



## **POLONIA** **JANUARY-JUNE 2003**

### **Introduction**

In Poland there are no official institute performing statistical researches on a regular basis: data included in this report try to describe processes taking place in the Polish stone sector in a statistic and descriptive way and are supported by opinions of Polish experts.

The breaking of the state monopoly in 1989 and 1999 made tremendous changes in the Polish stone industry. In order to make the most objective picture of the situation, it's necessary to penetrate the sector in a completely new way. This idea shapes the whole report and it seems that there are no other competent sources of information on the Polish stone industry market than the magazine *Swiat Kamienia*, which has been gathering data for five years. According to *Swiat Kamienia* staff, reports on the stone industry market made by administrative institutions are not precise enough to reflect reality.

### **1 – General economic situation in the Country**

Poland's economy has developed remarkably since the beginning of 1990. The first challenge was to overcome the recession inherited from the era of centralized economic planning, a task that was accomplished in 1992. During the following years, economic growth soared, reaching 7 % in 1995. In terms of overall economic performance, 1997 was one of the most successful years of the transformation phase (one of the reasons for this growth was a very good situation on the world markets). This trend came to an abrupt halt in the fall of 1998, due in no small part to the economic and financial crisis in Russia, whose consequences were still felt at the end of 1999 (GDP growth in 1999 "only" 4.1 %). Economic growth in 2000 (also 4.1 %) fell short of expectations. Due to domestic demand, which has further declined, and a global economy hit by recession, growth rate fell further to a mere 1% in 2001. The situation would turn into a crisis in 2002 if it wasn't for a good result in the last quarter of the year, when the economy started to show some signs of improvement (2002 ended with a 1,35%). The first two quarters of 2003 are good indicator that companies in Poland found a way to boost their sales – (GDP 2003 – I quarter at 2,2%, II quarter at 3,8%). Good results came also from the high exchange rate of Euro which improved export for companies and provided an impulse for new ones starting to sell abroad. Domestic demand also was higher in the first two quarters of this year (I quarter at 2,3% and second quarter at 1,9%).

Poland has become increasingly integrated into the organizations of the global and European economy, most notably through its accession to the WTO in 1995 and to the OECD in 1996. Poland is also a founding member of CEFTA.

#### **a) Prices of consumer goods and services (Inflation) – (Low at 1,9% for the year 2002)**

One of the first problems of the transformation period was inflation. The main strategy of succeeding governments has been a strong fiscal policy with main inflation holder being interest rates. Apart from a new temporary rise in 2000 (10.1 %) inflation has been steadily declining in the last decade (1991: 70 %, 1999: 7.3 %, 2001: 5.1 %, 2002: 1,9%, 2003 [I and II quarter: 0,5%]).

Currently inflation is at a level which is no longer a main threat to the economy. Low inflation gave a strong signal to the Central Bank to start cutting interest rates to allow faster growth.

#### **b) Situation on the labour market (Unemployment rate at 17,8% in June 2003)**

One of Poland's central problems is the unemployment rate, which has been rising again despite continued economic growth since 1997 (10,3 %), showing that quick changes have to be made in the government policy or a wave of unsatisfactory feelings in the society would erupt. The reasons for high unemployment, which in June was 17,8%, are: continuing restructuring of the economy; rigid labour market regulations that since the 90's have not been fully restructured and does not create new work places; relatively high labour costs; demographic development. Further problems



include outflow of foreign investments to neighbouring countries with a more pro investing policy such as Slovakia, Czech Republic, Hungary and insufficient help in producing a favourable environment for development of SME (small and medium sized enterprises), which account for more than 80% in the country.

#### **c) Business sectors**

Poland's most important branches of industry are food, energy, mining, iron and steel industries, followed by machinery, electrical equipment, motor vehicles, textiles and clothing. The service sector accounts for more than 50% of GDP, industry for 24% and agriculture for 3%.

#### **d) Foreign trade**

The deficits in foreign trade and current account balances (2000: 6.6 % of GDP, forecast for 2001: 5.4 % of GDP), which although falling are still too high, give cause for concern. The budget deficit is expected to rise again this year (from 2.2 % to 2.8 % of GDP), but will still be below the Maastricht threshold of 3%. The chronic foreign trade deficit is decreasing. Due to declining domestic demand and good sales, in 2000 exports for the first time rose more than imports (11.6% compared to 1.1%). By May 2001 export volume increased again by 17%. Altogether exports account for just over 20% of GDP Poland's foreign trade has meanwhile become strongly oriented towards EU member states (70% of exports, more than 60 % of imports). Russia's share in Polish foreign trade accounts for barely 3% of exports and just over 9% of imports; the CEFTA states' share has stabilized at a low level (approx. 8 % of exports and 7% of imports).

#### **e) Foreign investments**

Direct foreign investments have decreased slightly: in 2000: US\$ 11 billion was invested in Poland, half of the amount in the telecommunication sector; the total volume thus reached almost US\$ 50 billion (not counting investments under US\$ 1 million). In terms of per-capita investment, with US\$ 775.50 Poland still clearly ranks behind the leading states in the region (Hungary: US\$ 1,888; Estonia: US\$ 1,707 per capita). Although privatization is making only slow progress, the private sector now generates about 70% of GDP and employs approx. 70% of workforce. In most cases, restructurization or privatization mean employment reductions. For three years the value of foreign investments in Poland has been decreasing. While in 2000, a record year, foreign investments amounted to almost PLN 48bn, in 2002 the corresponding figure was PLN 28bn, and in the first eight months of 2003 they stood at slightly over PLN 12bn. The 2002 medium €/PLN exchange rate was 4,08. Another unfavourable tendency is the high share of portfolio investments in total foreign investments in Poland. Purchases of T-bonds, which finance budget expenditure, and not economic undertakings, are predominant.

## **2 – Summary of economic trend in the sector**

- Declining unit costs of products through rational and complete use of raw materials and new machinery and equipment in every phase of processing and extraction.
- Proceeding specialisation and qualification.
- Visible and large inflow of tools, materials and finished products from China.
- Graninter Group's from Spain (Wroclaw) entrance to the Polish market, a lot of Spanish granite blocks in Szczecin harbour. Granite Group includes Marcelino Martinez's firm which is present in Poland in Gorzów Szczecinski region.
- Large Polish firms starting to buy blocks directly, avoiding the use of agents.
- Towns' tenders for stone (granite) and pave work.
- Increasing demand for aggregates to be used in motorways building.
- Increasing popularity of marble and travertine in Warsaw.
- Increasing number of investments including the use of stone in large cities (Warszawa, Kraków, Katowice).
- Steady evolution of small and medium firms into stone processing for building work, partially giving up sepulchral monuments.
- Decline of monuments' production (about 15-20%) in comparison to 2002 year.

- Increase number of finished products (monuments) and semi-finished products (polished slabs, imported mainly from Italy and China).
- Visible increase of interesting in machinery among largest firms; small and medium firms buying smaller machinery for small architecture (window-sills, table-tops or stairs). Increasing interest also second-hand machinery.
- Production of sepulchral monuments for the German market.
- Growing interest in Eastern markets (mainly Ukraine, which is a good source for stone). Polish machinery producer had a stall at Moscow's fairs (Promasz).
- Increased number of stone distributing places.
- Stone offer growing steadily, especially for raw blocks import, polished slabs.
- Decreasing number of stones imported from Brazil in favour of Indian stones.
- Increase in individual orders for exclusive tombstones, table-tops, window-sills and stairs.
- Direct entrance of new Italian machinery producers to the Polish market.
- An appearing offer of purification plants' systems for work-shops and quarries, as an effect of an approaching Poland's entrance into the UE.
- Visible increase in orders from Germany, England, USA and France and general interest in Polish sandstone; export of Polish sandstone to Germany.
- Large orders from Germany and Austria for paver.
- Increasing number of firms (especially offering equipment) at fairs.
- Stone becoming a popular material. Much more information concerning stone on media.
- Polish stonemasonry firms becoming visible on the UE's markets and getting orders for performing works or delivering finished products for different purposes (squares, underground stations, small architecture elements, railways stations etc.).
- Problems in financing investments, due to the lack of trust towards firms in the sector.
- 22% VAT impeding activity of firms producing stone products.
- There are not equal conditions for free market competition, due to still existing corruption.
- The existence of grey area due to imprecision in current law.
- A seasonal character of this sector forces companies to intensify production from March to the end of November. Only few firms have constant orders for building works.
- The use of stone materials is not as big as it would be if the architects had better knowledge of the material, but we register their increasing interest.
- Climatic conditions in Poland historically favoured rather wood than stone market
- Almost in every part of the region there are entrepreneurs who want to monopolise that part of the country, getting rid of existing competition.
- Stone firms from eastern parts of the country want to move the centre of the sector from the south-western part of the country to the centre. In order to create strong stonemasonry regions which would counterbalance traditional stonemasonry centres (Strzegom, Pilawa, Kielecczyzna), investments for developing infrastructure are being made.
- Appearance of new technologies such as Alukam or GMI.– layer slabs, not so popular yet.
- The use of modular stone slab is slow and not familiar to an average client.
- Steady use of stone in interior design (rarely in wall cladding).
- Economic crisis in the last two years put architectonic investments on a tight budget. However, in the last six months new investors came up (Pomorze) who want to participate to more ambitious projects and are not afraid to use the most exclusive materials.
- Entrance of foreign top-class architects, for instance Norman Fisher, to the Polish market.
- A new trend in coloured granite for table-tops, so that its production has increased.
- Stores which so far have only been selling ceramic are becoming more interested in stone.
- Quantity turnover in the early part of this year is the same as it was in the last year, however, prices turnover has diminished by 1/3 to 1/4 which suggests that the largest demand in this year is for cheaper material.
- The cost of cutting stone can become an obstacle in the nearest future: in Poland it's twice as much as in Italy.

### 3 – Imports of machinery (in 000 USD)

a) 84641090 - Machinery for cutting and sawing	1082
b) 84642095 - Machinery for grinding and polishing	975
c) 84649080 - Other Machine Tools	2767
d) Diamond tools (no code)	no data
e) Abrasives, polishing agents, mastics (no code)	no data
Total	4824

### 4 – Origin of imported machinery (ref. previous codes: a, b, c, d, e) (in 000 USD)

	a)	b)	c)	d)	e)
1) Germany	135	51	93	NO DATA	NO DATA
2) China	179	NO DATA	1585	NO DATA	NO DATA
3) Denmark	0	NO DATA	403	NO DATA	NO DATA
4) Italy	551	559	383	NO DATA	NO DATA
5) others	217	364	304	NO DATA	NO DATA

### 5 – Machinery in use (percentages)

a) Produced locally	60%
b) Imported from Italy	20%
c) Imported from other countries	20%

Small workshops usually use Polish equipment (80%). Large workshops mainly use western second-hand machines although recently they have been buying new ones.

### 6 – Advantages and opportunities for Italian companies

During the past decade, Italians have taken the lead over German producers. They have no competition in producing sawing machines; multi saw machines for modular slabs production; linear frame sawing machines and automatic processing lines. These companies are innovative and characterized by good mechanical performance and a good level of automatism.

Advantages for Italian companies can be describe as follows: experience, knowledge, good skills, team work ability, long tradition, governmental support in export activities, NGO support, undisputed quality of the equipment backed up by a positive feedback from the users, visible, often aggressive marketing activities, large financial capabilities.

The Polish market, neighbouring Eastern countries, is not only a standard ready market but also a “bridge to the East.”

### 7 – Obstacles and shortcomings for Italian companies

Italian companies are poor at keeping up with conditions of agreements (deadlines, payments, and quality of goods); they are often unreliable with regard to information, service and spare parts shipments. Expansion of Chinese producers of stone, equipment and tools.

### 8 – Investments planned for the near future (5 years) (000 USD)

a) 84641090 - Machinery for cutting and sawing	ca.	40 000
b) 84642095 - Machinery for grinding and polishing	ca.	30 000
c) 84649080 - Other Machine Tools	ca.	5 000
d) Diamond tools		No data available
e) Abrasives, polishing agents, mastics		No data available

### 9 – Production

Building stone products sold up till the first half of 2003 have risen by 20% in comparison to 2001 (2001: 1.079.000 tons): there has been a clear upward tendency. The official balance for the year 2002 is being prepared by the National Institute of Geology on the basis of the data from the GUS (Main Statistical Office) and will be available by the end of 2003.

### **10 – Export (value in tons)**

25140000	4
25151100	36
25151220	0
25151250	0
25151290	20
25161100	18455
25161210	2287
25161290	1655
25162100	1652
25162200	4872
68022100	60
68022300	257
68029110	2
68029190	81
68029310	7507
68029390	1346
68030010	NO DATA
68030090	NO DATA
68010000	71092

For the first half of 2003 it's possible to obtain only value in tons. Value in USD can be calculated for the whole 2003 only and will be determined at the end of the year.

### **11 – Imports (value in tons)**

25140000	4804
25151100	238
25151220	500
25151250	100
25151290	302
25161100	146158
25161210	1525
25161290	2002
25162100	452
25162200	192
68022100	3474
68022300	2303
68029110	121
68029190	4965
68029310	7210
68029390	5853
68030010	NO DATA
68030090	NO DATA
68010000	888

For the first half of 2003 it's possible to obtain only value in tons. Value in USD can be calculated for the whole 2003 only and will be determined at the end of the year.

### **12 – Current situation of the sector**

There are ca. 7000 masonry companies in Poland. The employment rate is ca. 15000-20000. Among those, 1500 are large companies (with 5-50) workers; the remaining ones are small workshops, specializing mostly in tombstones and employing 2-3 workers. There are less and less small workshops specializing only in tombstones. Large companies have stopped giving credits to small workshops, invest mainly in machinery. Growth of bigger workshops is clearly visible.

### **13 – How did the production structure change**

Some quarries have been closed, other suffer financial problems. The presence of agencies of few foreign companies trading stone has been recently noted (from Belgium, Italy, Spain, Portugal, India), in total ca. 10 companies. The number of masonry distribution outlets has increased. Also, there are more and more small, unregistered workshops that do not pay taxes and that at the same time lower market prices (growing “grey zone” problem).

### **14 – Customs duties and tariffs**

a) 84641090 - Machinery for cutting and sawing	0% duty+ 22% Vat
b) 84642095 - Machinery for grinding and polishing	0% duty + 22% Vat
c) 84649080 - Other Machine Tools	0% duty + 22% Vat
d) Diamond tools	0% duty + 22% Vat
e) Abrasives, polishing agents, mastics	0% duty + 22% Vat

### **15 – Political, economical or other events that may affect the sector**

Stone industry is not solid, it’s unorganized, does not have appropriate and powerful representatives (lobbying) and it does not have any influence on politics and industry regulations. Access to the EU may change the way of thinking and demand for stronger and organized representation; it will also result in the need of new public building, with more orders for larger architectural projects.

EU grants for small and medium enterprises are also very significant, but there will be a competition from the Union – companies with certificates like f.ex. ISO.

Increasing political and financial crisis may have a negative effect. There is need for a change in regulations for investors (lower employer’s cost and taxes). Stone industry companies expect the government to help them at accessing investment credits.

### **16 – Expected laws and regulations for the sector**

Tax stimulus for those investing in new and modernized workshops or introducing new technologies; tax stimulus for domestic producers of stone processing machines and tools.

Adjustment to EU regulations (environment protection, work safety and regulations).

Equalization of VAT tax to 22% for all building materials, especially stone substitutes such as concrete and ceramics. The sector expects the government to solve the “grey zone” problem.

### **17 – Possible developments during the time frame considered**

An increase is expected in demand for small and medium machines used for cutting and processing building elements (table tops, window sills, etc.). Together with Poland’s accession to EU, there will be less small workshops, as bigger companies will integrate.

### **18 – New Joint-ventures, new companies, new trading companies, others (18-21)**

The presence of agencies of few foreign companies trading stone has been recently noted (from Belgium, Italy, Spain, Portugal, India) f.ex. Chin-Ka in Strzegom, Marcelino Martinez Polska Sp. z o.o. in Trzcinna, Ingemar Group Polska Sp. z o.o., Beltrami Polska in Warsaw, Mc Solivan in Warsaw, Surya Stone Europe – Polska Sp. z o.o. in Warsaw.

There have been few new importers, mainly in the Szczecin region, f. ex. Estone, Mat Stone. Those companies which have so far been trading only black varieties of stone (most popular) have broadened their offer adding wide range of colored stones taking at the same time new representatives (Egypt, Brazil, India, Italy).