

Knocking on the EU door

In seven months time, on May 1 2004, Poland will be a full member of the European Union. With its 39 million inhabitants, it will be the largest country in terms of population and consumer markets amongst all the other new members joining the Union. Other candidate countries have half its population. The effects of the move are already beginning to be felt across the country as Poland's Economy Minister presented plans in early October for spending cuts aimed at bringing down the country's budget deficit and enabling it to join the Euro zone in 2008 or 2009.

Jerzy Hausner said his strategy involves spending cuts of up to 7 billion zlotys (\$1.8 billion) annually between 2005 and 2007. "The ultimate aim of the spending cuts is to enable Poland to join the euro zone in 2008 or 2009," he told reporters.

The government's planned 2004 budget foresees a deficit running at nearly 6% of gross domestic product (GDP). It argues that tackling the deficit now, as the government attempts to turn around the flagging economy, would hamper a recovery.

Countries using the euro are required to keep their budget deficits to a maximum 3% of GDP, though Germany and France have failed to stay in line.

Hausner said he will seek government approval to trim spending in 2004 in an effort to curb next year's forecast deficit, but refused to give details.

The May 1 2004 deadline will fortunately mean that Poland must adopt European standards in economy, finance, law, etc. This gives the country the opportunity to realise its full potential.

After joining the EU, Poland will be the 5th greatest shoe manufacturer in Europe (after Italy, Spain, Portugal and France) and 4th largest in terms of leather production (after Italy, Spain and Portugal). Joining the EU means both a big opportunity but also a threat to both footwear and leather sectors.

Poland seems to want to get on and that is the first step to actually doing it. Not many years ago, Poland, then ruled by Moscow, was a nation still in awe of its powerful neighbours and history had taught it a painful lesson. Caught between two great powers with a penchant for aggression, Poland had been rolled over,

conquered and plundered. The last king of Poland was the handsome but feckless Stanislas August Poniatowski, who was placed on the throne by his lover, Catherine the Great. He lost the entire country through partition as it was divided up amongst Russia, Prussia and Austria toward the end of the 18th century.

The transition to capitalism

Six million Poles died in World War II, and when the war ended, the Iron Curtain was brought down and Poland disappeared behind it for almost a half-century. In 1980, the revolt in the Gdansk shipyards by Solidarity began the struggle that, a decade later, brought down communism in the Soviet Union and Eastern Europe.

What's happened since? A lot and not enough. Poland made the transition from communism to capitalism pretty quickly, with its economy growing at an average of more than 5% annually throughout the 1990s. But Poland remained tied, through economics, not conquest, to Germany and Russia, and while the Polish economy grew, it suffered serious setbacks with Russia's debt collapse in the late 1990s and Germany's economic stagnation of the past three years.

Poland in the early nineties was considered a tiger among East European countries. Now the economy is growing

at a much slower rate. The country suffers from corruption scandals, huge unemployment (nearly 18%) and a lack of reforms (especially public finances, health service, etc.). Although the economy is starting to grow now, further reforms are desperately needed.

GDP rose just 1.3% last year, but New York economists estimate growth of 3.5% in 2003 and 4% in 2004.

Today, Poland is doing all the right things. Even under a government of former communists, it is cutting taxes. Small businesses, literary, millions of them, are sprouting.

After the 1989 revolution Poland was not only the first country in Central and Eastern Europe to raise protests against the communist regime and lead the revolution, but it was also the first to implement drastic market reforms. The first Polish government led by Prime Minister Mr. Tadeusz Mazowiecki had an exceptional personality in the form of Deputy Prime Minister and Finance Minister Mr. Leszek Balcerowicz, who implemented the drastic economic (market) reforms with an 'iron fist'.

The transformation shock was painful for the majority of state owned industry but soon the new reforms gave their first positive results.

The typical example was a former 'Podhale' shoe factory in Nowy Targ (southern Poland).

The huge production plant employed some 10,000 workers producing rather outdated and unfashionable shoes with huge part of its production being sent to less demanding former Soviet Union countries. Podhale was the first "victim" of Balcerowicz's reforms and the factory went bankrupt, causing enormous protests among the workers and population of the town.

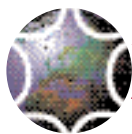
Now on Podhale's 'ruins' some new modern factories have been established with the 'Wojas' shoe factory as a leader and one of country's best.

Shortly after that many other new shoe factories were established, such as: BUT-S, Eksbut, Quattro, Juma and Inblue – manufacturing ladies shoes, Gino Rossi, Alka, Nord, Wojas, Romano Mazzante, Lesta, Neptun Adanex – in mens shoes, Bartek, Mrugala, Falcon, Viggami – in childrens shoes, to name just a few.

Despite huge imports of footwear from ►



Badura S.K.A was founded in 1982 by Zdzislaw Badura. The Wadowice-based company produces what it describes as "smart and durable footwear of interesting and varied design," for both the mens and youth markets. The firm currently employs around 300 workers.



Country Commentary: Poland

China and the Far East, the domestic production of footwear stayed roughly at the same level, with the 2002 output of 51.6 million pairs as a first sign of recovery. This was the first year that shoe production showed an annual increase. However, another decline started in 2003, accompanied by huge imports of shoes (noted already in 2002 – see table). At over 31 million pairs, exports remain roughly on the same level but with a considerable 17.3% increase in their value.

Footwear industry on the up

Generally, the Polish shoe sector remains in a reasonably sound condition. The factories are all in private hands and are very well equipped with the latest (imported) machinery and shoe technologies being applied as soon as they become available. New fashion ideas are immediately implemented and the best shoe components and materials are being imported. Shoe factory owners regularly visit all the major shoe fairs, not only in Europe, but also in Las Vegas, as well as China and Hong Kong.

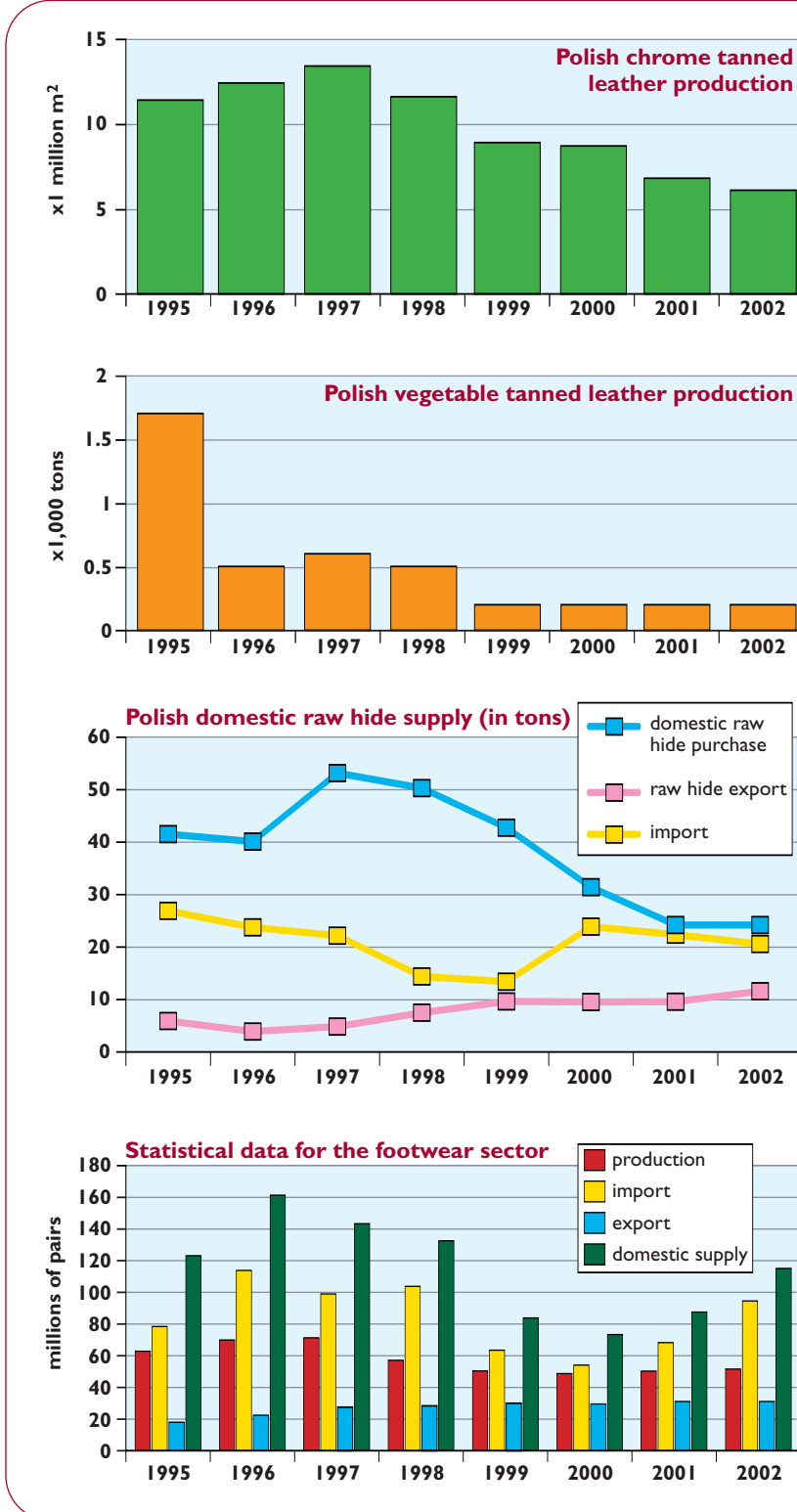
What looks fairly good in the shoe industry looks much worse in the Polish tanning sector. Although the vast majority of tanneries are in private hands they now have much lower output capacities than hitherto. The domestic production of finished leather has been recording constant year-on-year decreases from 1997, despite growing production of shoes.

The reasons behind this are the enormous imports of finished and semi finished leather, which in the year 2002 reached some 12.5 million sq.m. – 100% more than the domestic production of finished leather!

The other factor is a continuous decline in meat consumption in Poland (some 4% each year). As a result, lower quantities of raw material were supplied to the market. On the other hand, Polish cattle hides, known from their good quality, are exported in large quantities every year, reaching 11,600 tonnes in 2002. The cream of the cream are Polish calf skins and horse hides exported in large quantities, mainly to Italy.

There are nowadays no possibilities of imposing any Customs duties (as was the case in the mid-nineties), so Poland remains vulnerable to any exploitation of its best assets.

Despite all these negative tendencies and indices, the profitability of the Polish leather sector is improving. It appears as if the market reforms are working and



Statistics supplied by the Polish Chamber of Shoe and Leather Industry. Official governmental sources are approximate.

although the production of leather continues to decline, it is still profitable.

However, one issue which will continue to be the biggest headache for tanneries for many years is the environmental problems facing the majority of them. Only a few tanneries are able to meet the strict EU pollution criteria. Effluent treatment plants are extremely expensive and only a

few tanneries can afford the cost of building them. Considerable EU assistance is desperately needed, as well as some transition period to provide breathing space to meet European standards. In fact considerable financial aid from the EU is available now but access to the funds and complicated procedures often deter tanneries from applying for them. ●