WORKING PAPER

JOINT VENTURES IN POLAND

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Table of Contents

Tables

Figures

1.Introduction

After *perestroika* and *glasnost,* the fashionable term in discussions of East-West relations for the last few years has been "joint ventures". To date the volume of analysis of this phenomenon has far exceeded results. Nevertheless, Poland's business and government community has tried its best to push this form of economic cooperation with the West and it will most likely play a significant part in changes in the local economy. This chapter will review the current structure for foreign investment including Poland's new joint venture legislation, will reflect on the significance of over one hundred joint ventures with permits as of April 1989, and will suggest changes that can be made to improve foreign interest and investment in Poland.

2. Where Joint Ventures Fit In

Poland's International Relationships

The relationships in Europe and the continent's ties with the outside world are undergoing dynamic change. In Western Europe, the countries are tugging and pulling to define a new economic and perhaps political unit under the EC umbrella. The Eastern Europe CMEA countries are struggling to make their economies competitive on a world level. At the same time, North America, especially the United States, is trying to define its new role in these two tumultuous regions. These relationships must be understood to see the possibilities for Poland's economy and especially trade driven joint venture enterprises.

Almost all of the investors in Poland (97%) have come from the countries of Europe and North America, and this trend is likely to continue. These countries have warmed to Poland's new-found reform impetus. Further, all are involved in the Conference on Security and Co-operation in Europe process (CSCE) which may provide a multilateral framework for increased economic contact. Western European business, led by the West Germans, is increasingly looking eastward to augment its own saturated markets[1]. Now that Poland's government has announced free elections, even the US has announced measures to conditionally increase economic ties.[2] Now, beyond trade of technologies with military applications, almost everything goes in East-West trade. Poland, deep in economic crisis, has greeted this interest with open arms. Its new generation of leaders, from the resurrected Prime Minister Rakowski to the millionaire Industry Minister Wilczek seem to have no ideological qualms about foreign capital in the country.

In a world context, the Warsaw Pact is a first rate military power ranking alongside NATO. Its economic cousin, the CMEA, which accounts for only about

[1]See e.g. Hoorn, "Deutschland drängt nun auch in die UdSSR", April 10, 1989, *Die Presse,* P. 8
[2]See e.g.Weinraub, Bernard, "Bush, Citing Pact in Poland, ...", *New York Times,* Apr. 18, 89, p. 1

eight percent of world trade[1], suffers such a comparison. Economic strength is increasingly the measuring stick of countries and the EC, US and Japan are far ahead of the CMEA's best. Poland knows this and thinks that joint ventures are one way it can help fill the gap between itself and the rest of the world.

Poland's Economy - Current Situation

Poland's economy is in crisis. The country owes an amount approaching forty million to the West, and if it was able would have to use two to three times its hard currency export surplus yearly to pay off interest and principle on this debt. To raise foreign exchange, many exportable goods are shipped out. As a result, just about everything in Poland is scarce. Goods are hoarded. Producers, forced by workers and suppliers to pay more, are shooting prices up at their discretion (Prices are no longer centrally controlled). Basic items such as toilet paper are not be found at any price. Poland will probably suffer three figure inflation this year. The price structure does not help. Prices do not reflect opportunity costs. Rational economic decisions based on zloty prices are therefore almost impossible.

The government has tried since 1981 to alleviate these problems through reform. Despite six years of recovery after the stagnation of 1979-82 when national income fell by 25 percent and investment by 50 percent, the economy still doesn't produce as much as in 1978-9[2]. Poland's leaders have realized that they can't solve their problems alone[3]. They need debt alleviation help from the West, and new investment funds from either creditors or as is the current trend, joint venture partners.

Table 1: Basic Statistics[4]

Population:	37.8 mn.	
Gross Hard Currency Debt:	$39.2 bn.	
NMP[5]**:**	$44.4 bn.	
Per Capita NMP:	$1,175	
Hard Currency Exports:	$7.1 bn.(87)	$7.5 bn (88, est.)
Imports:	$5.8 bn. (87)	$6.5 bn (88,est)
Inflation:	60% (88)	75% (89, est.)

Western governments will not, of course, simply donate money to Poland[6]. They expect marketizing changes in the Polish system. Western business need these changes

[1] *The World in Figures,* The Economist Publications Limited, 1987, London, p. 50.

[2] *Rocznik Statystyczny* - 1988, Glówny Urzad Statystyczny, Warsaw.

[3] See e.g. Lloyd, John, "Poland asks West to credit its reforms", *Financial Times*, 1989

[4] *Rocznik Statystyczny* - 1988, p. 40,80,112,356. All figures for 1987 unless otherwise noted.

[5] Using the official exchange rate of 315.54 zl/$

6See e.g.Weinraub

if they have any hope of making profits in Poland. The restless citizens will be burdened with further austerity measures. Some estimate that close adherence to IMF reform suggestions would lower Polish living standards short term by 10 percent.

From 1985 to 1987, Poland's gross debt grew from $29.3 billion to $39.2 billion (self reported NMP was $44.4 bn). Not as a result of new borrowing, but mainly because of Poland's inability to pay interest on the existing debt.[1] At present, Poland can not afford to pay the approximately $3 billion needed yearly for interest and maturing principle payments. 1984 was the only time Poland's trade surplus exceeded $1.5 billion. Clearly there is a way to go.

In 1986 Poland officially rejoined the international banking system with membership in the World Bank and the IMF. Membership will made it easier for Poland to borrow foreign exchange. Many private and government creditors practically insist on it before lending. Further, the World Bank had already announced about $250 million in project lending which could rise to $1 bn if Poland's reform steps are successful. The IMF has also announced $300 mn in new credit for Poland. These organizations can also be important for joint ventures. The IFC, a World Bank affiliate which lends to the private sector, was, for example, considering funding a large joint venture between Asahi of Japan and the Polish glass works in Sandomierz. The significance of funding from these international financial institutions should not be underestimated. The amounts are massive when compared to the approximately $50 million of capital in the 113 firms with permits under Poland's Foreign Investment Law.

Creative ideas will be needed to solve the problems of the World's big debtors. This is especially true in Poland, one of the worst cases. Something like the twenty percent debt relief for the LDCS and Yugoslavia as foreseen by the Brady Plan could be possible. Polish and Western leaders have also talked about exchanging debt for equity in Polish enterprises[2]. As long as a liberal political path is followed including democratization and marketization, Western leaders have stated that Poland can expect their help in solving this massive common problem.

Business Infrastructure

Quite simply, Poland doesn't meet Western standards in infrastructure needed in the everyday operations of Western firms. The supply system, as we will discuss later, is also a mess. There are shortages of just about everything, form personnel, equipment and raw materials to simple office space. What is available often sells only for foreign exchange. Telephone density is low and quality even lower. There are approximately 109 phones per one thousand people. This does not look bad in

[1] The fluctuations of the dollar's worth also played a role in the size of this dollar denominated debt.

[2] See e.g. "Excerpts From Speech By Bush...", Radwan, "Will Poland Trade Her Debts?"

comparison to the USSR which registers 98 or even Hungary, the GDR, and Czechoslovakia with 140, 212 and 226 respectively. The figure pales, however, in comparison to world leader Sweden with 890 phones per 1000 people or the USA with 760. [1]

Many businesses in Poland hesitate to rely on the postal system for good reason. Some embassies even discourage its use. Deliveries are slow and unreliable. Because they have to rely on means such as faxes and phone conversations, costs go up. When something has to be mailed, only relatively expensive courier services can guarantee delivery within a reasonable time.

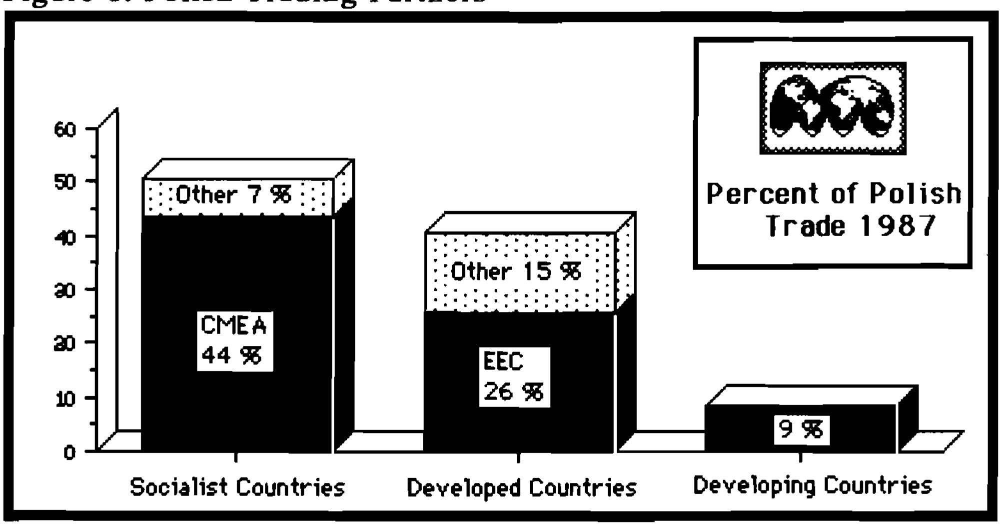
The road system is fairly highly developed, but there are few highways except in the Western parts of the country which were previously under foreign rule. In other parts of the country, trucks have to compete with horse drawn farm loads for the right-of-way.

Among CMEA countries Poland is among the more computer friendly. The number of home personal computers is estimated at 500,000. These, however, are mainly simple Ataris, Commodores or Spectrums. Computer networks are relatively unknown.

Polish Foreign Trade

"Fortress Europe" isn't a concern just among American and Japanese business circles. Poland worries also of being left out of the rich EEC market which accounted for over 60 percent of its trade with industrial market economies. Many of the products Poland previously offered might now sooner be bought in Southern EEC

Figure 1: Polish Trading Partners[2]



[1]"Comecon...", *Die Presse*, May 8, 1989, p. 9

[2]*Rocznik Statystyczny* - 1988, p. 356

countries. Special agreements such as the one Hungary signed with the EEC are one thing Poland is striving for. Poland knows that its advantages in labor and fixed costs are meaningless if it cannot compete in quality terms. To raise quality, competition is needed in Poland, not just internally, but also with other CMEA countries.

Under new legislation, any firm with export capability in Poland can export freely. Foreign trade has been greatly decentralized, often causing confusion. The number of trading bodies expanded from 60 in 1981 to seven hundred at the end of 1988.

As figure 1 shows, Poland's most important trading partners are still the socialist countries, which account for 51 percent of trade turnover. The Soviet Union makes up over half of that total. The industrialized West accounts for another 41 percent of trade. Developing countries make up the remainder.

Poland Economy - Reform Attempts

Poland's leaders have found that central planning and monopolistic industries were producing poor results in comparison to market economy neighbors. The incentives for workers are also poor. Job security for life with no fear of unemployment, have threatened to destroy initiative, creativity and discipline. Too many workers have been paid for too long just for showing up, not for getting any amount of work done[1]. To alleviate such problems, Poland is trying to create a new economic order. For seven years reform has again been the call-word in Poland. Which way the economic system will turn out is anyone's guess, past reform attempts have fallen flat. The intent of recent legislation, however, is clear. The decision-making power of the state in the economy is being broken. A true market is in its prenatal stages, not just in consumer goods and services. To make it grow, the Poles realize that they need a capital, cash and labor market at the same time. As long as distortions exist in one of these sectors, the economy will be dependent on central authorities, and any chances that a market can be born will be hindered.

Currency Reform

As of June 1, 1988, the state owned PKO savings bank began trading dollar denominated coupons (bons) at free market rates[2]. A new foreign currency law passed March 15, 1989[3] opened the areas of possible transactions further. Now anyone in Poland can trade their foreign currency for zloty at market rates. Previously, currency exchanges among individuals were common but illegal. At Pewex Premium Exchange windows, the going rate was about 3700 zloty to the dollar compared to just over 620 at official rates at the end of April. Polish officials have taken steps to make the Polish

[1]see Comments of Polish Industry Minister Wilczek in "Match for the Polish Workers"

[2]Bobinski, "Poland to Relax,,,", *Financial Times*

[3]Tekielski, "Building a Foreign Exchange Market"

currency at least internally convertible and hope that the gap between the two rates will eventually merge to a rate near twice the current rate. Then, in about three to five years, external convertibility can also be attempted[1].

Many believe that both the government's hoped-for level of the single exchange rate and the time frame for full convertibility are very optimistic. The market rate is six times higher than the artificially low "official" rate because of simple supply-demand economics. The rate won't go down until either supply goes up (e.g. if Poland's trade balance improves), or if demand slackens (e.g. through import substitution).

Firms are less likely now to get their hard currency allotments at the previous low rate. Last year $120,000 was auctioned at near market rates, this year $3-3.5 bn. is expected to be auctioned ($2.5 billion of this was previously allocated at the low rate).[2] This at least should make Polish firms more careful about how they spend their scarce hard currency. At the same time, however, it will also fuel inflation as firms pay for higher input costs with price hikes.

For joint ventures, these convertibility issues are of vital importance. The problem is not selling in Poland, it is getting profits out. Joint ventures can now sell foreign currencies at auctions in Poland, but can not buy them. Inconvertibility will limit their growth and the potential for the Polish market.

Private Sector

Whereas before the government viewed firms in the order of importance: state, cooperative, then finally private firms, now all firms all legally equal. Of course this is only the written law and may never be totally true in practice. Nevertheless, it is said that there are longer lines than ever in Poland; all made up of people waiting to sign up their private companies with the authorities. The law of December 23, 1988 on Economic Activity allows private business in almost all economic branches. At present, at least 1.5 million Poles work in 630,000 private enterprises, and the numbers are growing rapidly. Whereas before the number of workers allowed by these firms was limited, today private companies in Poland can hire as many workers as they can afford. Like joint venture enterprises, however, these businessmen will face the same problems of supply of workers, raw materials, machines and plants. Poland's rampant inflation will add to decision making instability. Poland's leaders hope that private firms will somehow overcome these hurdles and help satisfy the besieged markets for goods and services.

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[1]Montagnon, "Convertible..."

[2]"Towards a less dotty zloty", *The Economist*, February 18, 1989, p. 79

Foreign Investment in Poland

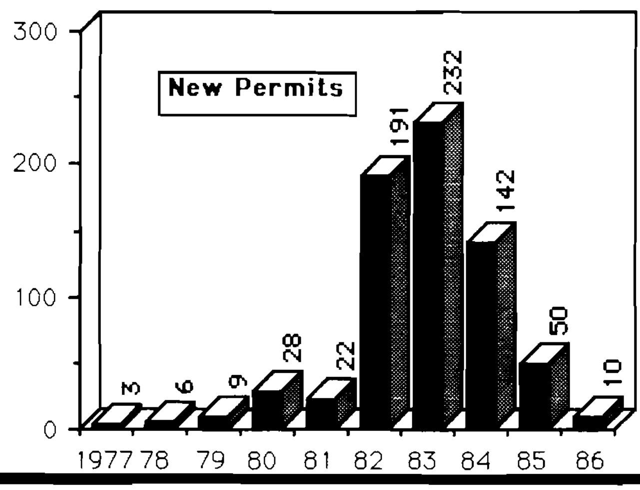
Polonia Firms - Significance

Since legalized in 1976, over 700 Polonia foreign firms have been formed in Poland. The name "Polonia" fits since 55 percent of the firms are owned by Polish expatriates or foreigners of Polish background. Most of these firms are small and involved in the limited fields of crafts, domestic trade, restaurants, hotels, and other services. Five, however, have more than 500 employees. Polonia firms account for 1.5 percent of Polish industrial production. They concentrate on the domestic market and together had exports worth only $35 million in 1986 (about five percent of their production).[1] Almost all are owned 100 percent by foreigners. New Polonia Firms are regulated by the Foreign Investment law of Jan. 1, 1989.

Polonia Firms - Lessons

There are several lessons to be learned from the experiences of the Polonia firms in Poland. They were initially looked upon by great favor and were given generous tax and business incentives. With time, though, local authorities (voivodships) began to

Figure 2: Polonia Firms - New Permits Issued[2]



This figure shows the number of new permits issued for Polonia firms between 1977 and 1986 Note that the numbers increase dramatically over the period from 1982 to 1985.

complain that the owners of the Polonia firms were halting operations by the end of the three year tax holiday and were concerned only with short -term profiteering. In addition, the authorities were dismayed by the small amounts invested by many of the firms. The local authorities responded by increasing restrictions on employment, supply sources, and fields of activity.

The profit tax was raised to 80 percent in 1985 from 50 percent in 1982. Also, new legislation in 1985 established minimum levels of investment.

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[1] *Poland-Reform, Adjustment, and Growth*, World Bank Country Study, Wash. D.C.,87, V. 2, p. 93

[2] *Poland-Reform...*, World Bank Country Study, Wash., 1987, vol. 2, p. 93

These new limitations had a dramatic effect on the number of new Polonia enterprises, as figure three shows. Only 50 new permits to operate were issued in 1985, and only 10 in 1986 compared to an average of 188 in the years 1982 to 1984.

Role of Joint Ventures

We can list a few of the main reasons why Western businessmen invest in Poland

1 It's Eastern Europe's biggest market, and is centrally located between Western Europe and an even larger untapped market, the Soviet Union. Those who are first in and get to know the system, are more likely to be those who profit most in the long term if market-type reforms and especially convertibility really come. In many cases, the joint venture may not be an end in and of itself, but rather a means of increasing related import sales.

2 Poland offers a relatively cheap, highly educated labor force. In 1978, the records showed over 1 million trained scientists and engineers. The average monthly salary is about $20-$40 converted at market rates. As with the supplies in Poland, one has to be sure that low price does not also mean low performance. Some argue, though, that it might be worthwhile to move plants from the West to Poland just because of the wage factor.

3 The bottom line is not in all businessmen's calculations, what can best be described as sentimentality also plays a role. Ten million people of Polish heritage live abroad. Hundreds have already invested in Polonia firms. These people also generally enjoy a higher than average standard of living in Poland.

For Poland, joint ventures and other foreign investments are a means to help economic growth when other means are scarce. Thus some main driving forces are:

1 To combat the lack of hard currency. Given Poland's debt, this is probably the most important factor from Poland's point of view. The tax schedule set up for investments encourages exports, which would help Poland's current account. Foreign investors always bring in foreign capital. Through import substitution, Poland can produce goods locally that were previously imported. Finally, the credit rating of Western partners can help bring new credits in to Poland.

2 To introduce modern technology and management techniques. Many of the firms have brought their own advanced equipment to ventures in Poland. This can help Poland change her export structure from raw materials to high quality value-added products. Western management techniques are also usually brought to at least the venture itself. When the foreigners have money invested in Poland, they will also have an interest in keeping the technologies efficient and up-to-date.

3 To supply the local market. Given chronic excess demand in Poland for just about everything, the government hopes that firms will be able to supply goods and services not only for exports, but also for the local market.

Options to Joint Ventures

What some investors seem to forget, is that there are many options to joint ventures which are not as complicated and which have been successfully used in the past. In many cases these forms of cooperation among them: switch and barter deals, licensing, franchising, and industrial cooperation agreements, are more important economically than joint ventures.

In an International Chamber of Commerce study of industrial cooperation agreements, they noted that these agreements often lead to expanded cooperation between partners in cases where the agreements were implemented to the satisfaction of both parties.[1] The main example they list in Poland involved International Harvester (Navistar) in a relationship with its Polish partner that grew over the years. To be successful in a joint venture, this type of long year cooperation with the partner can be vital, if only to build mutual trust and understanding.

[1] *East/West Industrial Cooperation Agreements,* ICC

3. Polish Joint Venture Legislation - Reading Between the Lines[1]

Foreign firms have had capital investments in Poland for thirteen years already. Since that start, the laws regulating foreign capital investment have been modified several times, always broadening the areas open to investment. The momentum for these changes has come from the 700 foreign companies in operation and the over one hundred joint ventures set up since they were first allowed in 1986. This 1986 law allowed companies with foreign capital participation (joint ventures), without constraints on size of company or branches of industry. On the December 23, 1988, the Polish Sejm approved the Foreign Investment Law we discuss below, liberalizing the laws for companies with foreign capital even further.

This section attempts not just to re-list the conditions of the Foreign Investment Law, but also to look "between the lines" to understand why they are formulated as they are.[2] As we shall see the written word is one thing, and practice often quite another.

The Polish Foreign Investment Law of December 23, 1988[3]

General

Goal of Legislation (Reference: Preface)

To provide a more workable framework for the further development of mutually advantageous foreign capital investment in the Polish economy, and to guarantee the protection of the foreign parties investment.

Other Relevant Legislation (Various References)[4]

Among others: Polish Commercial Code of 1934; regulations of the Polish Commercial Register; Provisions on the Utilization of State-Owned Land; Polish Labor Laws; Accounting Principles according to Ministry of Finance specifications, Regulations for Foreign Currency Auctions, Various International Agreements. Unless otherwise specified in the Foreign Investment Law, enterprises with foreign capital participation operate under the same laws which govern Polish non-socialized enterprises.

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[1]Wolfgang Leitner organized the laws in approximately the way I've done here in his paper "Joint Venture Legislation In Poland", TES-MTC, 22.February, 1989, IIASA, Vienna, in that sense his work forms the basis for this section.

[2]This introduction and the comments to the law that follows owe a lot to Burzynski, Andrzej, "Comments on Foreign Investment Law of 23rd December 1988", Polish Chamber of Foreign Trade, Warsaw, 1989. Further, several of the comments come from the experiences of various businessmen in Poland.

[3]"The Law on Economic Activity With the Participation of Foreign Parties - The Polish Foreign Investment Law", Warsaw, December 23,1989, please refer to this law for the complete text, not all of its articles are covered in this summary.

[4]In references to the law, Article 2.3.4 would mean Article 2, Paragraph 3, Clause 4.

Establishment

Application for a Permit (Articles 4,5,6,10)

An application is submitted to the newly formed Foreign Investment Agency (FIA) in order to obtain a permit to operate. A decision is made within two months of submission. Proposals which affect state security and economic interests, or are environmentally dangerous, will be rejected. Rejected proposals can be appealed to the President of the Agency. If the company engages in activities contrary to those outlined in the Permit, the FIA can request that these activities be curtailed. If necessary, the FIA will restrict or withdraw the permit.

Comment

The items required for a permit applications include a feasibility study. These are usually done using UNIDO guidelines[1]. In the past, the Polish consulting company Investexport had a virtual monopoly on doing these studies. Since then, other consulting companies and bodies have sprung up to do this work. These studies, among other things, weed out unjustified ventures and help joint venture partners see their options more clearly. On the other hand, they add cost (some have paid $5000) and time (up to 3 months) to the joint venture process.[2] Western partners have often not been impressed by feasibility study work. They say they are done using theoretical models by people without practical market experience. One complained that no one ever would read a feasibility study because of its shear length. He criticized the studies for not using such methods as "cruel accounting", in other words looking at worst case scenarios. The studies simplify reality by using planned results as actual ones.

The two months required to get a permit is defended by the Polish authorities precisely because of the length of application materials. In Poland's first joint venture, LIM, these documents were several hundred pages long. Further, several parts have to be checked by the responsible ministries, e.g.:Finances by the Ministry of Finance, industrial activities by the Ministry of Industry, etc.[3]

The FIA shared office space, telex, telefax, etc. with the previous overseer of joint ventures, the Ministry of Foreign Economic Relations as of early 1989.

Registration (Articles 12,13)

The last step before firms can start operation is to be listed in the commercial register.

[1] "Manual for the Preparation of Industrial Feasibility Studies", UNIDO, Vienna, 1986
[2] "Will Your Polish JV Work?-Official Report Tells All", *Business Eastern Europe*, Jan. 4, 1988, p. 3
[3] Kozinski, Janusz, "How to Establish a Company", *InterPolcom* 2/87, p. 24

Comment

Firms register at the voivodship level and not centrally in Warsaw. As of December 31, 1988, 32 firms were officially registered in Poland.[1]

Foreign or Joint Venture Firms Already Operating in Poland (Art. 40,44)

Foreign firms already operating in Poland (Polonia firms), can become firms under this law upon fulfilling certain conditions[2]. Firms with foreign capital participation established under the 1986 Foreign Capital Participation law, automatically come under the provisions of this new law.[3]

Comment

There are over 700 Polonia firms registered and approximately 52 joint venture firms to which this law applies.

Capitalization and Ownership

Share of Foreign Participation (Articles 2.1, 8, 16.4)

20-100 percent of capital stock, to be determined in consultation with the Foreign Investment Agency (henceforth FIA). Further, investment cannot be less than 25 million zloties, adjusted for exchange rate changes.

Comment

Foreign firms which have 100 percent of the capital stock can not be called joint ventures by definition. We can not just group this legislature in the categoty of joint venture law. The foreign share of the firm must be at least 20 percent to avoid arrangements where Polish firms joined with a foreign investor with a share lower than 20 percent just to reap tax benefits. Up until this law was passed, foreign partners could have had more than a 49 percent share of capital only in special cases. At the time the law came out, 25 million zloty officially equalled approximately $50,000. The zloty amount is fixed on this figure.

The foreign partner shares in joint ventures which have permits already are summarized below. We see very clearly that many firms have taken advantage of the liberalization of restrictions on the extent of foreign ownership. Under the new law, only 19 of 59 firms had half ownership or less. Before the law change the figure was 50 of 52. Significantly, twelve of the new firms include 100 percent foreign capital. These results are made somewhat less significant by the fact that Polonia firms, which previously were also allowed up to full foreign ownership are now included under the new foreign investment law.

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[1] "Table No. 2 - List of J-V Who Became Operational as of 31st December, 1988", Publication unknown, Source: Polish Embassy Köln

[2] These firms operate under "Law of July 6, 1982 ..., *Dziennik Ustaw*, No. 13/85, item 85

[3] "Law of April 23, 1986 on Companies with a Foreign Capital Participation", *Dziennik Ustaw*,.

Table 2. Percent of Equity Capital of the Foreign Firms[1]

Percent	Old Law[2]	New Law[3]	Total
0-49 %	47	11	58
50%	3	8	11
50-59%	1	7	8
60-69%	1	8	9
70-79%	0	5	5
80-99%	0	8	8
100%	0	12	12
Unknown	0	2	2
Total	**52**	**61**	**113**

Types of Companies (Articles 2, 8.2,16.7, 41)

The types of companies allowed include:

a) limited liability companies in which the foreign investor holds one hundred percent of shares,

b) joint stock or limited liability firms with equity contributed by Polish and foreign partners,

c) joint stock companies where the foreign partners, together with other foreign and/or Polish partners raises equity through a public subscription of shares. The President of the FIA must agree to the sale of these shares, and will set the ratios of Polish and foreign investors. All shares must be registered.

Participants Allowed (Article 3)

Polish Partners:

The treasury,other legal entities, and natural persons domiciled in Poland

Foreign Partners:

Legal entities domiciled abroad; natural persons and companies without legal personality formed by them domiciled abroad

Comment

The country of origin of the foreign investor is not important. Even Polish citizens who are permanent residents abroad would be considered foreign investors. On the Polish partner side, the local private sector is under this law allowed for the first time to participate in companies with foreign participation.

Forms of Capital Investment (Article 16)

Investment can be in cash or in kind. Zloty investments must have accompanying official exchange forms. The value of the in-kind investments (buildings, equipment,

[1]Sources:"Information on Foreign Investments in Poland as of December 1988" issued by the Ministry of Foreign Economic Cooperation, "Lista Wydanych Zezwolen Na Utworzenie Spólek J-V w Okresie 16.01-20.04.89", put together by the Foreign Investment Agency, and also from permits kept at the Foreign Investment Agency.

[2]Firms registered under Poland's 1986 Foreign Investment Law in the period Nov. 12, 1986 to Dec. 24, 1988.

[3]Firms registered under Poland's New Foreign Investment Law in the period Jan. 16 to April 20, 1989.

licenses, trademarks, patents, etc.) should be specified in the contract of establishment. The value of the in-kind contributions can be subject to verification by independent authorities at the request of the FIA.

Comment

Valuing cash investments is not difficult once an exchange rate is agreed upon. Valuing in-kind investments can, however, be a serious hurdle. While Western inputs usually have well defined values based on their prices on Western markets, Eastern European inputs often do not have such a clear valuation. Eastern European goods sold on foreign markets, for example, often have entirely different prices than at home.

Financial Framework

Accounting (Article 18.1)

Accounting principles are provided by the Minister of Finance in compliance with the Commercial Code of 1934.

Comment

Polish and foreign accounting standards are often very different. While firms have found officials flexible in application of accounting standards, and many find Eastern European accounting practice easy to get used to, they are not accustomed to many of the systems' features. Special care must be taken with such items as depreciation methods and safeguards against theft or misappropriation of funds. One Western businessman described Polish accounting and taxation rules as a minefield. In his example, all foreign investors are forced to tread through this minefield blindfolded. In order to get through without getting "blown up", the foreign investor needs a guide to nudge him in the right direction.

Auditing (Articles 18.2, 18.3)

Balance sheets must be audited at company costs within 3 months of submittal to the Ministry of Finance. The auditor will be a department of the Ministry of Finance, or someone company chosen and authorized by the Minister of Finance.

Comment

Authorization to get an outside auditor is no given. At least one firm was not allowed to work with its auditor of choice.

Profits (Article 17.5)

The distribution of profits among partners is based on their share of company capital, unless the President of the FIA agrees otherwise.

Resale of Foreign Currency Earnings (Article 19.1)

15 percent of hard currency earnings from export must be sold to a Polish foreign exchange bank. The President of the FIA can reduce this rate in economically justified cases.

Comment

Selling the hard currency to the Polish bank means that the joint venture has less for purchases and distribution to the partners. This resale has also also an effect similar to a tax. All currency is sold at the official rate, which at the end of April was just over 600 zloty to the dollar. The premium exchange rate was about 3800 zloty to the dollar. To make matters worse, resale is based on gross, not net earnings.

Still, enterprises with foreign investment have it relatively good. Polish enterprises on average sell 82 percent of their export proceeds to the foreign exchange banks.[1]

Foreign Currency Sales, Purchases (Articles 19.2, 23)

After the required sale of 15 percent to the Polish Bank, all other foreign currency revenues can be spent without separate authorization for the purchase of goods and services abroad or in Poland. Good and services can also be sold by the company in Poland for foreign exchange once it has a general foreign currency authorization. Further, companies can sell currencies at foreign exchange auctions.

Comment

Being able to buy freely for hard currency is important, if only for lack of goods available for zloty.

Zloty Sales, Purchases (Article 20.4)

Beside the restriction concerning real estate, foreign partners can use zloty profits freely on the Polish market.

Comment

Being allowed to buy from the domestic market is one thing, finding quality products, or stocked shelves at all for that matter, is the quite another. Because of Poland's debt squeeze, the best products are shipped abroad in hopes of earning convertible currencies.

Foreign Currency Profit Repatriation (Articles 18.4, 20)

Foreign partners can transfer abroad their share of foreign currency profits without separate authorization. They can transfer more than this amount with special

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[1]Burzynski, p. 9.

permission of the Finance Minister. Polish partners can transfer their shares to their own foreign exchange account.

Repatriation of Invested Capital (Article 21.2)

The Foreign Partner is entitled to transfer abroad proceeds from the sale of his shares or from the dissolution of the company without a separate authorization.

Banking (Article 22)

The company keeps accounts at a Polish exchange bank of its choice. This bank can guarantee the company's obligations. Credits can be obtained from that bank or from abroad. Accounts with foreign banks can be opened once the company has a foreign exchange permit.

Comment

To help the insufficient banking system, new banks have recently been established to joint the big three: Bank Handlowy, Bank PKO and Bank Pekao. Most of these will have a regional customer basis.[1]

Guarantee for Foreign Partner's Investment (Article 22.6)

The foreign partner can receive a guarantee from the Finance Minister promising compensation for losses due to expropriation or nationalization.

Comment

It should be noted that this guarantee does not help those who make foolish business decisions or suffer from bad market conditions. Further, many firms, especially small and mid-sized ones, are not satisfied with this guarantee alone. Many are said to be waiting until their government and Poland have signed a bilateral investment protection agreement before investing. Among other things, such an agreement means that the state takes over the rights and claims of investors in certain situations. The agreements also specify that foreign investors are not to be treated worse than local investors. Agreements are in force with the UK and China, agreements with Belgium, Luxembourg and Austria are signed, but not yet ratified. Negotiations are under way with other countries[2].

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[1]See "Important Addresses".

[2]From Maciejko, *Economic Joint Ventures Between Poland and the West*, Princeton University, April 1988, p. 18, Burzynski, p. 12., and Bacynski, "Favouring Investors", *InterPolcom*, 2/88, p. 16

Operational Framework

Business Activities (Articles 1, 5.2)

Establishment is allowed in the production, trade, service and construction branches. In other words, just about everything.

Preferred Branches would include:

- the introduction of modern technologies or management techniques
- the provision of goods or services for export;
- the improvement of domestic supply with modern high-quality goods or services
- the introduction of environmental protection equipment

Comment

Not only will engaging in preferred branches increase the chances of getting a permit, it will also help get government help in such important issues as obtaining supplies. With the approval of the President of the FIA, the companies tax holiday can be extended from 3 to 6 years if the firms is active in such a preferred business. The Polish Government has issued a specific list of businesses in which foreign investment is encouraged (Included as Appendix A). This list also provides information on which Polish businesses are insufficiently developed and could possibly make for profitable investments.

The first 52 firms were active in the following industries:

Table 3. Scope of Business Activities (of first 52 firms)

Branch	Old Law
Agriculture-processing	13 j-v
Computers (Hardware and Software)	5
Engineering and Tools	5
Hotels	5
Construction and Production of Building Materials	4
Metallurgy	4
Textiles	4
Electronics	3
Chemicals	3
Films and Publishing	3
Wood and Furniture	2
Others	4
Total	55[1]

Access to Foreign Markets

No licenses are necessary for foreign trade, except of a few limited commodities.[2]

Comment

For firms competing on export markets, the ability to quickly adapt to changing conditions can be the difference between survival and failure. If firms have to wait for

[1]Some firms were active in more than one industry

[2]Burzynski, "Comments..., p. 6.

some office to o.k. a new foreign trade license each time they slighty change conditions, they will in the long run most likely fail.

Supply (Articles 23,24,25)

Companies will operate under the same regulations as Polish enterprises as regards supplies in Poland. State enterprises can transfer fixed assets and limited rights to them into the company. Firms can purchase necessary goods or services in Poland for foreign currencies or import them.

Comment

For anyone trying to do business in Poland, getting high-quality supplies delivered on time is a major issue. Even simple things such as sufficient energy supply can be a problem. Quality is a major issues. Polnisskosher, a joint venture which produces Kosher vodka, has had to import a majority of the labels and caps needed for vodka bottles because those available in Poland simply did not meet Western standards. Although state, co-operative, and private enterprises in Poland are now officially on equal footing in this respect, supply availability is still not guaranteed. Often supplies just can not be found in Poland and must be imported. This of course is a hard currency expense which must be paid for with hard currency earnings. When firms with foreign investment do find the supplies they need in Poland, they often find that they have to pay more for them than state enterprises, despite the new laws. Because of their need for hard currency, and because they see joint ventures as relatively rich firms in this respect, suppliers often demand that the joint ventures pay at least partly in foreign currency. These suppliers can thus avoid the difficult task of exporting by doing basically the equivalent in Poland. They also often face pressure to not sell to companies with foreign participation. If a state enterprise can not mean its planned targets because it couldn't get supplies that went instead to a company with foreign participation, the official responsible for the firm's performance will have problems and will apply pressure on the supplier. Suppliers simply do not want to risk this.

The centrally distributed raw materials in 1989 were: coal, coke, diesel oil, heating oil, copper, tin, aluminum and silver.[1] Firms under this law obtain these items under the same rules that govern state enterprises.

Access to Real Estate (Articles 16.5, 20.6, 26)

The Polish partner can contribute rights to use state-owned real estate according to the Provisions on the Utilization of State-Owned Land for perpetual use or lease. Companies can also acquire and lease real estate not owned by the state. In case the foreign partner is a majority owner of the firm, any purchase must be verified by the

[1] Burzynski, "Comments..", p. 8

Ministry of Internal Affairs. Purchases from the foreign Shareholder's profit require a separate foreign exchange permit.

Comment

The real challenge in this respect is finding the right facilities. Many firms have problems finding adequate office space in Poland. The LOT airport center built by the LIM joint venture in downtown Warsaw should help, but will not satisfy all the demand.[1]

Taxation

Kinds of Taxes (Article 27)

Turnover tax, corporate income tax, agricultural tax, wage tax, real estate tax, local taxes, stamp duty, and community and city fees.

Comment

Taxation is a major issue for joint ventures in Poland. Although the Corporate Income Tax below was lowered a moderate 10 percent with the new law, the tax burden is still very high including some charges not detailed in the law. For example, one-and-a half percent of total capital must be paid to the notary and a further 2 1/2 percent as a treasury fee. For many firms, these charges are unbearably high. Since March 15, firms must also pay 200,000 zloty to have their application considered by the Foreign Investment Agency. This fee replaces the stamp duty of about 1,500 zloty previously levied.[2] Firms now operating in Poland are all still enjoying the tax holiday and have not yet paid corporate income tax.

Corporate Income Tax (Articles 17, 27)

40 percent of taxable income, minus 0.4 percent for each percentage point of sales exported (Thus the minimum is 10 percent). Taxable income calculated using depreciation applicable to State owned enterprises.

Comment

The corporate income tax has been reduced from 50 percent to the 40 percent specified in the 1986 Foreign Investment Law. The reduction in tax as exports increase shows Poland's emphasis on export. Taxes are at a minimum when exports reach seventy-five percent of sales. Poland's government does not reward firms which export more than 75 percent even more reductions because it would like there to be at least some production for the local market which suffers from excess demand.

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[1]The LOT Passenger Service Center will include a 1000 room Marriott hotel, office space and conference centers for hire in convertible currencies.

[2]Information from the Foreign Investment Agency

Tax Holiday (Article 28)

No corporate income tax is charged for the first three years after establishment. (i.e. date of first invoice) The tax holiday can be extended for up to a further 3 years with the approval of the President of the FIA when the companies is active in a preferred business area (see business activities). If the company is dissolved within six years of its establishment, income taxes have to be paid retroactively for the entire activity period.

Comment

The tax holiday had been extended from two to three years in the new law.

Reserve Fund (Article 17.4)

Eight per cent of after-tax profit will be donated to a reserve fund to cover losses. Such contributions can cease once the reserve fund reaches four per cent of company costs in a fiscal year.

Tax on Foreign Partner's Profits (Article 29)

The foreign partners income is subject to a thirty per cent tax unless international agreements provide otherwise.

Comment

Poland has signed double taxation agreements with 21 countries. Firms from these countries pay 5 to 15 percent tax. They are: Austria, Belgium, Czechoslovakia, Denmark, Finland, France, Spain, Holland, Japan, Yugoslavia, Malaysia, the FRG, Norway, Pakistan, USA, Sweden, Sri Lanka, Thailand, Hungary, UK, and Italy.[1]

Customs Exemptions (Article 30)

The foreign partners investments in kind, and all goods imports by the company for operations are exempt from import duties in the firm's first three years. Any items left the foreign partner upon dissolution of the firm are exempt from export duty.

Employment

Management (Article 9)

Dependent on Poland's Commercial Code rules on joint stock and limited liability firms.

Comment

The shareholders decide the composition and powers of management. This is a change from the law of 1986, wherein the companies top manager had to be a Polish citizen and a permanent resident of Poland. In comparison to non-joint venture firms, joint

[1] Burzynski,p. 10

ventures generally have much fewer management personnel. One firm, for example, explained that the previous organization of their enterprise included 60 percent administration; now under joint venture management it's only 10 percent

Employment Conditions (Article 31.1)

Polish laws apply to employment conditions, social insurance, and trade unions.

Comment

Finding qualified employees, especially skilled people such as executives, engineers and accountants, may be the biggest challenge of a joint venture firm. The employees have to be flexible while working in a combination of two economic systems. Many firms look to the younger generation for this flexibility. The Furnel Joint Venture, for example, has recruited people out of the foreign trade department of Warsaw's Central School of Planning and Statistics. Finding people with the appropriate language knowledge as well as business knowledge of West and East is difficult. Up until now, Poland's expatriate community, or second generation Poles born abroad have been one source of foreign employees in Western representative offices, but not for joint ventures to date. Polish bureaucrats are also often attracted by the higher salaries offered in joint venture firms, but are often criticized by the Western partners as unable to adapt to Western business ideas. Several firms have reported no problems in firing people.

The first 52 joint venture firms which received permits in Poland planned to employ 7079 people. The structure of employment for these firms follows:

Table 4. Structure of employment[1]

up to 50 employees	21 j-v
from 51 to 100	11
from 101 to 200	10
from 201 to 500	6
from 501 to 1000	3
over 1000	1 (Furnel)
Total	**52 firms**

Foreign Employees (Articles 31.2, 32)

Foreign citizens can be employed by the company with the permission of regional authorities. Wage specifications are to be defined in the contract of establishment or by management. While cash payments are generally in zloty, at least a certain percentage of payments are usually made in foreign exchange. Like the foreign partner himself, foreign employees will be taxed 30 percent on hard currency wages expropriated unless a bilateral agreement states otherwise. (see "Tax on Foreign Partners Profits")

[1] according to data included in the submitted feasibility studies of the first 52 firms.

Comment

Previously, foreign employees could draw only 50 percent of their salary in hard currency. The permission of regional authorities is not needed for employees of the foreign participant, but not of the joint venture. Significantly, there are very few foreigners working in joint venture management in Poland. Compared to Polish management, they are expensive. One article claimed that one Western staff member in the USSR sets a firm back about $400,000.[1] Many that might be qualified for such work are not interested in changing to the joint venture because they would loose benefits such as pension and social security. Some ventures, such as LIM with approximately 400 construction workers (Summer 1988), import general labor.

Polish Employees (Article 32)

Cash payments are in zloty. Polish employees are taxed according to the tax applicable to employees of non-socialized entities.

Comment

The tax on the Polish employees can be rather high. One joint venture reported that Polish worker salaries are subject to a 75 percent "equalization tax". Some companies report that joint venture wages for Polish employees are 20-100 percent higher than non-joint venture workers. The Polish government wants to avoid worsening Poland's disastrous wage-price spiral and applies ar least some pressure to keep wages reasonable.[2] Goods bought in Polish PEWEX shops for hard currency (shampoo, coffee) are sometimes used for incentives. Polish workers can not yet be officially paid in hard currency. As one Polish official said, if the government allowed payment to Polish workers in hard currency, the foreign currencies would be legitimated.

Often the joint ventures demand more productivity and more hours from the workers. Some Poles used to guaranteed jobs, with stable pay and benefits simply say "who needs it?". Most of the firms offer the employees only a higher salary, not necessarily benefits normal in Polish state enterprises. Further, one company which has foreign and Polish workers together reported that the Poles are 50 percent less productive. Another manager reported that Polish workers were four times less productive than Western workers at the same job.[3] One company noted that the Polish laborers must be motivated to do good work, those working abroad are often excellent workers. Companies working with some kind of incentive scheme such as piece work, reported better success with the Polish employees. In other words, paying for productivity, not just for showing up. Using such a method, one company reported that

[1] "Joint Misadventure", *Time,* April 10, 1989

[2] Many of the observations on employment were recorded by Noah Gotbaum, a participant in IIASA's YSSP program, in interviews of joint venture managers in Summer 1988.

[3] Gotbaum interviews.

production was eight times quicker under joint venture management than with the previous management methods. Of course, incentives were only one part of increased productivity. Other reasons were more reliable availability of materials, and the foreign currency to purchase them, the improvement of technology used, and the cutting of levels of bureaucracy .

4. Joint Ventures in Poland - Results to Date

Overview

These figures will be out of date by the time this paper is finished, but will nevertheless give some indication of trends in foreign capital investment in Poland.

Table 5: Permits Issued and Corresponding Equity Capital[1]

	Permits Issued	Total Planned Equity Capital	
Old Law[2]	52	9.79 bln zl	(~ 30 million)[3]
New Law[4]	61	9.98 bln zl	(~ 20 million)
Totals	113	19.77 bln zl	(~ 50 million)

Table 5 above gives us the big picture. Fifty-two firms were granted permits in the first two years that joint ventures were allowed. In less than four months under the new law, 61 firms received permits. Clearly the formation of such firms has become very dynamic. The Foreign Investment Agency is currently processing more than two hundred additional permit applications and many of those will come through this year.

We see that the investment in these firms has also grown. Now almost twenty billion zloty is invested in firms with foreign capital. This translates into almost fifty million dollars.

Distribution of Total Capital Investment

The next two tables show, however, that most of the firms can be classified at best as small or medium in size. In Table 6, we see that the distribution of the total equity capital of these firms. Over sixty percent have total capital investment amounting to less than 100 mln zl (approximately $200,000). We also note that the

Table 6. Total Equity Capital (All 113 Firms with permits)

	Old Law	New Law	Total
up to 50 mln zl	12	31	43
from 51 to 100 mln zl	10	17	27
from 101 to 300 zl	17	6	23
from 301 to 1500 zl	11	3	14
over 1500 mln zl	2	2	4
Unknown	0	2	2
Total	**52**	**61**	**113**

[1]From "Information on foreign investments in Poland as of December 1988" issued by the Ministry of Foreign Economic Cooperation and "Lista wydanych zezwolen na utworzenie spólek j-v w okresie 16.01-20.04.89", put together by the Foreign Investment Agency

[2]From Nov. 12, 86 to Dec. 24,88

[3]The exchange rate applicable for firms allowed under the old law ranges from 240 to 500 zl/$, the majority of those allowed under the new law had an exchange rate of 500 - 600 zl/$.

[4]From Jan. 16 to Apr. 20, 89

trend recently has been towards smaller firms. Over eighty percent of the firms allowed under the new law include investment of less than 100 mln zl. Under the old law (Up to end '88), this figure was forty percent. Of course the devaluation of the zloty plays some part in this change.

Distribution of Foreign Investment

Table seven gives us some idea of the size of the foreign investment in the latest firms which received permits. The foreign investors added $100,000 or less in 44 of 50 ventures. The largest investment among them, and the largest foreign investment to date in Poland, is by Barbara Piasecka-Johnson, the controversial Johnson & Johnson heiress who invested three million dollars to start the firm Tricotex in 1989.

Table 7. Foreign Capital Contribution (Under the New Law)

Million Zloty	Dollars (Approx.)	Firms
≤ 25	~ $50,000	13
25-50	~ $50,000 -100,000	31
50-100	~ $100,000-200,000	8
100-500	~ $200,000-1,000,000	4
500-1000	~ $1,000,000-2,000,000	2
≥ 1000	~ $2,000,000	1
Unknown		2
Total		**61**

Geographical Distribution of Foreign Investors

Table 8 below details the origin of the foreign partners of firms in Poland.

Table 8. Geographical pattern of foreign partners

Country	Old Law	New Law	Total
FRG w/o WB	17	34	51 jv
(W. Berlin	3	4	7)[1]
USA	7	7	14
Sweden	3	8	11
Austria	5	5	10
UK	5	3	8
Holland	5	2	7
USSR	5	1	6
Switzerland	4	1	5
Italy	0	3	3
Canada	0	2	2
Finland	2	0	2
France	2	0	2
Yugoslavia.	2	0	2
Liechtenstein.	2	0	2
Belgium, Denmark, United Arab Emirates, Thailand, Tunisia, Lebanon (1 each)			6 total
Unknown			2 jv
Total			**138**[2]

Germany, including West Berlin, accounts for over forty percent of the partners or 58 total to date. Far behind are the United States, Sweden and Austria.

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[1]Poland separates figures for the FRG and W. Berlin

[2]Many firms have more than one foreign partner from a single country. These 138 participants participate in 111 ventures.

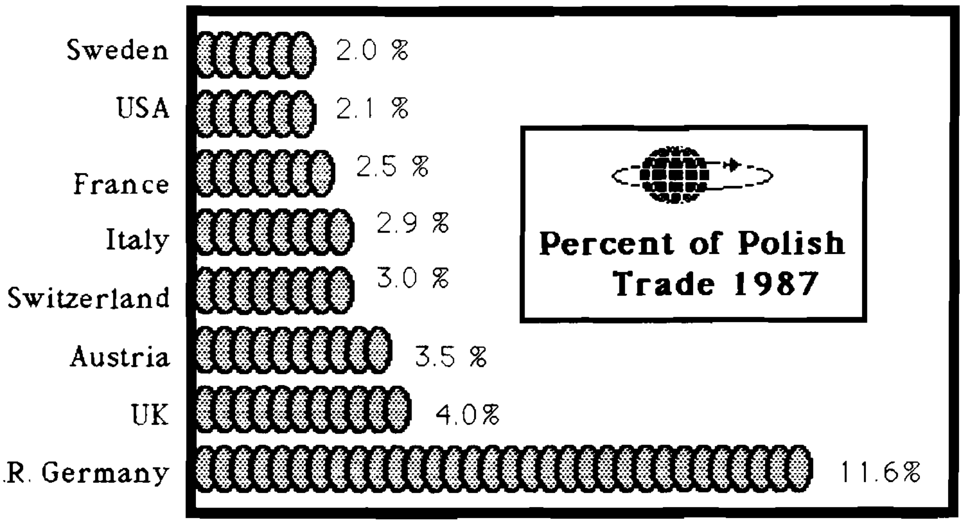
Table nine summarizes the value of foreign investments in Poland in 1989. We see that although the US has only 5 joint ventures, it leads in new investments. It is followed closely by the FRG and the UK

Table 9: Value of Foreign Investments in Poland in 1989[1]

Country	JVs	Partners	Foreign Capital($)[2]	Foreign Capital Zloty mln
US	5	7	$4,010,000	2005.2
FRG	33	38	$3,690,000	1847.4
UK	2	3	$1,300,000	649.4
Sweden	5	8	$ 390,000	195.1
Austria	4	5	$ 373,000	202.0
Holland	2	2	$ 124,000	72.0
Lebanon	1	1	$ 120,000	62.0
Italy	1	3	$ 107,000[3]	57.0
Canada	2	2	$ 103,000	54.5
Switzerland	1	1	$ 55,000	29.2
Thailand	1	1	$ 52,400	25.2
Tunisia	1	1	$ 50,000	25.0
USSR	1	1	$ 50,000	25.0
Unknown	2			
Total	**61**		**$ 10.4 mln**	**5,249.0**

Figure 4 shows Poland's top Western trading partners. It is useful to compare this figure with tables 8 and 9. The Federal Republic of Germany is at the top of the lists. The US, the UK, Austria, Sweden and Switzerland, are also high on the lists. France and Italy, which are among Poland's top six trading partners, have only fielded one venture each. It is especially here that we

Figure 3: Poland's Top Western Trading Partners[4]



[1]For the firms which received permits from 16.01 to 20.04.89 from "Lista wydanych..."

[2]Approximate with adjustments for changing exchange rates

[3]$50,000+28.5 mln z

[4]*Rocznik Statystyczny* - 1988, Glowny Urzad Statystyczny, Warsaw, p. 359-360

see the importance of joint ventures with respect to other forms of economic cooperation. Italy has only one relatively small joint venture, but the Italian firm Fiat's participation in the Polish auto industry is arguably more important than all the joint ventures allowed to date and it is not organized as a joint venture.

Sales in 1988

Fourteen firms recorded sales and exports in 1988 according to the Polish monitoring authorities. These firms registered almost 32 million zloty in sales and $17.5 mln in exports to hard currency areas. Tables 9 and 10 lets us compare these firms to Polish Polonia firms.

Table 10: Sales of Firms Operational in 1988[1]

Firms	Total Sales	Exports ($, Rbl)	Employed
14	31,778 mln zl	$17.5 mln 10.73 mln Rbl.	5669

Table 11: Polonia Firm Sales in 1987[2]:

Firms	Total Sales	Exports ($)	Employed
~ 700	154,768 mln zl	~ $35 mln	61,562

[1]From "Table No. 2 - The Performance in 1988 of Largest J-V Established in Poland", Source: Polish Embassy Germany.

[2]From "Fifty the Biggest Foreign Enterprises", *Inter-Polcom*, 1/88, p. 13, Figures are for 1987.

5. Furnel International Ltd. - Institutionalized Barter Trade[1]

The original plans of the Furnel joint venture gives us insight into the motivations of joint venture partners from both West and East. Specifically, it shows how a joint venture might help businesses surmount the twin hurdles of the Polish hard currency credit crunch and zloty inconvertibility.

The name Furnel is an acronym which derives from the melding of the first few letters that describe the two main industry branches of the firm, "Furn" from furniture and "el" from electronics. The firm also has plans in the tourism industry. To date, Furnel is by far the biggest production joint venture established in Poland. It accounted for 75 percent of all Polish joint venture sales in 1988, and exported five times as much as the second biggest JV. With 4500, it employed by far the most employees, all of which were Polish nationals.

It all was made possible after Poland passed its first joint venture law of 1986. The current President of Furnel, Mr. Jan Bandurski, then an executive of PAGED, the Polish FTO which handles furniture exports, organized a consortium of six firms and government bodies involved in the wood, wood processing and finally furniture production industries. This group together accounts for about 10 percent of Poland's wood and furniture industry. They had the advantage of being vertically integrated and up to 80 percent self-sufficient in raw materials, something vital in Poland where unreliable supply lines are a chronic problem. Though by no means guaranteeing cheap and abundant inputs, having such partners at the raw material end does at least increase the chances of adequate supply on time.

This group had one big problem. They felt furniture and wood-product sales and exports could be dramatically increased if only they could afford a small hard currency investment in quality-improving foreign technologies and such things as better dies and varnishes. Given the difficulty of getting government credits and the virtual non-existence of new Western financing in Poland, the group decided to find a Western partner. One of the main advantages of such a partner would be that it would bring in hard currency capital and have a credit rating with which the Polish group might better access Western financing. Such a partner would, therefore, have to be big and established. According to Mr. Bandurski, this partner's products had to also fit the demands of the Polish market. Finally, the partner's products had to compete in a different market, in which case the Western partner would not try to lower the export prices of the Polish producers.

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[1]Information from "Furnel International Ltd. -Example of an East-West Cooperation in a Joint Venture" issued by Furnel in 1988, "Furnel International Ltd.-The Biggest Joint Venture in Eastern Europe", *InterPolcom*, Warsaw, 4/88, p. 33, "Furnel International Ltd. - a Marriage of Computers with Furniture", *Polish Foreign Trade*, Warsaw, 4/88, p. 27 and "Furniture and Computer", *Kaleidoscope Lot*, Warsaw, 4/88, p. 1. Executives from the Polish and British side of the venture were also interviewed.

The company which had the courage to take the risks involved was International Computers Limited, ICL, part of Britain's Standard Telephones and Cables. It did not hurt, of course, that ICL already had been based in Warsaw for twenty-five years with the largest representative office of any Western electronics firm. It thus had already collected experience producing for and selling to the Polish market. Since the 1960's, ODRA computer systems had been built in Poland under ICL license and used by Polish banks and other institutions. In addition, ICL's General Manager had worked in the Polish market for ten years and could estimate the risks and possible rewards of the venture. To work with ICL on developing the Polish market, Mera-Elzab, an expanding computer company, and the electronics FTO Metronex joined up.

The furniture firms contributed 49 percent of statutory capital, mainly in kind. This in-kind contribution included up to 90 percent of production capacity for some firms. The two Polish electronic industry firms with a sixteen percent share and ICL with a thirty-five percent share investment of approximately two million dollars. together make up the remainder of the company. It should be point out that STC-ICL's investment in Furnel is rather small when compared to the firm's sales of $3 billion worldwide.

ICL's main aim in establishing the venture was to circumvent perhaps the single biggest problem of selling in Poland, the inconvertibility of the zloty. Now, ICL could enjoy a competitive edge over its computer selling rivals by selling to the Polish market for zloty instead of hard currency. It can provide software and consulting services on a similar basis. Its hard currency profits would come from the sale of the joint venture's furniture abroad.

Using its in-kind equipment and know-how contribution, ICL plans, together with Mera-Elzab, to begin manufacturing in Poland. In the early phases, the production will use licensed ICL technology and import components and sub-assemblies. In the future, Furnel hopes to increasingly develop and produce the products in Poland, first for the domestic market and perhaps also for export in the CMEA.

The joint venture officially started operation on February 23, 1988. For 1988, its sales were almost 24 billion zloty (approx. $47 mn at official rates). According to Furnel sources, its hard currency exports amounted to more than twelve million dollars. According to President Bandurski, furniture exports were up 80 percent from pre- joint venture levels. In the future, he predicts that these exports will rise by 400 percent with production increasing 50-100 percent.

Furnel owes it success much to the use of advanced management techniques, some of which were part of ICL's in-kind capital contribution. The over four thousand workers split earnings from finished products on a piece-work basis. Together with a commission system, this is said to have improved quality and brought absenteeism down by fifty percent. The company tries to keep wages for joint venture workers thirty percent above wages earned by those outside the venture, but keeping this relationship up is made difficult by Poland's wage-price inflation. For the added wages the employees are expected in many cases to be more productive. Mr. Dolczewski, Executive Director of Furnel, stresses though, that quality must be stressed over quantity in order to compete on tough Western markets. In the future, Furnel wants to implement more Western management techniques and perhaps start a Furnel International Business School using ICL's experience in business training.

Though Furnel's Management have admittedly been creative in several aspects, the joint venture was basically a creature born to make business work when credits were not available and the zloty was inconvertible. It can perhaps better be described as an institutionalized barter trade in which Polish wood and furniture is exchanged for British electronics. If the Polish wood and furniture conglomerate had been able to obtain hard currency financing to fund improvements from some other source, they would not have needed a joint venture. Likewise, if the zloty were convertible, ICL would not have had to join with the furniture companies to have exportable profits.

Conclusions, Suggestions

The numbers for foreign investment in the CMEA are rising quickly. To the beginning of 1989, around one billion dollars in capital investments had been announced in the East. CMEA countries have invested somewhat less than this amount in businesses in the West. These numbers pale when compared, for example, to the $37 billion Japan had invested in the United States by 1987, but are becoming more significant.

In Poland, the numbers are small, but also moving up. The 20 billion zloty (~ $50 mn.) in foreign investments announced since joint ventures were first allowed in 1986 equaled less than one percent of Polish investment in the period.

Joint ventures in the CMEA are not easy. These joint ventures can take years to negotiate and start operating. Positive returns can not be expected for several years in many cases. In Poland, Western joint venture partners have to realize that the joint ventures are seen mainly as a means of increasing its exports to the West, and must decide whether they can afford possible further competition on these markets. If they want to sell on the local market, they must find a way to export profits. Barter trade is the main solution until convertibility becomes a reality.

Some firms are looking into the possibilities of joint ventures with Eastern European firms without considering their other options. Business sense has been replaced by joint venture publicity campaigns. In many cases, it seems the joint ventures they propose are not the best way to make a quick entry into Eastern European markets. The costs of corporate management time and travel necessary to make the initial arrangements alone, may be much higher than expected. It may make more sense to slowly build up cooperation with Eastern European partners, and learn how business in the Eastern European country works before pursuing a joint venture. The same goes for the Polish firms. They must remember that joint ventures are but one of their options, though an attractive one at present for various reasons (e.g taxation).

Potential investors in debt-ridden Poland are generally aware of the economic and social risks they face. Recent developments such as the round-table talks completed in April are a positive political sign, but the trends could change. Further, while it may help foreign economic relations, including the opposition in the government is no cure-all for the rampant wage-price spiral and the corresponding empty store shelves. Price rises in the past have led to political instability. Now the government and the "opposition" together will be responsible for any painful price adjustments in the future.[1]

[1]see e.g. Meyer, Michael, "Poland:Hold the Applause - A Deal with Solidarity Won't Solve all the Problems", *Newsweek*, Feb. 20, 1988, p. 16

The leadership is trying to fix the ailing economy. Most foreign businessmen applaud the liberalizing moves, but some complain that changes come too fast and the situation is too unstable. Some even say they preferred to do business during the martial law period. Then inflation was under control, the laws didn't change constantly, and there were not 3,000 odd strikes as in January-April 1989.

It is clear though that something must be done about Poland's debt problem and the irrational pricing which causes excess demand for just about everything. Foreign investors in Poland that are totally independent of local supply or services such as banking and consulting, may be oblivious to the changes taking place. For the rest of the firms, the majority, their survivability will depend at least some extent on the success of local reform. Poland would like joint ventures to fill gaps in hard currency financing, in modern technology, and in excess demand markets. The extent of foreign capital in Poland will not be sufficient unless there is a good business environment for it to come in.

It's a dilemma. Poland needs foreign investors if reform is to be successful, but foreign investors will hesitate to invest unless conditions foreseen by reform exist.

Poland is too unpredictable for us to guess its future, but we can at least look at a few possible scenarios.

1) Reform could be a total failure. This could be caused by several things. If the reform effort in the USSR dies or reverses, shock waves could spread to Poland, though Poland was forced to implement changes years ago just being proposed in the USSR. If a Western recession comes, Poland may find that its products find no markets like after the oil shocks, while imports remain expensive. The most dangerous factor against reforms would be popular unrest. Political instability in the past had its root in the perception by the populace that their well being was being unfairly hurt by unjustified and abrupt price rises. Failure in reform would mean that the debt situation worsens and the supply situation remains impossible. Chances for foreign investors would be slim.

2) Reform could muddle through. If the past is any measure, this would unfortunately be the short term future of Poland. Hesitant reform moves are rewarded by mediocre economic performance. Popular resistance to changes which bring certain short-term pain and only perhaps long-term gains slows down reformers. Inflation, price rises and corresponding labor disputes distract decision makers from major moves. Legal changes are made, but are not realized in practice. The level of foreign investments stagnates. After a period of initial interest, only a slow growth in foreign investment is realized. Multinationals wary of the economic risk, generally stay out.

3) Reform could be a major success. The political compromise in the Polish parliament keeps the workers from taking to the streets. A united government is brave and determined enough to push through the second stage of economic reform. Decision making is practical, not ideological. Justified investment is made to improve the infrastructure including transport, communications, and office space. Temporary unemployment with retraining if necessary become accepted. Profit orientation that does not harm social welfare is encouraged to spread and flourishes. The currency is steadily made convertible and prices are carefully adjusted to reflect opportunity costs. Foreign investment grows, especially among small and middle-sized firms as foreigners feel comfortable working in Poland.

Luckily for the Poles, they also have a large, in some cases prosperous, emigre population who have established themselves throughout the world. Members of this thirteen million strong international emigre community have set up 55% of the 700 Polonia firms set up in Poland. While these firms are small in scale, they are at least a start at increased cooperation between Poland and the West. The Poles abroad can be one of Poland's most valuable assets in raising its levels of exports and in injecting life into the moribund economy. Other Eastern European countries do not share such a big foreign population.

Training managers to work in a two-system environment will be a particular challenge. Finding expatriates or second-generation Poles to come back has been a partial solution for some firms, but the need still exists for more qualified people. The Soviet Union has already sent some of its brightest foreign trade specialists to the West for intensive training and on-the job experience in cooperation with Western governments, Poland must do the same. Recent friendly political gestures from West Germany, the rest of Western Europe, and recently the United States provide opportunities not only to create such exchange programs but also to negotiate an international legal framework for investors, including investment protection agreements. Such agreements can be important not only to guarantee foreign investment capital from expropriation, but also to make sure external forces such as boycotts will not effect business security at times of political tension.

Attracting big multinationals to invest in Poland will be difficult. They are not apt to send top management to check out conditions in Poland, and therefore have troubles estimating the risks. ICL was an exception because they had an experienced executive working for years in Warsaw. The management of smaller and middle size firms does, however, often have a chance to understand their chances in Poland. They are closer to the action and can often make quicker investment decisions. The longer the companies have experiences in Poland, the more likely it is that they can estimate the possibilities for joint ventures. Further, mutual trust built during these long years can be the basis for joint venture cooperation.

Firms want to be in the CMEA if economic reform succeeds and big opportunities come. Many want to get to know the system, to make the contacts, and to learn from initial mistakes.

In the best of political conditions, it will be tough for Poland to attract joint venture partners while the USSR and almost all the other socialist governments are actively fishing for partners, and getting serious bites from curious Western investors. Poland is the biggest Eastern European market, but a guppy compared to its Eastern neighbor the USSR. Poland's debt and economic problems and shortage of energy resources will be a minus. Its relative openness to the West, mineral reserves and its educated work force a plus.

Western investors have many options outside Poland and outside Eastern Europe. Poland has to continue stressing her economical strengths such as her central location and her skilled labor pool. The UNIDO conference in 1987 and the accompanying project identification was a good start. Given the list of industry branches in which foreign investors get special tax treatment (Appendix A), it is clear which branches are being stressed. Poland must convincingly show the advantages for foreign firms of doing business in those branches. In the process, it must make sure its laws provide a framework for doing business which awards profit and performance and removes obstacles.

But while flexible legislation may grease the turbine of joint venture formation, it can not fuel the engine. No laws can possibly cover all aspects of operations. Practice in Poland often does not resemble the legal framework it operates in. Much more important is a will on the part of the joint venture participants and their home governments to make economic cooperation work. The real problems will not be legal, they will be practical, such as how to get supplies and the right personnel.

The Poles and their socialist neighbors need to work with the West to come up to the industrialized world's economic standards. The West can use this opportunity to build ties with the East. We are living in a new era of economic détente, it could be a new era of economic cooperation instead of political antagonism.

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Appendix A: Preferred Economic Branches for Foreign Participation[1]

The following lists those branches indicated by the Polish government as preferred. Firms with foreign participation established to pursue these activities will enjoy a six year tax holiday instead of the standard three years.

1. Agriculture and Food
- Machines and equipment for agricultural and food production, catering, refrigeration and deep freeze installations
- Preserves and special foods for children and ill people
- Protein concentrate, additives for animal feed and mineral preparations
- Potato processing
- Fruit and vegetable processing
- Harvesting and processing of wild herbs

2. Pharmaceutical Industry, Medical Tools and Equipment
- Tools, equipment, laboratory and medical procedures
- Therapeutical devices
- Vehicles for handicapped people with electrical motors or with a Otto engine
- Pharmaceutical products, products made of medicinal herbs
- Laboratory and recognition methods, isotopes for diagnosis

3. Chemical and Paper Industry
- Highly concentrated artificial fertilizer
- Plant protection methods
- Plastics (Polyester, Polyurethane, Styrene, Epoxide)
- Paper and cardboard

4. Construction Products
- Machines and equipment for production
- Electrical tools
- Metal fittings
- Plastic products for construction
- Production materials, Insulation materials, fines ceramics and sanitation equipment
- Measurement devices and counters for electricity, gas and water

5. Environmental Protection
- Plants and equipment
- Construction of biological and mechanical purification plants

6. Modern Technologies
- Introduction of Procedures that save energy, fuels and raw materials (patents, know-how, licenses)
- Energy and material saving machines and equipment

[1] Translation of Bialik, "Bevorzugte Produktionsbereiche ..."

7. Telecommunications, Electronics and electrical Components
- Modern equipment for telecommunications
- Cables
- Computers, data processing devices and systems, programs
- Fiber optics, plants for their production and installation
- Industrial robots
- Measuring devices for integrated switching networks of the last generation
- Technological equipment for assembly
- Modern active and passive electronic components
- Materials (including chemical) for the electronics industry
- Quartz tubes and their further processing
- Foils for printed and switching circuits

8. Test and Measurement Devices, Scientific-Technical Apparatus

9. Poligraphy and Office Technology
- Graphics machinery (including small-scale poligraphy) and replacement parts
- modern machines and equipment for the office

10. Powder Metallurgy Products

11. Finished Products
- New-generation household devices with business and operational applications .
- Electronic devices for general use (using technological procedures previously unknown in Poland)
- Metal processing tools

12. Packaging
- Packaging machines, and plants for package production
- Production of packages and materials

13. Transport
- Machines and equipment of repair workshops in rail, auto, air and ship transport
- Machines and plant to mechanize loading operations

14. Foreign Travel
- Construction and operation of hotels, inns and other tourist and entertainment facilities

Appendix B: Important Addresses

Banks

Bank Depozytowo-Kredytowy
President: Wlodzimierz Kosacki
20-928 Lublin
ul. Chopina 6
Phone: 217-12

Bank Gdanski
President: Jan Cesarz
80-958 Gdansk
ul. Targ Drzewny 1
Phone: 31-16-11 to 16

Bank Gospodarki Zywnosciowej
President: Janusz Cichosz
00-950 Warszawa, ul. Swietokrzyska 12
Phone: 26-28-30
Telex: 81-79-87, 81-38-68

Bank Handlowy in Warsaw, S.A.
President Tadeusz Barlowski
Warsaw, ul. Chalubinskiego 8
Phone: 30-30-00
Telex: 81-48-11 bhw pl

Bank PeKaO S.A.
President Jerzy Malec
Warsaw, ul. Traugutta 7/9
Phone: 26-92-11
Telex: 81-34-41 bpko pl

Bank PKO
President: Marian Krzak
Warszawa, ul. Swietokrzyska 11/21
Phone: 26-38-39
Telex: 81-46-81

Bank Przemyslowo-Handlowy
President Janusz Kwant
30-960 Kraków
ul. Basztowa 20

Bank Rozwoju Eksportu S.A.
President: Krzysztof Szwarc
00-950 Warszawa, ul. Wiejska 10
Phone: 21-90-68
Telex: 81-71-19 bre pl
Fax: 28-78-50

Bank Slaski
President: Marian Rajczyk
40-950 Katowice,
ul. Warszawska 14
Phone: 59-96-81 to 4

Bank Zachodni
President: Tadeusz Gluszcsuk
50-950 Wroclaw
ul. Ofiar Oswiecimskich 41/43
Phone: 44-66-21

National Bank of Poland
Warsaw, ul. Swietokrzyska 11/21
Phone: 20-03-21
Telex: 81-46-81 nbp pl
Foreign Department:
Phone: 26-56-41
World Bank Cooperative Office:
Phone: 20-01-80
President: Zdzislaw Pakula

Panstwowy Bank Kredytowy
President Janusz Bieniek
00-950 Warszawa
ul. Nowogrodzka 35/42
Phone: 29-93-48

Pomorski Bank Kredytowy
President: Tadeusz Zywczak
70-952 Szczecin
ul. Obronców Stalingrady 10/11
Phone: 881-10

Powszechny Bank Gospodarczy
President: Andrzej Szukalski
90-950 Lódz
ul. Roosvelta 15

Wielkopolski Bank Kredytowy
President: Franciszek Pospiech
60-967 Poznan
Plac Wolnosci 15
Phone: 514-297

Consulting Institutions in Warsaw

Central School of Planning and Statistics
Al. Niepodleglosci 162
02-554 Warsaw
Phone: 44-67-16
49-55-19
Experts: Mikolaj Breitkopf
Stanislaw Kasiewicz
Jerzy Staniewski

Dorawex
ul. Dluga 29
00-238 Warszawa
Phone: 653-52-47
31-40-21 ext. 35
Telex: 81-39-90
Director: Jerzy Derlatka

Investexport
ul. Lektykarska 9
01-681 Warszawa
Phone: 33-04-72
33-23-18
Telex: 81-72-34
Director: Aleksander Jung

Partner
ul. Noakowskiego 12 m. 65
00-666 Warszawa
Phone: 21-03-51 ext. 1034, 939
25-57-53
Chairman: Krzystof Lis

Petex
ul. Nowy Swiat 49
00-042 Warszawa
Phone: 27-48-21
Telex: 81-74-51
Director: Stanislaw Stala

Proexim
ul. Czackiego 15/17
00-950 Warszawa
Phone: 26-84-15
26-62-71, ext. 165
Director: Henryka Bochniarz

Proinvest
ul. Mokotowska 13m1a
00-640 Warszawa
Phone: 25-48-86
25-55-03
Chairman: Ryszard Pyciak

Foreign Investment Promotion Offices in Warsaw

Legal Advice and Information Center
Polish Chamber of Foreign Trade
ul. Trebacka 4
00-950 Warszawa
Phone: 26-18-42
Telex: 81-43-61 pihz pl
Director: Andrzej Burzynski

UNIDO
Industrial Co-operation and Investment Promotion Service
ul. Stawki 2
00-950 Warszawa
Phone: 635-71-12
635-12-60
635-60-86
Fax: 635-12-60
Director: Krzysztof Loth

Government Institutions in Warsaw

Foreign Investment Agency
ul. Wiejska 10, entrance C
Phone: 21-03-31
Telex: 81-45-01 mhz pl
Fax: 29-06-17 "dla agencji"
(Note: They plan to move May 1989)
Pres: Zdzislaw Skakuj
VP: Hubert Janiszewski

Ministry of Finance
ul. Swietokrzyska 12
Phone: 20-03-11
Telex: 81-55-12 minfin pl
Foreign Department:
Phone: 26-65-44

Ministry of Foreign Economic Relations
ul. Wiejska 10
Phone: 21-03-31
Telex: 81-45-01 mhz pl
Fax: 29-06-17

Ministry of Industry
ul. Wspolna 4
Foreign Department:
Phone: 28-21-41
Telex: 81-42-67, 81-42-61

Ministry of Labour and Social Policy
ul. Nowogrodzka 1/3
Phone: 28-90-41
Telex: 81-47-10 miprs pl
Foreign Department:
Phone: 21-40-19

Ministry of Foreign Affairs
Al. 1 Armii Wojska Polskiego 23
Phone: 28-74-51
Telex: 81-43-01 msz pl

Other Addresses

The Poznan International Fair
ul. Glogowska 14
60-734 Poznan
Phone: 612-21
Telex: 04-132-31 targ pl

Appendix C:
Firms with Capital Investment
As of April 16, 1989, from:

Austria
Adipol
Economos Technoplas
Galicja
Kowary
LIM Joint Venture Ltd.
Prebud-Gloritt
Siliscarp
Sinax
Union-Vis

Belgium
Polska Technodiament

Canada
Polcandex
Vis-Vesta

Denmark
Interprint

Finland
Felgex

France
Elwro 45

FRG including Berlin*
ACT- Automation Construction Trade
Activ Holiday
Antoni Baranski
Atempol
Auto-Center K.J. Hannemann
Batavia
Bilton
Bodo *
Bork
Budexport
Cement Technology Poland
Damnet
Diamont
Drewex
Effecta
Eltem
Euro-Konfex
Gromada Tourist*
Hatus
Hotele Wolff Juventur
HSH
Hydroster-Düsterloh
IBC
IHG
Inter Team
Interfrys-Kusowo
Irex
ITHK
Lasland
Lewimex
Lipexim
Manhattan *
Marolex
Obram-Schwarte
Pol-Hod
Pol-Kal
Pomerania Tour *
Rau-Pol
Raiffpol
Scrapex
Siechnice
Sopagro
Spedeck
Standard Armatura Olesno
Steelbaco *
TEKO
Transco *
Translamm
Vapol
Wabiz
Wepp International
Zabis

Holland
Camperol
Interkotlin
Peps
Vitroservice
Vonkpol

Hungary
Polmaryb

Italy
Italpolk Inc.

Lebanon
Abdallah Nameh & Sons Ltd.

Lichtenstein
Polnisskosher
Telmar Film Intl.

Sweden
Cantiga
Condex
Investment Trading Consulting
Interfrys-Kusowo
Orbis Casino
Providoc-Iwa
Semeco
Wimestho

Switzerland
Angoratex
Calimpex
Casinos Poland
Opolmador

Thailand
Ocean-Tai

Tunesia
Tun-Pol

UK
Agrohandler Ltd.
Digital Laboratories Intl. Ltd.
Ferropol
Furnel International Ltd.
Gwarex Ryan Poland
Solus-Schall Energopol

United Arab Emirates
Gulf International Consultants

USA
Ampol
Arma
Aspian
Dolfamex
Finryan International
Hanna-Barbera Poland
LIM Joint Venture Ltd.
Tricotex
Walter Corporation
Wawel-Imos Intl. Ltd.
World Spolem

USSR
Fimbes
Orbita
Polsib
Ukrapol

Yugoslavia
Wawel-Imos Intl. Ltd.

Unknown
Danex