

MSZ *Supplement*

PNB Publications - the most comprehensive and up-to-date source of information on Polish politics, economy and current affairs:
Monday to Friday - *PNB Daily* • Tuesday and Friday - *PNB Economic Review* • Wednesday - *PNB Law Supplement* • Thursday -
PNB Weekend Supplement • Monthly - *PNB Special Report*

NATIONAL NEWS

Sarkozy Counting on Poland

Wall Street Journal Polska p. 4, May 29 2008

Poland will aid France in bringing forth a more restrictive approach towards immigration and, in turn, Paris will support its energy needs. This was one of the strategic transactions completed on Tuesday by Poland's leaders and French President Nicholas Sarkozy. His meetings, both with President Lech Kaczyński and PM Donald Tusk, were very concrete. Sarkozy declared that as of 2 July, the French labour market will be open to Poles. Sarkozy emphasised Poland's position as an EU member and France's ally, but he also had some very specific expectations. First, he mentioned the need to develop a common agricultural policy, as both France and Poland will need to defend their farmers' subsidies from the frugal inclinations of the Germans. Both countries are also considering the possibility of forming a common army. The French secretly wish to replace the Americans as the main weapons supplier and are initially offering warship equipment and air defence systems.

SLD Has New Leader

tvn24.pl, June 1 2008

The Left Democratic Alliance (SLD) convention held during the weekend had a major surprise in store, as contrary to expectations its Secretary General Grzegorz Napieralski managed to defeat the party's hitherto leader Wojciech Olejniczak and became its new head. Napieralski's victory was narrow: he was backed by 231 delegates, while Olejniczak secured the support of 210 of them. "I am very happy and deeply believe that the SLD will rebuild its credibility among the public. My aim is to become the second Jose Zapatero," he said at the convention. The politician also announced that he intends to co-operate with the departing party leader. Meanwhile, Olejniczak was visibly shaken by the defeat. Nonetheless, he declared his willingness to become the new head of the SLD's parliamentary caucus. According to commentators, Napieralski's victory will result in changes to the party's board, as unlike Olejniczak, he has no intention of co-operating with former SLD leaders.

CBA Head's Head May Roll

tvn24.pl, May 29 2008

Thursday's article in the *Gazeta Wyborcza* daily has caused upheaval on the political scene. The title stated that the Central Anti-Corruption Bureau (CBA) under the previous Law and Justice (PiS) government cooperated with the American FBI on

the investigation regarding the Civic Platform (PO) MP Beata Sawicka, and then ceased cooperating, when it turned out that the American bureau's assistance was used for political purposes. Following the report, PM Donald Tusk described the co-operation between the services as "clumsy" and announced that if the Prosecutor's Office discovers any irregularities, the CBA head Mariusz Kamiński will be dismissed. Meanwhile, both the CBA and the FBI deny the allegations. The American embassy in Poland issued a communique stating that when a legal member of the Polish government or public security institution asks for help, the FBI does everything it can to help.

Power to Local Governments

Dziennik p. 9, May 29 2008

"Let's give the power to local governments, to make it closer to the people," said Donald Tusk on Wednesday, advocating the new decentralisation reform. It aims to limit the powers of province governors in favour of province governments and allow metropolises to be created. Law and Justice (PiS) criticises some of the ideas - its members fear that Poland may become a local government confederation. The transfer of powers mainly concerns social care, environmental protection and supervision over inspectorates. This is intended to bring a reduction of posts in province administration offices - sometimes by as much as three quarters. A large number of such employees will find work in local government structures, which will be granted additional funds from the budget.

Gov't Crisis over Healthcare Reform

Rzeczpospolita p. A4, May 30 2008

According to *Rzeczpospolita*'s findings, yesterday PM Donald Tusk called his closest associates to the Chancellery to hold a special meeting devoted to the healthcare system reform. Among the invited politicians were deputy PMs Waldemar Pawlak and Grzegorz Schetyna, Health Minister Ewa Kopacz, Finance Minister Jacek Rostowski, the PM's chief advisor Michał Boni and the Civic Platform (PO) parliamentary caucus head Zbigniew Chlebowski. Work on the act providing for the transformation of hospitals into commercial companies was stopped two days ago at the request of coalition MPs. Trade unions stepped in yesterday, demanding that the work on altering special privileges for healthcare system employees should cease. The PO MPs refused, much to the union representatives' outrage. Even the coalition partner the Polish Peasant Party (PSL) described the situation as embarrassing. The opposition is considering a vote of non-confidence in Minister Ewa Kopacz.

Interest Rates Unchanged

Gazeta.pl, May 28 2008

As expected, during its May session the Monetary Policy Council (RPP) decided to leave interest rates unchanged. At the same time, it does not rule out that brining inflation down to the inflation target in the medium-term may require stricter monetary policy. While the inflation target was set at 2.5 +/-1 percent, in April inflation amounted to 4 percent. According to experts, this means that the rates will go up in June, following which there will be no rate hikes until the end of the year. "Judging from the RPP's communique, while it is certain of the necessity to raise the interest rates, it wants to see data on GDP growth and inflation projection before they go up," says Bank BPH's senior economist Maja Goettig. In her opinion, the RPP may lower the rates next year, provided there is a slowdown in economic growth and a decline in inflation.

Economic Growth in Q1 Surprises Analysts

Rzeczpospolita pp. B1 and B5, May 31-June 1 2008

The Polish economy keeps on pleasantly surprising analysts. According to data released by the Central Statistical Office (GUS), GDP growth in Q1 amounted to 6.1 percent, versus 5.8-percent estimated by economists. BPH bank expert Monika Kurek said that the robust result was confirmation that the commotion on global financial markets has had little impact on Poland. Monetary Policy Council (RPP) member Prof. Marian Noga went even further in his optimism, saying that the coming months may bring similar results. According to BZ WBK's analysts, in Q2 GDP may rise by 5.6 percent. Fuelling economic growth in the first three months was domestic demand in particular. Consumption increased by 5.6 percent year-on-year. Meanwhile, investment improved in Q1 by 15.7 percent. Economists fear that this index may decrease in H2. Forecasts for 2009 are less rosy - GDP of just 4.3 percent is expected.

NBP Records PLN7.8bn Losses

Wall Street Journal Polska p. 1, May 30 2008

The NBP president Sławomir Skrzypek announced earlier that the bank's results for 2007 will be negative. However the scale of the loss exceeded the bleakest scenarios. Due to the appreciation of the Polish currency the foreign exchange reserve value dropped and the bank ended up with a loss of PLN7.8bn. The loss would be even higher, but the revenue from operating activities has offset it somewhat. The central bank will now have to cover the loss using profit made over the next few years. According to the law the NBP can use only 5 percent of profits to cover losses. Therefore, the bank is working on an amendment to the bill on the NBP, which will allow it to use the entire profit to cover losses. There is also another problem. Over the next few years the bank will not pay any money to the central budget. Several years ago NBP paid almost PLN5bn annually to the state budget.

German Companies Compete to Connect Poland to Nord Stream

Gazeta.pl, May 29 2008

On Thursday Rzeczpospolita daily wrote that a German company Concord Power Nordal (CPN) may build a pipeline to deliver Russian gas from the Northern Gas Pipeline. CPN is said to offer Poland 20bn cubic metres of gas annually, i.e. 50 percent more than the current gas consumption. The question is whether CPN will be able to receive gas flowing through Nord Stream. Its plans compete with those of Wingas, a Russian-German gas company, which also wants to transport gas from Nord Stream. Wingas plans its own gas pipeline along the Polish border to the Czech Republic, and has offered Poland an opportunity to connect to it. CPN has its roots in the Bernau-Szczecin gas pipeline, which Bartimpex and E.ON wanted to build many years ago. CPN needed gas for a power plant, but without sending extra gas to Poland the project was unprofitable.

Opposition: Excise Cut or Vote of No-Confidence for Fin Min

Wall Street Journal Polska p. 3, May 31-June 1 2008

Excise duty on petrol is set to stay at the same level. The Finance Ministry is firm in its stance that reducing the tax would not be a good decision, and the Friday fall in the price of oil to \$125 per barrel has given it another argument to defend this position. The ministry is confident that the current upward trend in the price of oil may turn around. It also argues that the excise cut would be used by fuel distributors to raise margins. Finally, it is impossible to reduce excise duty on diesel, as it is presently at the EU minimum level. PM Donald Tusk declared on Friday that the excise cut would be seriously considered if the government had 100-percent certainty that it would result in petrol price reduction. Meanwhile, Law and Justice (PiS) leader Jarosław Kaczyński threatened Finance Minister Jacek Rostowski with a vote of no-confidence, if he does not trim the tax down by PLN0.55 per litre by Wednesday.

IMF's Plan for Poland to Stabilise State Finances

Wall Street Journal Polska p. 1, May 29 2008

If the recommendations presented by the International Monetary Fund come into force, the impact of politics on state budget spending will be significantly limited. The IMF is proposing that Poland introduce fundamental changes to the state budget: it wants state spending to be fixed once every four years. The IMF recommendations are grouped in a catalogue. One of the most radical assumes that the only opportunity to change anything in expenditure will be possible at the beginning of the parliamentary term. The IMF also proposes new rules (the so-called medium-term expenditure framework) in public finance law. "The medium-term framework will be included into the long-term financial plan, which will be adopted by the government at the beginning of the term," said Marta Postuła, head of the Finance Ministry's department on spending cuts.

PKN Orlen Has New Management Board

Gazeta.pl, May 29 2008

The supervisory board of PKN Orlen, Poland's oil giant, has completed the firm's management board. Of the four newly appointed executives, two have been associated with the concern for years, while the other two have managerial experience from the state telecom TPSA and Kompania Piwowarska beer producer. The former are: Krystian Pater, fuel production specialist working for PKN Orlen for 20 years, and Wojciech Kotlarek employed in the concern for nine years. The latter are: Sławomir Jędrzejczyk, telecommunications engineer who has held managerial positions at TPSA for the past five years, and Marek Serafin, whose carrier spans consultancy, beer production and aluminium and steel metallurgy (ArcelorMittal). The concern will be headed by Wojciech Heydel, the acting CEO since February. The fuel sector speculates, however, that it was Dariusz Jacek Krawiec who was Treasury Minister Aleksander Grad's favourite for the post, but eventually became deputy CEO.

Treasury Asks EC for More Time for Shipyard Privatisation

Gazeta.pl, May 29 2008

On 29 May, the European Commission (EC) warned the Polish government that if does not present it with a recovery plan for Stocznia Gdynia and Stocznia Szczecińska Nowa (SSN) shipyards soon, it will have to ask them to return the state aid obtained over the last few years. While the Polish Treasury claims that it has not received official information concerning the issue from the EC, it has requested the Commission to give it a few more months for the privatisation of the shipbuilding sector. "We submitted our proposal of the privatisation schedule to European Commissioner for Competition Neelie Kroes. We sincerely believe that both shipyards will become profitable," says Treasury Minister Aleksander Grad. He adds that together with the Finance and Economy Ministers he intends to launch a special aid programme for the two enterprises, with Stocznia Gdynia to obtain PLN515m from the state, partially in shares of state-controlled bank PKO BP and chemical company ZCh Police.

AB and Action Ready to Talk on Merger

Parkiet p. 3, May 31-June 1 2008

There are four major players on the IT distribution market in Poland: AB, Action, ABC Data and Tech Data. Annual turnover of each of these firms exceeds PLN2bn. Most analysts agree that sooner or later this structure of the market must change due to

an expected decline in margins and the necessity to scale up business efforts. Though none of the firms wants to reveal its plans, it cannot be ruled out that talks on market consolidation will be initiated by AB and Action. Asked whether AB would undertake such talks to Action, AB CEO Andrzej Przybyło said that his company will be active in the process of market consolidation, as it has plans to become Central and Eastern Europe's leader in the business. Action's CEO was far more direct. He expressed his readiness to launch talks on a merger, yet indicated that his company is already in talks to another partner. Analysts expressed opinions about whether the two companies would be able to handle such a large operation as a merger.

Newsweek: Daimler to Build EUR800m Factory in Poland

Gazeta.pl, May 28 2008

According to unofficial information, German motor corporation Daimler has decided to build a EUR800m factory in Poland. Newsweek Polska writes that the 22-hectare facility will be built in Ujazd, near the Polish-German border. It will manufacture state-of-the-art compact Mercedes cars and employ over 3,000 people. Production is to begin after 2010. When the corporation first announced plans to locate a new factory somewhere in Eastern Europe five months ago, not many analysts expected it to choose Poland. However, a few weeks ago information leaked out that Daimler had narrowed its choice of location to Ujazd in Poland and Cluj in Romania. The final decision is to be officially announced in June. Negotiations concerning the issue remain confidential, with both Polish and Romanian officials refusing to comment. Still, Newsweek Polska claims to have obtained confirmation from one Daimler negotiator that the facility will be built in Poland.

ZA Tarnów WSE Debut in June

Gazeta.pl, May 28 2008

On 28 May, ZA Tarnów chemical company published its prospectus; the IPO is to bring in PLN307.5m, with the enterprise planning to issue up to 16 million new shares. According to the document, by 2011 it intends to invest nearly PLN700m, of which PLN300m will be spent on increasing its annual polyoxymethylene production capacity to 45,000-50,000 tonnes, with a new factory planned. "At the same time, we are holding talks with potential strategic partners concerning alternative ways of increasing polyoxymethylene production capacity by acquiring shares in companies established in Poland or abroad," reads the prospectus. Another PLN175m will be spent on a new polyamide production plant with an annual production capacity of 55,000 tonnes, which will raise ZA Tarnów's total polyamide production capacity to 100,000 tonnes per year. Additionally, the company intends to spend PLN140m on modernisation of its caprolactam production facility.

Editor-in-Chief: Ewa Szczęsna; **MSZ Supplement Editor:** Alicja Minda;

PNB Company - Sp. z o.o., ul. Lenartowicza 34, 02-614 Warsaw, Poland; tel. (48-22) 847 52 56; fax (48-22) 847 52 57; web: www.pnb.pl; e-mail: pnb@pnb.pl; sales: sales@pnb.pl;

For further information and free trial subscription of PNB publications, please contact us at pnb@pnb.pl or call (48)22-847-52-56.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form, by any means, including mechanical, electronic or photocopying, without written permission of the Publisher. No legal responsibility is accepted for any errors or omissions or misleading statements, however caused, in either source or final texts.