Poland. Daewoo's factories in Romania and Uzbekistan will each produce over 200,000 vehicles, mostly destined for Russia and the former Soviet States. Production at these plants will bring Daewoo's regional vehicle capacity to close to 1 million. Daewoo plans to use its Poland operations as a parts and components supply base for its factories in Romania and Uzbekistan. Bulk items such as bumpers and dashboards will not be shipped to Romania or Uzbekistan from Poland, but smaller parts and components will be exported. Transportation to those countries is a problem which Daewoo must solve for this supply plan to come to fruition.

According to Hwa Joong Kim, Purchasing Director for Daewoo in Warsaw, "Daewoo would like to localize all components in Poland." Bulk items will be localized first. Some 300 suppliers provide parts and components for the Polonez. The Polonez currently is 85% local content in value and one half of that amount is supplied by an FSO subsidiary. Fuel systems, engines (1.4 and 1.9 liters), brake systems, seat belts, sealings, and gaskets are imported from England, France, Germany, Italy, Czech Republic, and Slovenia. Many of the current Polonez suppliers will be used by Daewoo for their new models; a survey of the suppliers will be undertaken to determine their level of technical, quality, and management expertise.

The local content in Daewoo's vehicles, however, will be increased gradually. The T-100 model is completely designed and produced in Korea. During the first stage of production in Poland, many parts and components will be supplied by Korean companies since they are accustomed to Daewoo's specifications and processes. Daewoo will make efforts to introduce Korean suppliers to Polish suppliers. "This is the best way to develop local suppliers who can eventually supply Daewoo in Poland," says Mr. Kim. Through joint ventures and technical and management assistance, the Korean and Polish companies can work together and find the optimal form of cooperation. Mr. Kim says Daewoo has no special preference for ventures involving Korean companies, but is more interested in suppliers that offer high quality, competitively priced products. **Contact:** Hwa Joong Kim, Purchasing Director, Daewoo, ul. Jagiellonska 88, 00-992 Warsaw, Poland; tel: (42 22) 111-551, fax: (42 22) 114-576.

General Motors: [*For supply opportunities with **General Motors Poland**, see this month's Profile interview beginning on page 1. ed.*]

Delphi Automotive Systems: The Polish market is Delphi's number one priority for expansion; Delphi has been in Poland since 1995. "I don't see any limits to the Polish auto market," says Tommie Wielicki, Marketing Assistant with Delphi in Warsaw. The company's expansion plans in Poland will probably be in the form of greenfield investments. Likely locations for its new Polish operations are Katowice and Bielsko-Biala. Within five years, Delphi plans to have all of its divisions located in Poland. Two Delphi companies are currently in Poland: **Harrison Thermal Systems**, a maker of automotive heating, ventilating, air conditioning, and engine cooling systems, and **Interior & Lighting Systems**, which has been operational for seven months and is making seats in Poland. Delphi currently uses outside suppliers for the 180 different parts that are used in their auto seats. Seat covers, for example, are purchased from the Far East, and foam is imported from Turkey. Delphi's goal is to purchase all raw materials from Poland. Delphi plans to supply G.M. with a significant percentage of its supply needs, and Delphi is talking with **Daewoo-FSO** about supply opportunities. The countries that are next on Delphi's list for expansion are the Czech Republic, Hungary, and Romania. Contact: **Tommie Wielicki**, Delphi Automotive Systems, ul. Targowa 34, 03-733 Warsaw, Poland; tel: (48 22) 618-4115, fax: (48 22) 618-4205.

Supply Opportunities
Technical Cooperation
Consulting:

Gus-Ex Co. Ltd.: Gus-Ex is a unique engineering firm engaged in a variety of technical activities in Poland and Eastern Europe. Gus-Ex sells and buys casting and forging parts, acts as a representative for 15 companies from around the world selling machines, instrumentation, and foundry raw materials in Belorussia, Ukraine, and Poland, and produces parts for the energy, concrete, and paper industries. Gus-Ex has strong ties to the foundry industry and much of its activities are related to that industry; it cooperates with 50 of the 150 working foundries in Poland.

It is also involved in technical cooperation ventures related to melting furnaces, auto production machines, industrial robotics, and forming machines.

Gus-Ex produces brake drums for OEMs and the automotive after-market. It provides the casts and technical guidance to the drum producer; 30,000 castings per month can be supplied by Gus-Ex. A USD 2.5 million contract was recently signed with a Belorussian company for the delivery of castings and forgings. According to Ryszard Szostak, President of Gus-Ex, the sector with the best future prospects is ductile iron castings for the auto industry. Ductile iron is used in car suspensions, brake parts, and axles; Gus-Ex has capacity available for 3,000 tons of castings. Gus-Ex is also looking for a partner that can supply gears for the automotive and tractor industries. The company currently has a joint venture with **Minsk Tractor** in Belorussia for the production of gears; the gears are sold in Poland and Germany.

Many of the products Gus-Ex produces are exported to Western Europe, primarily Germany. Castings and forgings are also actively marketed in Sweden. According to Mr. Szostak, many of the products they produce, such as pinions and forgings, could be competitively marketed outside of Europe. Russia is the most important future market for the company, both as a source of supply and as a export market. The Russian foundry industry must be modernized and is in need of advanced machinery, foundry materials, and technical know-how.

In addition to the opportunities related to Gus-Ex's technical and product-oriented activities, Gus-Ex can work with foreign firms who are looking for industrial partners in Poland. The company has already found partners for German firms looking to set-up production operations in Poland. Gus-Ex can assist with finding quality partners, forming joint ventures, purchasing plants, designing facilities, and negotiating with the government. **Contact:** Ryszard Szostak, President, Gus-Ex, Lencewicza 2A, 01-493 Warsaw, Poland; tel: (48 22) 638-9240, fax: (48 22) 638-2610.

Direct Investment; Joint Venture:

Kapena S.A. is a company involved in the overhauling and reconstruction of buses, production of trolly-buses, production of special cars for repairing trams and buses, and production of spare parts and components for agriculture machines and equipment. The company has revenues of USD 8.5 million and over 400 employees. Kapena currently holds a 30% market share in Poland's bus overhauling industry. In 1994, Kapena entered into a joint venture with **Saab-Scania A.B.** and now assembles 1000 Scania trucks and buses per year.

Kapena has also started production of buses; the company produces 50 buses a year and is looking to expand its capacity to 200. Outside suppliers are used for bus engines and some components. Kapena is located in a region of structural unemployment due to a crisis in agriculture production. Manufacturing costs in the area are low and the local labor is highly skilled. Kapena is interested in cooperation with foreign companies. **Contact:** Wieslaw Kosieradzki, Portfolio Director, Eurofund Management Polska, ul. Foksal 3/5, PL-00-366 Warszawa, Poland; tel: (48 22) 278-700 or 267-341, fax: (48 22) 278-700. ■

To report news of acquisitions, joint ventures, sales contracts, new offices, or job changes write to Opportunity Spotlight, CEAR at 4800 Baseline Rd. Suite E104-340, Boulder, CO 80303 USA, or E-Mail to cetmllc@ibm.net.

1995 POLAND FACTS & FIGURES

Government: Democratic

President: Aleksander Kwasniewski

Capital: Warsaw

Land Area: 312,680 sq. km

Coastline: 491 km

Boundaries: Belarus, Czech Republic, Germany, Lithuania, Russia, Slovakia, Ukraine

Natural Resources: coal, sulfur, copper, natural gas, silver, lead, salt

Ports: Gdansk, Gdynia, Gliwice, Kolobrzeg, Szczecin, Swinoujscie, Ustka, Warsaw, Wrocaw

Population: 38.8 million

Population Growth: .36%

Labor Force: 17.3 million

Languages: Polish

Currency: Zloty

***Feature Country** Continued From Page 3*

Much of the sea borne trade in Poland is carried on through the ports of Gdansk and Gdynia on Poland's Baltic coast. The **Port of Gdansk** has traditionally specialized in break-bulk cargo, but is trying to become a full service port and is handling more container traffic. The port has a natural deep water entrance and room for expansion. Russia and the Ukraine use the ports of Gdansk and Gdynia to transport cargo in and out of the region. This will continue until Lithuania's port is modernized and expanded to enable it to handle the high level of cargo going in and out of Russia and the Ukraine.

In 1995, the **Port of Gdynia** handled the following types of cargo: general cargo (31%), coal (28%), containers (17%), other bulk cargo (11%), grain (7%), oil products (5%), and ore (1%). The port's Baltic General Cargo Terminal handled 21,221 trade cars in 1993. Thirty thousand tractors from Belorussia on their way to Pakistan recently moved through the port. Located on the port premises is the **Baltic Auto Center** which is a joint venture between German and Japanese investors **Mosolf** and **Mitsubishi**. The BAC is a pre-delivery and inspection area for imported cars and has a car parking area that can handle 6,000 cars. Facilities are available for dewaxing cars and installing car alarms and radios. **Daewoo** has been the most active user of Gdynia; with Daewoo's recent investment of USD 1.1 billion in **FSO**, imported Daewoo cars moving through the port will decrease. In 1995, 5000 U.S. cars were imported into Poland through Gdynia. The total number of cars and tractors imported and exported through the port in 1995 was 37,000. Cars from the EU are often shipped into Central Europe via rail instead of through ports. **Contact:** Janusz Jarosinski, Port of Gdynia, Marketing and Development Director, ul. Rotterdamska 9, 81-337 Gdynia, Poland; tel: (48 58) 274-036, fax: (48 58) 203-191.

Industrial Parks: Euro-Park Mielec is a special economic zone covering 575 hectares in the south-east part of Poland. Mielec has a long industrial tradition in motorization and aviation and plants located in the zone have technical expertise in the areas of mechanical metalwork, plastic forming and processing, special surfacing, heat treatment of metal alloys, and composite production. The zone was established in 1995 and will be in effect for a period of 20 years. During this time investors meeting certain requirements are entitled to an income tax exemp-

POLAND in 1996

June 11-14	**Warsaw** Int'l Fair of Computer Applications in Industry & CAD/CAM
June 16-21	**Poznan** Poznan Int'l Fair
June 26-28	**Warsaw** Int'l Fair/Expo for Transport and Forwarding
Sept. 18-19	**Warsaw** Exhib. of Equip. & Services for Customs Clearance & Border Crossings
Sept. 19-20	**Gdynia** Baltic Sea Partenariat, Metal, Machinery, Electromachinery, & Electronic Industry
Sept. 19-24	**Poznan** Int'l Packaging, Storage, & Handling Exhib.
Sept. 27-29	**Kielce** Fair of Machinery & Metal Products
Oct. 9-12	**Szczecin** Int'l Fair of Electronics, Telecom, & Computer Technology
Oct. 9-13	**Katowice** Int'l Car Fair
Oct. 16-18	**Gdynia** Int'l Congress & Exhib. of High Pressure Hydraulics & Pneumatics
Nov. 7-10	**Wroclaw** Fair of Electronics, Telecommunications & Electrical Engineering
Nov. 13-16	**Warsaw** Int'l Fair of Tools & Machinery
Nov. 19-22	**Poznan** Investment Opportunities in Polish Cities
Nov. 19-22	**Poznan** Int'l Small Business Fair
Nov. 21-23	**Bydgoszcz** Int'l Fair of Polyurethanes
Nov. 23-25	**Szczecin** Int'l Specialist Fair of Transport & Forwarding
Nov. 28-30	**Olsztyn** Electronics Fair
Nov. 28-30	**Gdynia** Fuel Industry Congress and Exhib.

For additional information, contact Ms. Rebecca L. Mann, Commercial Officer, United States Foreign Commercial Service, Al. Jerozolimskie 56 c, 00-803 Warsaw; tel: (42 22) 625-4374, fax: (42 22) 621-6327.

tion for 10 years, a 50% income tax exemption during the remaining years, recognition of investment expenditures as production costs in a tax year, increased amortization rates for capital goods, and an exemption from real estate taxes.

Facilities at Mielec include production halls, warehouses, office buildings, and a 350 hectare airfield capable of handling large aircraft   Buildings and land are available for sale, lease, or rental. Infrastructure includes water supply, electric power, telecommunications, natural gas, thermal power heat, sewage system, and storage yards for municipal and industrial waste.   Twenty kilometers from the zone is wide gauge rail line that provides access to the Ukraine and Russia, and railway sidings connected to the Polish State Railways network run into the zone. Good road connections also exist. **Contact:** The Industrial Development Agency, ul. Wspolna 4, 00-926 Warsaw, Poland; tel: (48 22) 621-6570, fax: (48 22) 628-2363

Problems: High taxes and a constantly changing tax structure stifle business growth in Poland. State control of 40% of the economy is another growth inhibitor, as is the large welfare system in Poland. Social spending is more than 20% of the GDP. The poor Polish banking system is yet another drag on the economy; high interest rates make bank loans cost prohibitive for most companies. The current rate for a car loan is 40%.

The Polish legal system is still not sufficient to meet the needs of the fast moving commercial market, and petty corruption is also reported by some Western companies to be a problem. Poland's poor telecommunication system, although improving, can make simple tasks such as sending or receiving international faxes a frustrating affair. Cellular and satellite telephones are the answer for many companies in Poland. Another weak link in Poland's infrastructure is the road system. According to one major automotive investor, if the roads were better they might expand their operations twice as fast.

Key Contacts for Foreign Companies

Polish Chamber of Commerce: Can help establish business contacts between Polish and foreign firms. Sells detailed reports on every Polish company containing contact, financial, management, activity, payment experience, references, and other information. Sells industry specific lists of Polish producers, exporters, importers, wholesalers, and distributors. **Contact:** Agata Pajdzinska, 4 ul. Trebacka 4, 00-074 Warsaw, Poland; tel: (48 22) 268-231, fax: (48 22) 268-231.

Scientific and Industrial Information Centre: Computer and CD databases contain information on Polish industrial companies interested in cooperating with foreign partners, scientific and technological matters, markets and finances, and the Polish chemical industry. **Contact:** Irma Peciak, Director, 2 Wspolna Str., 00-926 Warsaw, Poland; tel: (48 22) 661-8247,
fax: (48 22) 621-6818.

Polish Agency for Foreign Investment: Promotes direct investment in Poland. Maintains database of Polish companies looking for strategic and financial cooperation with foreign partners. Will arrange contacts for trade missions if direct investment is purpose of mission. Targeting EU, U.S., and Japan as sources of direct investment. Trying to attract auto companies from all countries. **Contact:** Waldemar Szajewski, Project Manager for Automotive Industry, Al. Roz 2, 00-559 Warsaw, Poland; tel: (42 22) 629-5717, fax: (42 22) 621-8427.

Tips from the Insiders:

1) Don't wait. Market is maturing fast.
2) Make sure the market really fits your business before entering.
3) "The taxes will kill you, but you can make it up in low labor costs."
4) Take care in selecting your local business partners.
5) Don't waste time trying to navigate the complex laws and regulations on your own; take advantage of the many international consulting and legal firms.

Some information provided by the U.S. Department of Commerce, Polish Agency for Foreign Investment, and Economic and Legal Information from Poland ■

CENTRAL EUROPE AUTOMOTIVE REPORT

POLAND

ACCOUNTING & FINANCE

TAX ISSUES FACING AUTOMOTIVE INVESTORS

Clare Templeman

Tax holidays and tax exemptions are no longer available for new foreign investors in Poland, but a number of tax incentives are available and many apply to automotive investors. Investors in areas of structural unemployment (found in around 30% of the country) may write off up to 50% of expenditures on most plant, machinery, and buildings if their investment creates jobs meeting specific requirements. Profitable companies (with pre-tax profits amounting to 8% of turnover for the automotive industry) and new investors (with capital expenditures of at least 2,000,000 ECU ($1=1.24 ECU)) may write off most expenditures on plant, machinery, and buildings up to a limit of 25% of their taxable income. For companies with 50% of turnover coming from export sales, or with export sales of at least 8,000,000 ECU in 1996, the write off is available for up to 50% of taxable income.

In September 1995 the Polish government created a special economic zone in Mielec. Companies investing over 2,000,000 ECU in Mielec may qualify for a 10-year exemption from corporate income tax, provided they obtain a permit to operate in the zone and meet certain income, investment, and employment requirements. Several new economic zones are planned for the north-east of Poland that will offer to investors similar concessions. [*for more on Mielec, see Feature Country article starting on page 1. ed.*]

Poland's rate of corporate income tax is 40%. Depreciation is charged at fixed rates set by the authorities, ranging from 1.5% to 50%. Sample rates are 1.5% to 4% for buildings, 8.5% to 20% for most machinery and equipment, and 10% to 20% for intangible assets. Depreciation is usually calculated on a straight line basis, but may be accelerated in some cases.

Tax losses may be carried forward for a three-year period and utilized in equal, annual installments. The carry forward is generally unaffected by any change in ownership of the company. Start-up losses of branch operations are often used against profits of the parent company. Unfortunately, the activity of a branch operation is limited in Poland and this form of organization is generally not possible for investors planning automotive production or supply operations. Thus, some early losses of automotive operations may be lost as a result of the three-year restriction on the carry forward.

Prior to 1996, there were no group taxation rules in Poland. Automotive investors with separate assembly and parts manufacturing operations often kept all their Polish operations within one company to allow relief for losses incurred by one operation against profits of another. Effective January 1, 1996, new regulations were introduced which allow the profits and losses of entities under common ownership to be aggregated for tax purposes. The conditions to benefit from the new group taxation are, however, very restrictive, and few investors have applied for the scheme. Many investors are deterred by the requirement that average share capital of the participating parties be 1,000,000 zlotys ($1=2.5zl). Also, a requirement for 100% ownership of the participating companies (except shares held by employees or the State Treasury) may be a problem for automotive investors planning joint ventures with Polish partners.

Goods imported into Poland are subject to customs duty, 3% border tax, VAT, and in some cases excise tax. The basis of calculation of customs duty is the customs value of the goods increased by any costs up to the Polish border. Import tax is calculated based on the customs value increased by the customs duty due. Excise tax is then calculated based on the customs value, increased by the amount of customs duty and the import tax. Customs duty on passenger cars is around 25%, and on trucks 35%; a duty free quota exists for cars and trucks imported from the EU. Car parts are mostly subject to 0% customs duty, as are machines for industrial production. Fixed assets which constitute a contribution in kind of a foreign shareholder to a Polish company are exempt from customs duty, provided they are not disposed of within three years of customs clearance.

Cars produced in Poland with a sales price of 7,000 ECU or more are subject to 10% excise tax. Other cars are exempted. Imported passenger cars with a customs value exceeding 7,000 ECU are subject to 15% excise tax. The general rate of VAT in Poland is 22%; this rate applies to all automotive products. Companies can usually deduct the input VAT suffered on purchases against the output VAT payable on their sales, but there is an important exception for passenger cars. Input VAT paid on the purchase of cars is not deductible, unless car sales are a part of the purchaser's operations.

Prior to May 4, 1996, all purchases of land or buildings by foreign individuals or companies with 50% foreign ownership required ministerial permission. This restriction has now been removed for purchases of empty land plots of up to 0.4 hectares in urban areas. The change, however, does not go far enough for most foreign investors. Automotive investors planning greenfield factory developments must continue to go through the lengthy permit procedure.

Clare Templeman is Head of the Tax & Legal Department of Deloitte & Touche's Warsaw office, which provides management consulting, tax, and legal advisory services, accounting and audit services. Deloitte & Touche, Grzybowska 80/82, 00-844 Warsaw, Poland; tel: (48 22) 661-5300, fax: (48 22) 661 5350. ■

Polish Suppliers *continued from page 6*

Company	Product	Contact	Customers
5. Polmo Szczecin	Drive shafts, steering gears, steering shafts	Jan Skorupski tel: (48 91) 760-001 ext. 263 fax: (48 91) 877-221	FSO, Fiat
6. Zaklady Kuznicze	Hot forging parts	Waclaw Plonka tel: (48 33) 532-751 fax: (48 30) 28-469	FSO, Fiat
7. ZSM Marki	Jacks, guide for drop window	Hieronim Kolaczkowski tel: (48 22) 781-3797 fax: (48 22) 781-3796	FSO
8. Krotoszyn S.A.	Iron castings, guide valves	Mr. Barwinek tel: (48 64) 522-7179 fax: (48 64) 522-8185	FSO, Fiat, Volvo
9. Huta im. Sendzimira	Cold & hot rolled metal sheets	Andrzej Gierz tel: (48 12) 443-616 fax: (48 12) 447-496	FSO, Fiat
10. Spinko	Fuel level indicating devices, aluminum castings (water pumps), window regulators	Michal Kowalewski tel: (48 65) 201-621 fax: (48 65) 207-860	FSO, Fiat
11. WSK Gorzyce	Pistons, aluminum castings, aluminum wheels	Jerzy Nykiel tel: (48 15) 323-451 fax: (48 15) 362-256	FSO, Fiat, ATS, Alcan
12. F.A. Krosno S.A.	Gas springs, steering rods, ball joints, McPherson struts, shock absorbers	Zbigniew Skora tel: (48 13) 121-567 fax: (48 13) 121-567	FSO, Fiat
13. ZPP Siedlce	Front suspensions, accelerator pedal, mounting brackets, steering gears, sheet metal parts	Krzystof Budek tel: (48 25) 28-451 fax: (48 25) 39-256	FSO, G.M.
14. Iskra	Ball bearings, spark plugs	Jan Dabrowski tel: (48 41) 665-810 fax: (48 41) 54-599	FSO, Fiat
15. PZL Sedziszow	Oil filters, filter elements, fuel filters, hydraulic filters, air filters	Zygmunt Marciniec tel: (48 17) 37-067 fax: (48 17) 36-581	FSO, Fiat
16. Pionier	Metal sheet parts	Joachim Mazur tel: (48 79) 362-539 fax: (48 79) 362-539	FSO, Fiat
17. Pol-Disc	Brake discs	Jan Wiesniak tel: (48 34) 655-547 fax: (48 34) 655-647	Fiat
18. Zem Duszniki	Wiper units, electric motors, wiper arms	Leszek Skrzypczak tel: (48 72) 256 ext. 227 fax: (48 72) 112-531	FSO, Fiat
19. Zem Rzeszow	Instrument panel switches, fans, brake fluid reservoir, air filters	Andrzey Oliwa tel: (48 17) 621-786 fax: (48 17) 621-876	
20. Zem Elk	Harnesses, headlamps, tail lamps	Krzysztof Marcinczyk tel: (48 87) 102-452 fax: (48 87) 102-386	FSO, Fiat, Mercedes, G.M.
21. ZSM Ostrow	Radiators, heat exchangers, heater cores, oil coolers	Janusz Wojtowicz tel: (48 64) 360-485 fax: (48 64) 364-910	FSO, Fiat, Peugeot
22. Gestind Poland	Steering wheels, wheel covers, arm rests, small moulding parts	Ryszard Pudelko tel: (48 30) 183-384	Fiat
23. Uranium	Processing of plastic by injection moulding press, extruding press, hot plate welding	Maria Janowska tel: (48 42) 484-172 fax: (48 42) 484-258	Fiat
24. FS Plast	Plastic parts for cooling-heating system, cooling liquid reservoir	Wladyslaw Nazarewicz tel: (48 81) 512-431 fax: (48 81) 512-087	FSO, FS
25. FSO ZAS Elblag	Dashboard cover plates, heater shields, armrests, steering wheels, bumpers, door handles	Bogdan Jezewski tel: (48 50) 325-257 fax: (48 50) 326-696	FSO

__Profile__ Continued From Page 1

Poland, the Czech and Slovak Republics, and Hungary. We expect to purchase from local suppliers DM 1.5 billion worth of components annually in Central Europe. By localizing our sources of supplies we expect to substantially lower our costs. For example, wages in Poland are five to seven times lower than they are in Germany and in other Western European countries.

CEAR: How will you find your suppliers?

Dabek: Our strategy involves approaching three groups of suppliers. First we'll approach current suppliers to G.M. in Western Europe and propose to them that they move their manufacturing operations to Central Europe. This is the optimal situation since current suppliers know our procedures and our way of doing business and we know that they can fulfill all of our technical, price, and service requirements. This is important because time is short. We have limited time for evaluating suppliers and testing parts and components. So if an existing supplier is ready to come to Poland and work with us, then we save time and money and effort to develop this supply. A good example of this is one of our electronic equipment suppliers who currently supplies G.M. in Europe. We spoke with them and clarified our objectives in Poland and they've decided to come to Poland. They'll either form joint ventures with Polish companies or build a greenfield plant and start producing electrical parts and components such as alternators, starters, wiper systems. Some safety systems, like steering, brakes, tires, and wiper systems must be localized with current suppliers since our technical development center needs up to two years to test and validate such suppliers.

Second, we'll approach Western European companies that are not current G.M./Opel suppliers, but who are already established in Poland. Poland is traditionally a **Fiat** market and the whole automotive industry was developed based on Fiat technology. Since many of the suppliers operating in Poland are current Fiat suppliers, we're confident that they can supply us with high quality parts and components.

Third, we're looking for Polish companies that aren't currently involved in joint ventures with foreign partners. When Fiat developed their production facilities in Poland a certain number of Polish automotive companies were developed who based all their production here. Three to four years ago, we identified a number of these pure Polish companies and started developing them. [*see list of Polish suppliers on p. 13. ed.*] One way we're developing the components market here is by organizing Polish supplier conferences that bring together **G.M. Europe** supply representatives, current G.M. Europe suppliers, and leading Polish suppliers. The participants get the chance to interact and discuss opportunities for cooperation, be it technical assistance, licenses, or joint ventures. Many of the Polish suppliers we're trying to develop are interested in working with Western companies who produce similar products. Our next supplier conference is scheduled for the Fall of 1996.

CEAR: What parts and components are essential to your purchasing strategy?

Dabek: We're concentrating on system suppliers. We want to reduce our final assembling operations to indispensable activities and outsource or have subassembled outside as much as possible. For example, we want a subassembly supplier for instrument panels. Ideally, we want all of these parts and components put together by an outside company as a system and delivered in sequence to our plant. Our purchasing program will focus on the chassis and the interior of the car, plus some external parts like bumpers, latches, batteries. We've preselected about 30-40 different systems, parts, and components with a unit value of more than DM 10. These 30-40 parts represent 40-50% of the whole car interior. These are big value items such as seats, front and rear suspension, the exhaust system, the head and tail lighting systems, wheels and tires, and glass. Seats, for instance, represent approximately seven to eight percent of the total cost of the car. If we concentrate on reducing the cost of such systems it has a real impact on the total cost structure of the car. We aren't concerned with engines, clutches, and gearboxes, because they won't be manufactured in Poland. We'll get them from abroad as a whole power unit, preassembled in some other G.M. plant in Europe. We're also not interested in finding suppliers for body parts since we'll produce them in-house at our press shop.

CEAR: What's your timetable for identifying your suppliers?

Dabek: Regarding the 30-40 big systems, parts, and components, we've already submitted requests for quotations to some suppliers. For example, we expect to make a decision on a supplier for the whole glass package by the end of May. We need to find new suppliers or have commitments from current suppliers by the end of this year. They need time to start their investment activities and shift their productions from Western Europe to Central Europe. Identification of some suppliers will have to await our technical center's decision regarding a final product program. We already know what car lines will be produced in Poland and what engines will be used, but we're still deciding what options to offer. The new factory will produce a Central European concept car. It will be an **Opel** brand name car and thus it must have a certain level of quality and comfort, but it also must be affordable for the people in this region. Thus, we're trying to adapt existing Opel car lines to local market requirements. Our Astra which we're assembling here now is selling very well, but we're selling only 15,000-20,000 cars a year. We want to gain a larger portion of the market. To do this, we must offer an affordable car. This is why we're considering a certain amount of "decontenting." It's not necessary that our Central Europe car have the same options as offered in Western Europe, such as all the high-tech devices and electronic equipment. The car buyer here is more concerned with price. You must provide them with a top quality car that conforms to all safety requirements. Our colleagues in the technical department at Opel headquarters are trying to figure out what can be decontented and what kinds of materials can be used as replacements for the current materials and technology. By doing this, we expect to get cost reductions. If you want to be a winner in this market and gain more market share, this is what's required.

CEAR: What is your advice to companies that want to come to this market and begin supplying G.M.?

Dabek: If there is anyone in the U.S., for example, who is a current G.M. supplier in the U.S. and is interested in developing its business in Central Europe, my advice is that they contact us and we can sit together and determine whether there is a potential

CENTRAL EUROPE AUTOMOTIVE REPORT

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Profile *Continued From Page 14*

for cooperation in Poland. Our preference is a current supplier to G.M. in Europe, but if our current supplier can't come here we must look for alternatives. And if there is an alternative in the States who wants to establish itself here, there is definitely an opportunity. And, as I mentioned before, there may also be opportunities for Western companies to team up with some of the Polish suppliers we're trying to develop. Setting up such ventures can be complicated and time consuming, but the opportunities are there.

General Motors Poland, ul. Jagiellonska 82, PL-03-301 Warsaw, Poland; tel: (48 22) 676-2820, fax: (48 22) 676-2803. ■

CENTRAL EUROPE AUTOMOTIVE REPORT

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5.	Modernization of gear transmissions production for agriculture machines	$200,000	Jan Klimek	(42 64) 303-090
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