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INSIDE:

Defence sector

Invest in Poland

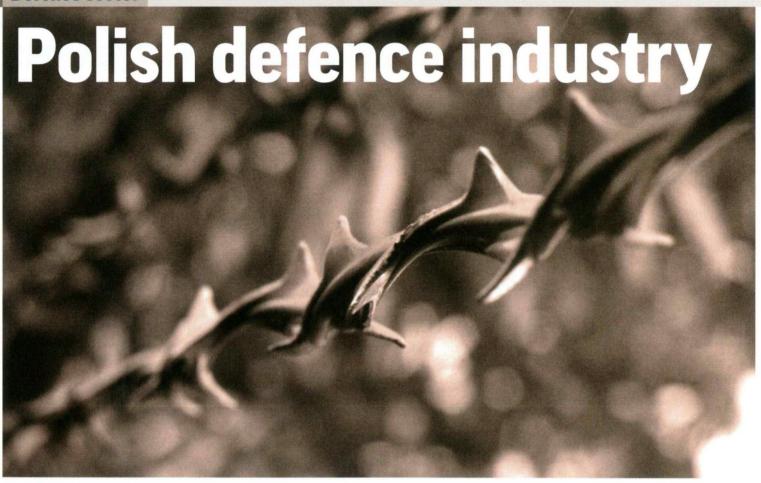
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Herbert WIRTH

President of the Board of KGHM Polska Miedź S.A.

15 years on the Warsaw Stock Exchange



In the past 20 years, the Polish defence industry has changed beyond recognition. Many manufacturers went bankrupt. New ones, with a completely different product range, have appeared in their place. Some have based their success on ICT solutions.

Mieczysław T. Starkowski

THE DEFENCE MINISTRY'S budget accounts for 1.95% of Poland'S GDP. This year, it is as much as over PLN29 billion, of which 25%, or almost PLN8 billion, is set aside for the technological modernization of the armed forces. But experts are agreed that the amount should be at least two times higher.

"The armed forces have a big chance now," says Waldemar. Skrzyp-czak, undersecretary of state at the Defence Ministry responsible for purchases for the armed forces. "First of all, we never had such a large budget before and, secondly, the political atmosphere was never as good. The atmosphere is now very favourable for the armed forces and their development. There is unanimity among the president, prime minister and defence minister. Both the military and suppliers have to exploit this opportunity well.

A vision needed

But one should be thinking in advance and planning long term rather than only for two or three years. The time span of the documents that Waldemar Skrzypczak receives for analyzing is until 2018 at the latest. Few people think of what the situation will be in 10 or 20 years' time. "There is no vision," Waldemar Skrzypczak says. "But we are beginning a new development stage. First of all, we have to create multi-annual programmes on the basis of operational requirements of the military. The result would be new operational capabilities of the armed forces."

The Ministry of Defence is going to spend as much money as possible to buy products and services offered by the Polish defence industry. The Ministry of the Economy would also like Polish companies to receive as many orders from the Polish armed forces as possible. However, some products

and services have to come from foreign suppliers because domestic ones do not offer the full range of what the armed forces need. The Ministry of Defence gives preference to long-term contracts to ensure stable conditions for suppliers and enable their expansion. Contracts are to be signed for five or perhaps as much as 10 years. But there are several conditions. Under the contract, the supplier has to modify the equipment while adhering to quality guarantees. Additionally, the companies will not be allowed to charge excessively high margins. Prices of individual products will be compared with the competition.

The needs are immense

According to Waldemar Skrzypczak, Poland will achieve the new operational capabilities if it gets large fleets of unmanned vehicles – aerial, ground, surface and underwater. The programmes for the modernization of the artillery and armoured divisions are equally important. It is necessary to replace the obsolete post–Soviet armoured equipment, like for example the Leopard tank and the Rosomak armoured vehicle.

The programme for the modernization of the Navy, contemplated for

many years now, is a separate problem. Waldemar Skrzypczak says the delay in its implementation is due to the quickly changing expectations and requirements of the Navy. Its capabilities should be high enough to ensure security to a state on the Baltic Sea. The Military Balt Expo exhibition was held in the coastal city of Gdańsk in late June. At its opening, Minister of Defence Tomasz Siemoniak said PLN900 million will be spent annually on the Navy. But the Navy says the amount is scanty compared to the needs.

"So far the Navy has focused on maintaining its existing potential, which means there was no development programme," Waldemar Skrzypczak says. "If Minister Siemoniak speaks about PLN900 million to be spent for 10 years it means a total of almost PLN10 billion. The amount is not small at all. Especially as the Navy also takes part in other programmes, like for example for the delivery of helicopters, unmanned vehicles and so on."

"There is a lot to do," says Witold Lewandowski of the National Security Bureau (BBN). "We lack systemic solutions. We have debated for years whether the defence industry is an ordinary sector, like any other in the economy, or whether it is special because associated with the security of the state. And we have been unable to agree on that. I think the whole economy and the whole government should be involved in the discussion about the development of the Polish defence industry."



"In my view, the defence industry should be regarded as a sector supplementing the country's defence potential," adds Ryszard Kardasz, president of the Dywizja Bumar Żołnierz group and of the Bumar

Zołnierz SA company. "Especially as this sector develops state-of-the art technologies, which often find civilian applications. One example is thermal imaging devices." "No national industry can meet all the needs of its armed forces," says Ryszard Jeruzalski, deputy director at the Department of Arms Policy of the Ministry of Defence. "But of course one should try to ensure that this proportion is as high as possible. In our country, it has stayed at 60–80% in recent years. I hope we will see a further development of the Polish industry."

But the president of a large arms company who wishes to remain anonymous does not share this optimism. "We have stupid regulations. Under decision no. 125 taken by the defence minister last year, I am not allowed to talk with a Polish general about the needs of the Polish armed forces. But a company should not be separated from its main customer. Such a situation exists probably nowhere else in the world. Is that right?" Waldemar Skrzypczak says decision no. 125 will be changed because it is a cause of confusion. In fact, Polish companies have more difficult access to information about the armed forces' needs than foreign manufacturers. This is wrong and the minister is aware of that.

A good business?

Despite various impediments, many entrepreneurs have nosed out a good business in deliveries for the armed forces because this sector pays well and has a huge potential. This is especially true of ICT firms. Some private firms have made it to the top, at least in technological terms. They are expanding rapidly, although they are still medium-sized. The largest of them generate annual revenues of tens of millions of zlotys, the leader slightly over PLN100 million. Compared to the PLN3 billion generated by the Bumar group, these firms are still tiny, but they have been faring increasingly well. "The dialogue with the Ministry of Defence has already started," says Piotr Wojciechowski, president of WB Electronics, the firm which has noted the most spectacular success. "But there is still much to be done. First of all, we would like to appeal to the minister: 'Support us with purchases rather than subsidies'." This is a clear allusion to the plans to subsidize Bumar. But despite

the widespread complaints, the pie is bigger every year and Polish businesses are getting increasingly large slices.



"For many years we have been subject to fierce competition," says Sławomir Kułakowski, president of the Polish Chamber of National Defence Manufacturers. "Tenders are announced under the

European Defence Agency and every firm has the right to compete for contracts on an equal footing. However, our enterprises win most of the tenders announced by the Polish armed forces." But the president of another large company says this is only part of the truth. Polish companies have a difficult start in Europe because one can hardly speak about fair competition on the EU defence market. The developed countries do not adhere to the common regulations and the European Defence Agency favours the founding members. Additionally, before the entry of new member states, including Poland, to the EU in 2004, many multi-annual contracts were signed in the old EU countries to protect their own manufacturers.

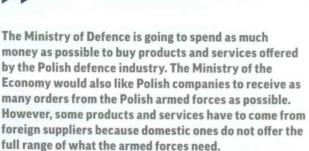
Interesting adventure

In the 1990s quite a large number of Polish engineers decided to start producing for the needs of the armed forces. It was a big challenge to them. For many it became both a good business and an interesting adventure. "At the end of the 1990s, the trade community was shocked when a small private firm was awarded a contract for the delivery of an artillery guidance system," says Piotr Wojciechowski, president of WB Electronics. "For us, the success of the Topaz system was simply the result of hard work over many years. And the Fonet system is now installed in over 3,500 vehicles of several armies."

Another milestone was the acquisition of the Flytronic company by WB Electronics. It designs unmanned systems and has developed a unique technology for locating and identifying artillery targets. "Our FlyEye unmanned flying objects are already used by Polish soldiers in combat operation in Afghanistan and elsewhere," says Wojciech Szumiński, the founder and now head of the development department at Flytronic. "We have great hopes for exports of this equipment. The management of WB Electronics has never had any doubts that the company should have its own research and development centre. This policy quickly proved successful. It turned out that an inhouse R&D centre produces better results than cooperation with external research institutions.

The acquisition of the Radmor company by WB Electronics in late 2010 and early 2011 created a sensation. It is expected to produce synergy by way of combining the capabilities of the producers of radio stations and software. Additionally, the company has based its success on the development of collaboration with a large group of small partners. According to Piotr Wojciechowski, this business model ensures high production efficiency and the ability to quickly raise the scale of production. At present, WB Electronics sells its products to 10 states. Interestingly, most of them are Western countries. In less developed countries, the company encounters problems because its equipment is too advanced technologically.

Teldat is now one of the largest Polish private suppliers for the Polish armed forces. Several years ago the company started to provide military units with the KTSA Jaśmin system. It is an ICT system for the exchange of data in wide area networks on the IP platform. Later, the company developed a mobile version of the system for field applications. The system was applied in most Polish military units in the first years of the past decade.





"Within several years Jaśmin became a wide network-centric ICT platform in accordance with NATO's present principle of Network Enabled Capability," says

Henryk Kruszyński, president of Teldat and one of its owners. "The goal is to increase the efficiency of military operations and achieve an information, and consequently decision-making, advantage." This is achieved through the elimination of the traditional hierarchic structure. Thanks to the ICT network, reports from soldiers do not need to go first to the corporal, then to the sergeant, captain, colonel and finally to the general. These people receive the reports simultaneously in a matter of seconds. An important element of this solution is the ability to choose a configuration. The tool enables every soldier, even those who are not familiar with information and communications technology, to create various configurations also in field conditions. Henryk Kruszyński says this is why the Jasmin system has become so popular.

Transbit is another firm specialized in telecommunications systems for the armed forces. It started operations in the 1990s by supplying telecom infrastructure to the WZŁ military telecom company, which developed the RWŁC mobile digital communications system. The system met all NATO requirements and underwent successful tests in Poland and at international military exercises. By now it has been thoroughly modernized and is sold as the Storczyk 2010 version. It is fully based on the IP protocol, which means it ensures very good parameters during the transmission of any kind of multimedia materials. Transbit collaborates with the Przemysłowy Instytut Telekomunikacji (PIT) and Radwar companies. The system delivered to the Norwegian group Konsgberg, through PIT, is sold to the Polish armed forces as equipment for the Coastal Rocket Division.

Exports offer a chance

Sławomir Kułakowski says some of the leading Polish defence companies are faring quite well, but their management should be aware that the domestic market is not large enough to ensure their expansion. Manufacturers have to spare no effort to raise their exports. This is especially true of large companies. Small and medium ones, operating in niches, have better chances to survive without expanding onto foreign markets.

Less developed countries offer a large potential for the expansion of Polish exports. Experts say Polish companies could modernize the post-Soviet equipment which is still present in these countries in large quantities. But they should move quickly so as not to be beaten to it by the competition. In a few years time, if the military hardware is not modernized, the countries will have to buy brand-new equipment.

"One example is the T-55 tank," says Sławomir Kułakowski. "Some of our experts say it is obsolete. But it still performs excellently in many African and Asian countries. We could sell the tanks to these countries. Our chance is that we still have the technical specifications, repair documentation and capacities to produce spare parts. One only needs to know how to talk to foreign partners."

"But one should remember one thing: this is a difficult sector, one-based on exceptional confidence. Talks with a prospective importer are painstaking. They may take three years or even twice as long. At that time, the company has to function somehow. A condition for exports is being able to sell on the domestic market," Piotr Wojciechowski concludes.

