

UNICE TASK FORCE ON ENLARGEMENT

**2002 REPORT ON CANDIDATE COUNTRIES' PROGRESS
TOWARDS EU ACCESSION**

POLAND

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Executive Summary

Poland is a major economic partner for the EU. The perspective of EU accession will further deepen business cooperation. Economic relations can be developed to their full potential if Poland sustains a positive overall business climate for both Polish and foreign companies.

Privatisation and economic restructuring should have the undivided attention of the Polish government, giving special consideration to the consistent application and enforcement of competition policy rules. Priority should also be given to the fulfilment of all obligations formulated in the Europe Agreement well in advance of accession, especially the removal of remaining non-tariff barriers to trade.

In its latest progress report the Commission has reaffirmed that Poland meets the political criteria for EU membership. As regards the economic criteria, European business has witnessed considerable progress but further steps remain necessary for the Polish economy and Polish SMEs in particular to be competitive on the Single Market. If all conditions are met, foreign investment will continue to contribute to economic growth and employment.

Regarding fulfilment of the administrative criteria, Poland should resolutely push forward its legal approximation to the EU and further development of administrative structures at all federal levels. Business depends on clear a perspective for the consistent application and enforcement of EU rules.

Actions recommended

- All obligations formulated in the Europe Agreement should be met on schedule and well in advance of accession.
- Application of EU standards and certification procedures for industrial as well as processed agricultural products should be secured well in advance of accession. Therefore, formal negotiations on a Protocol to the Europe agreement of Conformity assessment and Acceptance of industrial products (PECA) should be started immediately.
- Further steps towards economic restructuring and privatisation, especially in infrastructure markets (transport, energy) and heavy industries (steel), should be taken.
- Key public infrastructure projects (roads, transport, housing, airports, information technology), also using private capital within Public Private Partnerships (PPP), should be implemented.
- Administration and tender of public procurement projects should be more transparent.
- Provisions and incentives granted for investment, especially in special economic zones, should be compatible with EU law.
- Monitoring and enforcement capacities for environmental rules should be strengthened at all federal levels.
- Administrative structures capable of applying and enforcing EU law should be further developed to ensure a stable and consistent legal environment for domestic and foreign investors. Measures to fight corruption should be broadened and continued intensively.
- Public support for EU accession should be strengthened through targeted action by government and business organisations.

Relations between the European Union and Poland

Economic relations between Poland and the European Union have developed dynamically. European business is confident that in view of Poland's EU accession economic integration will deepen even further. In order to secure this process Poland should continue efforts to sustain a positive overall business climate for domestic and foreign investment, to dismantle remaining non-tariff barriers to trade and to accelerate the process of economic restructuring.

The Europe Agreement remains an important framework for business relations and establishes a useful benchmark to monitor and support Poland's efforts in preparing for EU accession. All obligations formulated in the agreement should be met according to schedule and well in advance of accession. Priority should be given to the removal of any remaining non-tariff trade barriers. European business is looking for more progress in this area compared to the findings of the 2001 UTFE Poland report. Bureaucracy, non-transparent decision-making, red tape and in some cases excessive regulation still cause unnecessary cost and delay for companies investing in or/and trading with Poland.

The very dynamic and positive development of trade and investment relations should pave the way for further improvement in the following areas:

- **Comprehensive Economic Programme**

The new government has developed an economic programme for the next five years targeted at sustainable economic growth (with special attention for an improved business climate, an increase in spending on infrastructure, a further modernisation and restructuring of industry and the facilitation of savings and capital for investment), at fiscal stability and at full integration into the EU. European business welcomes these strategy choices. To support Polish competitiveness in the Single market the acceleration and completion of the privatisation process should also be an important part of this agenda. Privatisation in Poland, with some notable exceptions such as steel, is well under way (around 72% of GDP is already generated by the private sector). In order to facilitate further Foreign Direct Investment (FDI) the government is well advised to accompany the privatisation process with clear and transparent rules and a system of efficient ownership supervision. State subsidies for remaining public enterprises must be in line with EU regulations at the time of accession.

- **Certification rules**

Companies are still significantly burdened by complicated certification rules and lengthy as well as costly procedures. It would be a major improvement if Poland would submit to the rules of a Protocol to the Europe agreement of conformity assessment and acceptance of industrial products (PECA). Other candidate countries, notably Hungary and the Czech Republic, have clearly improved the conditions for trade by concluding a PECA. European business welcomes the fact that the Polish government followed the recommendation of the 2001 UTFE Poland report to create all preconditions necessary for further progress in this area. The formal request of the Polish government to open negotiations on a PECA is an encouraging sign. Poland and the European Commission should complete the preparatory work and start formal negotiations immediately in order to reach agreement as soon as possible. European business sees this issue as

a yardstick for the Polish ability to implement and apply EU single market rules in a stringent, non-discriminatory and consistent way.

- **Infrastructure**

A thorough modernisation and further extension of the Polish transport infrastructure (especially roads, motorways and railways) should be given priority in preparing for EU membership. Business welcomes the announcement by the Polish Prime Minister in January 2002 to put into action a comprehensive infrastructure programme comprising key infrastructure projects like housing, road construction, public transportation and airports.

Public Private Partnerships, including foreign partners on an equal basis, could very well contribute to the implementation of key investment projects. Recent delays in major infrastructure projects have raised concerns in the business community about the professionalism with which those investments are being handled. Decisions on key infrastructure tenders such as the Warsaw airport extension will be closely monitored by business with a view to transparency of decision-making and contract awards.

Additional investment is necessary for the further improvement of the information technology infrastructure in the public administration and other institutions relevant for business in order to reduce transaction costs.

- **Labour market**

A largely structural inflexibility of the labour market, extensive union regulations and intense bureaucratic and administrative demands require timely and targeted government action in order to sustain a positive business climate. Business welcomes the recent efforts by the government to reform the Labour Code taking the expertise especially of employer organisations into account. Successful reforms of the labour market are important not only for Polish companies but for current and future foreign investors alike.

- **Taxation / customs**

Business still faces complicated, often non-transparent and sometimes unpredictable tax and border proceedings. There are notable efforts by the new government to accelerate the creation of tax regulations more coherent with EU practice. So far incoherent application of laws and regulations by national and local authorities as well as lengthy bureaucratic procedures continue to impose a burden for domestic and foreign companies in Poland.

- **Corruption**

European companies continue to perceive a general uncertainty in legal matters together with weak administrative structures as a major root for corruption. From a business point of view, there has been limited progress in fighting corruption and its causes. However, the recent campaign on fighting corruption has helped further to raise awareness of the problem. All efforts aimed at combating corruption should be continued intensely. Corruption can be a major detriment for domestic and foreign investors and lead to a serious misallocation of private and public funds. European business urges the Polish government to remedy the situation on all federal levels by establishing capable administrative and judiciary structures and employing well-trained and adequately paid personnel.

Ability to assume the obligations of EU membership

Within the accession negotiations many chapters of interest to business have already been provisionally closed. Although European business advocated a more flexible approach, the agreements for the chapters “free movement of workers” and “free movement of capital” are acceptable, provided transition periods are as short and flexible as possible. For the financially sensitive chapters (CAP, regional policy, budget) a solution has to be found that will not cause additional burden for business in the long run. A timely solution according to the “roadmap” must neither delay necessary reforms of the Common Agricultural Policy (CAP) and of the regional policy nor should it preempt the financial perspective 2007 to 2013. In principle, the ceiling of 1.27 % of GDP for the EU budget should not be exceeded after 2007.

The “roadmap” for the accession negotiations and the indicative schedule for enlargement as envisaged by the Laeken European Summit (end of accession negotiations with best prepared countries in 2002 and first accessions in 2004) sets demanding goals within an ambitious timetable. As the largest economy amongst the candidate countries, Poland in particular will face the challenge of concentrating on further reforms and expediting preparations for EU accession.

In order to meet all challenges European business encourages the Polish government to take action in the following areas of special interest to companies:

- **Fiscal and budgetary policy**

With a view to the Polish budget deficit and the less dynamic overall economic performance in 2001, the management of public finances should stay on track. Concerted efforts by the government and the Central Bank should lead to the further reduction of inflationary pressures without detrimental effects for the business cycle or the level of spending for investment in infrastructure.

- **Economic restructuring**

In order to develop the potential of the Polish economy to the full and to attract even more foreign investment, further restructuring should be a priority. The privatisation of state-controlled firms especially in the infrastructure markets (transport, energy) as well as in heavy industry (steel) should be accelerated. At the same time a more flexible labour market and reforms of the social security system would contribute towards a more dynamic business climate.

Particular attention should be paid to supporting the efforts of small and medium-sized enterprises (SME) to improve their competitiveness in order further to close the existing quality and productivity gap and to strengthen their position on national and European markets.

- **Free movement of goods**

The application of EU standards and certification procedures for industrial as well as processed agricultural products should be secured in Poland well in advance of accession. Complicated certification rules and procedures are a significant and costly burden for foreign investors and Polish business alike. EU investors continue to report serious delays for cross-border trade due to non-transparent and sometimes arbitrary proceedings.

In addition, the administration and tender of public procurement projects should be more transparent. Companies report administrative uncertainties, unusual risk burdens and opaqueness of decision-making in this field resulting in high barriers for competitive bidding.

- **Intellectual property rights**

Particular attention should be paid to the implementation and enforcement of intellectual property rights especially in the chemical and pharmaceutical sector.

- **Competition policy / state subsidies**

Poland continues to grant tax relief and other business incentives designed to attract foreign investors. In order to create a level playing-field for business the Polish government has to ensure that all provisions and incentives granted for investment - especially in special economic zones - are compatible with EU law. Business welcomes the determination of the Polish government (as stated e. g. in the state aid law) to adhere to this goal and asks for full implementation. If changes to pre-2001 investment schemes are necessary they have to be implemented without harming existing investments. Transparent rules and decision-making as well as efficient and effective enforcement of competition policy rules (state aid and merger control) remain of essential interest for business.

- **Allocation of EU funds (regional and structural policy)**

In order to administer and use European funds properly (already allocated via the pre-accession instruments - especially ISPA – and regarding future financial support via regional and structural funds) the relevant administrative structures and capacities have to be further developed and improved. This is a prerequisite for transparent and efficient management of the funds and for a further increase of the still limited Polish absorption capacity.

- **Environment**

The rapid introduction and enforcement of EU environmental rules are of great importance for Poland and the EU. The Polish government should further strengthen the monitoring and enforcement capacities for environmental rules on all federal levels and thereby contribute to the rapid creation of a level playing-field for business.

Conclusion

Poland is already a major economic partner for the EU. The perspective of EU accession will further deepen the cooperation of business. Economic relations can be developed to its full potential if Poland sustains a positive overall business climate both for Polish and foreign companies.

Privatisation and economic restructuring should have the undivided attention of the Polish government giving special consideration to the consistent application and enforcement of competition policy rules. Priority should also be given to the fulfilment of all obligations formulated in the Europe Agreement well in advance of accession, especially the removal of remaining non-tariff trade barriers.

In its latest progress report the Commission has reaffirmed that Poland meets the political criteria for EU membership. As regards the economic criteria, European business has witnessed considerable progress but further steps remain necessary for Poland and Polish SMEs in particular to be able to withstand the pressures within the Single Market. The ongoing restructuring of the financial sector will help to attract further foreign investment necessary to maintain a high degree of sustainable economic growth and to improve employment.

Regarding the fulfilment of the administrative criteria, Poland should resolutely push forward its legal approximation to the EU and the further development of administrative structures on all federal levels capable of applying and enforcing the EU acquis.

Recent surveys by Eurostat suggest that popular support for EU accession could be further strengthened in Poland, in all other candidate countries as well as in the EU countries. European Business supports the efforts of the European Commission and of the Polish government to conduct a public campaign to counter scepticism and to communicate the advantages of Poland's early EU accession to the people. Business organisations play a key role in spreading the messages also to Polish business, especially to SMEs, and should therefore be part of the campaign.

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