

Industry Without a Strategy

24 sierpnia 2007

Work on the Strategy for Consolidating and Supporting the Development of the Polish Defence Industry continues for a second year. The previous strategy covered 2002-2005. The Bumar Group was formed on its basis, and a few companies were incorporated into the Industrial Development Agency (ARP). Thanks to integration, the companies started making a profit, and sales are growing steadily. The Bumar Group, which reported a loss of PLN 8.5 million in 2002, has been making a profit for several years running (in 2004 - PLN 17.4 million, 2005 - PLN 15.2 million, 2006 - PLN 17 million). Sales of Polish armaments and military equipment have grown from PLN 400-900 million a few years ago to more than PLN 2.5 billion in 2006. Exports of arms, which in the early 2000s were worth no more than a few dozen million zlotys, reached PLN 1.4 billion in 2005-2006.

Political and staffing turbulence, and primarily the activities of the lobby that favours the sale of successive companies in the sector to foreign investors (PZL Warszaw-Okęcie was sold in 2001, WSK PZL Rzeszów - in 2002, and PZL in Mielec from the ARP holding - in 2006, and attempts have been made under the Strategy... to sell 8-9 less important companies), meant that further consolidation was halted. An impulse for continued restructuring came on 1 July 2006, when Poland joined the Intergovernmental Regime to Encourage Competition in the European Defence Equipment Market. After protests from trade unions, the government promised, among other things, PLN 5 billion over 5 consecutive years for research and development (R&D) programmes in the sector. Since that time, negotiations have continued in an effort to reach more concrete decisions. Unfortunately outlays for R&D in 2006 stood at just PLN 48 million, and will not be much higher in 2007...

The latest plans, concerning the period up to 2012, say that the sole integrator of the arms industry will still be the Bumar Group, while the companies that are part of the ARP holding will be privatised or incorporated into Bumar. Consolidation is planned to encompass military overhaul-and-production enterprises (wpr-p) and some research and development units (jb-r). In total, as many as 36 entities may enter the Bumar Group. Before the end of 2007, part of ZPS Gamrat will join Bumar, followed by ZM Kraśnik and Radmor in 2008. By the end of 2008 commercialisation is planned to involve a number of wpr-p's (WZE, WZI, WZŁ-1, -2, WZM-5, WZM-S, WZL-1, -2, -4) and OBRUM of Gliwice, which next to BZE Belma and OBR SM are to be made a part of Bumar. The ARP has until the end of 2009 to find strategic investors for WSK PZL Świdnik, WSK PZL Kalisz and PZL-Hydral. If it fails, they - like PHZ Cenzin - will be made

a part of Bumar within the subsequent two years. Twelve companies counted as part of the defence potential will remain outside the Group, including HSW and SMW, which will be transformed separately and might be incorporated into Bumar at a later time. Investors from outside the group will be sought for the other companies.

Internal restructuring of Bumar is planned at the same time. Three sub-groups are envisioned by the end of 2008: ammunition, missiles and small arms; armoured vehicles and optoelectronics; maintenance and overhauls. OBR SM and OBRUM, and perhaps other j-br's as well, would form direct scientific-research backing for the group's companies. Bumar would be transformed into a joint-stock company in 2012. Consolidation within Bumar itself would cost over PLN 10 million per year. Funding for restructuring in the entire sector would come from such sources as privatisation of industrial defence potential companies (in 2002-2005 this was PLN 291 million), support for maintaining inactive production capacity (PLN 43.5 million), and the Fund for Restructuring of Entrepreneurs (in 2004 - PLN 166 million for 5 entities).

The priority for the sector will be ensuring the day-to-day operation of the Polish Armed Forces' equipment, development and production of ammunition, missiles, explosives, small arms, and also advanced military electronics, armoured equipment as well as individual soldiers' equipment and means of protection from weapons of mass destruction. R&D facilities would be grouped in four segments: some of the units would remain under the defence ministry's administration (ITWL, WITU, WITPiS, WITI, WIŁ, WICHIR), some would be overseen by the economy ministry (OBR CTM, PIT, IL, IPO), and only ITB Moratex would be supervised by the ministry of internal affairs and administration. The last two groups would work hand in hand with the Bumar Group, which would include OBRSM and OBRUM. The group would also be able to set up new research centres.

The new Strategy... states that the sum of PLN 2.5 billion promised earlier by the government will be assigned for research and development programmes related to defence, but with a hard-to-define delay. Funds from the ministry of science and higher education budget would be spent over 3-5 years. The most important source of funding for the arms sector, however, would still be exports. It is not clear on what basis it has been estimated that exports will grow by as much as 50% by 2012 - to PLN 2 billion. Exports would be supported via a system of guarantees, insurance and government loans, and also by the defence ministry (assistance with promotion, lending of equipment). Domestic purchases are planned to decrease - from PLN 2.5 billion to PLN 2.1 billion in 2012 (just this June, there were predictions that the defence ministry's spending on purchases from Polish industry would grow to PLN 2.81 billion).

Analysing the growth rate of arms sales in recent years and that planned in the Strategy..., one needs to remember that the growth of recent years is primarily the

result of the involvement of Polish forces in foreign combat missions. Thanks to an extraordinary determination, Bumar was able to win an order from the Iraqi army, while the Polish army orders equipment by way of extraordinary orders. If the situation stabilizes, given the lack of a sensible system of purchases and the burden on the defence ministry budget in connection with foreign contracts (F-16), orders will decrease, and this is already predicted in the Strategy... A lack of Iraqi orders and staffing changes at key companies are almost certain to cause a slump in exports. It is also worth remembering that both domestic sales and exports are largely based on agent services, so the real production output of domestic companies is much lower than published data suggest. The key role in changing this situation would fall to research and development work as well as international collaboration (licences). This sector cannot be healed without integrating the structures that manage it within the state administration into a single efficient body.

Company	Sales, <i>PLN million</i>			Employment			Net profit, <i>PLN million</i>		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
ZM Bumar Łabędy	632,94	642,67	213,19	857	848	753	10,58	7,61	11,77
PZL Świdnik	325,09	316,50	237,95	3 470	3 263	2 757	1,25	0,96	6,99
ZM Mesko	265,55	179,07	140,80	1 771*	1 596	1 555	0,69	38,30	0,07
HSW	228,12	195,81	331,11	1 434	1 368	1 228	81,19	28,05	-32,38
AZPB Andropol	200,90			199			0,53		
AMZ Kutno	159,87			450					
CNPEP Radwar	150,44	117,32	134,82	1 642	1 282	1 290	5,22	4,45	7,26
PPH Kama	134,00	35,90	56,70		112		9,8	0,44	6,5
Radmor	89,00	73,99	75,58		402	411	6,8	8,56	1,04
PCO	76,80	51,65	50,73	414	405	411	5,15	2,02	4,30
DGT	74,00	60,10	80,63	219	124	122		2,38	0,75
PSO Maskpol	73,03	59,72	65,29	714	541	528	9,12	8,00	8,80
WSK PZL Kalisz	68,61	69,19	63,89	1 053	1 039	1 030	0,40	0,25	-1,86
ZM Dezamet	63,69	48,71	70,04	620*	533	535	3,38	2,97	5,82
ZM Tarnów	61,18	61,41	47,74	822	921	865	0,17	-2,86	1,40
ZCh Nitro-Chem	50,86	41,13		270*	261		-0,25	-3,05	

PZL Hydral	48,62	47,60	34,65	641	635	643	-1,08	-14,93	-48,15
Transbit	45,44	82,01	31,34	104	99	90	16,77	22,35	14,49
WB Electronics	43,53	25,81	21,80	54	47	39	11,32	7,59	4,02
MAW Telecom Intl.	41,28			14			2,31		
PZL Wola	40,75	47,05		601*	346		3,49	-19,00	
Lubawa	38,31	25,12	30,26	258		254	7,56	5,24	3,05
WSK PZL Warszawa II	35,72	31,45	22,07	376	349	344	1,45	2,75	1,67
LZPS Protektor	35,60	27,05			468		2,85	0,45	
FB Łuczniczka	30,14	34,50	28,04	374	333	264	1,46	1,60	1,33
ZPS Pionki	22,58	24,98	28,61	190	187	205	0,32	0,73	-1,46
FPS w Bolechowie	21,22	17,29	23,06	104	101	98	0,33	0,05	
PBP Enamor	17,93	13,01	9,36	54	49	50	1,97	1,25	0,29
SPWS Kilińskiego	12,00	9,28		105	100		0,25	0,06	
Prexer	9,76	9,59	9,32	135	132	125	0,55	0,45	0,52
Air-Pol	9,70	5,73	6,50	40	33	37	0,95	0,89	1,58
Margański & Mysłowski	3,82			34			-3,2		
Aero	2,1			25			-0,2		

* - the group

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