



October 2015

What PiS would change in the economy

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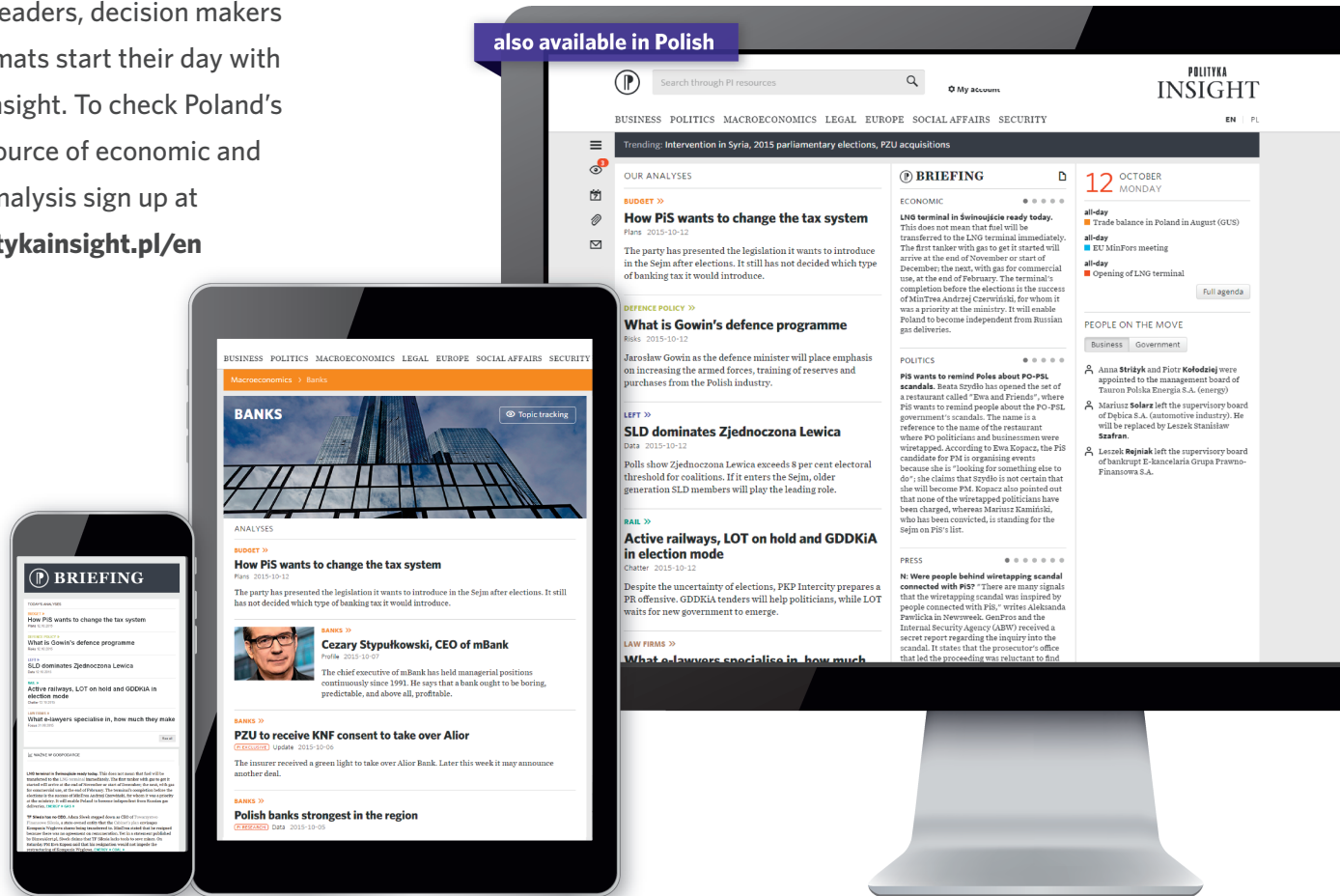
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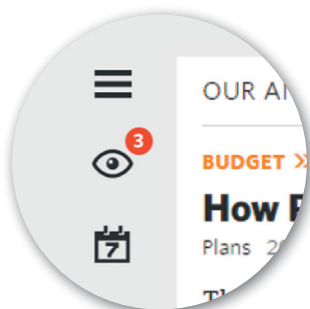
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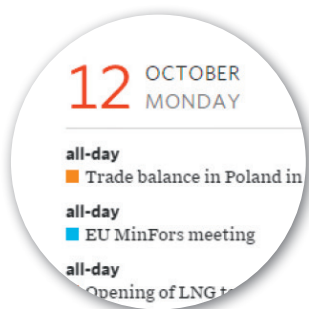


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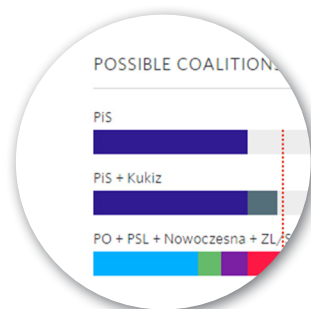
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Economic policy: statism and innovation

Dominik Sipiński, Infrastructure Analyst



KEY POSTULATES

An innovation-oriented statism. The political philosophy of PiS politicians draws from the legacy of the conservative-liberal traditions, dating back to interwar period, and the concept of welfare economics. That is why, on the one hand, the party would like the state to play an increasingly important role in the economy, while on the other hand – it plans to broaden the economic freedom of business entities. Ideas put forward by PiS are aimed at increasing redistribution of funds, boost the role of domestic capital and Poles' purchasing power. PiS also stresses the importance of innovation – the party envisions Poland becoming a leader in technology, not just in providing low labour costs. Investment spending in economy is expected to grow by up to 25 per cent (according to Eurostat, in 2013, it amounted to 22 per cent).

Strengthened supervision over state-owned enterprises.

PiS would like to single out state-owned entities with a 'missionary character' and develop a Corporate Code for them. These enterprises will be guided primarily by the national interests and would support, among other things, investments in the innovations of Polish companies. PiS also plans to abolish MinTrea and transfer the supervision over major companies to a new institution. It would be headed by a manager reporting to MinEcon. Supervision over energy and fuel companies would be taken over by the newly-created Ministry of Energy. Other companies are to be managed by the Office of the State Solicitor of the Republic of Poland, established on the basis of the State Treasury Solicitor's Office.

Increased taxation for banks and retail. PiS plans to introduce new taxes: 0.39 per cent tax on assets held by financial institutions and 2 per cent tax on goods sold in retail stores larger than 250 m². It also proposes to raise the tax-free amount to PLN 8,000 per year. According to PiS, this would cost the budget PLN 7 bln, whereas

analysts put is at PLN 10-20 bln. The party also wants to improve tax collection through introducing a split-payment mechanism for VAT. The basic rate of VAT is set to be decreased from 23 to 22 per cent. According to PiS, sealing the tax collection system would yield more than PLN 50 bln. Still, the party does not plan to change the personal income tax scheme.

Support for small and medium-sized enterprises. PiS wants this sector to benefit from a newly-established Charter for Small Enterprises. In addition, the party announced regular institutionalised consultations between companies and the government. It proposed to lower the rate of corporate income tax (CIT) to 15 per cent for companies that employ at least three workers whose income exceeds Poland's monthly average salary. The party also wants to introduce the possibility of writing off total investment and VAT cash accounting. Small and medium-sized companies will be given priority in public procurement by local authorities – in line with the programme's assumptions, they are expected to take over 40 per cent of contracts. Also, there will be a 20 per cent decrease in reporting obligations for companies.

Less obstacles for innovators. PiS would also like the state to play a more prominent role in supporting innovation across the Polish economy. After taking power, it also plans to change the way the EU funds are spent, so that they could be used to support research and development. The budget of patent clerks will also be increased, and a new institution will be created, aimed to support applied research. PiS will be trying to re-direct foreign capital to make it more involved in the process of generating investments. The investments are to ensure a constant flow of funds into Poland and the economy enjoying a stable growth.

KEY FIGURES IN PiS



Beata Szydło

PiS candidate for prime minister, deputy head of the party since 2010. After the Smolensk plane crash, she became the PiS expert on economic issues. Szydło was also the head of Andrzej Duda's campaign, after which Jarosław Kaczyński announced that she would become prime minister if PiS won the elections.



Piotr Gliński

Head of the PiS programme council, co-architect of the PiS programme congress in Katowice, often expressing his views on various economy-related subjects. He maintains good relations with Jarosław Kaczyński, who would like Gliński to become deputy prime minister in Szydło's government.

▲ WHO WILL GAIN

The economic programme developed by PiS is addressed to Polish businesses. They would become the largest beneficiaries of a possible change of government – in particular, PiS wants to support small and medium-sized enterprises and those investing in innovation. The party is currently trying to reassure foreign capital, but it would like to see it become more involved in investments aimed to develop the Polish economy.

▼ WHO WILL LOSE

The largest corporations, particularly those with foreign capital, will be burdened with new taxes and might find it more difficult to participate in public procurement. Banks and retail stores will be among those most affected, but also their customers and suppliers, as the new burdens would ultimately be transferred onto them. There will also be a personnel reshuffle in state-owned companies.

Financial sector: new banking tax

Piotr Sobolewski, *Financial Sector Analyst*



KEY POSTULATES

Taxing the financial sector. PiS plans to introduce a tax on financial institutions' assets, set at 0.39 per cent. Should all banks be affected by the new levy, the budget would receive PLN 6.2 bln, or 43 per cent of this year's estimated earnings for the entire sector. However, PiS wants to introduce a tax-free amount - the levy will be applied only to those financial institutions that can afford it, most likely those with assets exceeding PLN 100 mln. Not so long ago, insurers and mutual funds were meant to be covered by the tax, but after talks with the market, PiS representatives softened their proposals. They expect the banking tax to generate about PLN 4 bln in budget revenue.

Financial transaction tax as an alternative. Instead of the asset tax, PiS contemplates taxing financial transactions on stocks, bonds and derivatives. For stocks, the tax rate would be set at 0.14 per cent of the transaction, while for derivatives - at 0.07 per cent. PiS politicians count on the tax to generate additional PLN 1.5-1.7 bln in budget revenue. It would be another problem for the Warsaw Stock Exchange (WSE), after dismantling of the OFEs by PO, as it would limit investors' activity on the Polish capital market. In order to avoid the tax, some financial institutions would transfer their offices and parts of their turnover abroad.

Conversion of Swiss franc mortgages. In early 2015, PiS proposed converting loans at the exchange rate from the date the loan agreement was signed - costs of the process, estimated at PLN 60 bln for the entire sector, would be covered entirely by banks. As a result several banks would need to increase their capital and in the worst case scenario the weakest institutions could collapse.

With time, the party softened its position. Recently, an expert team at the President Andrzej Duda's chancellery has started preparing their own proposal to aid FX loans holders. The aforesaid team is also aided by representatives of PiS. The proposal is likely to divide the conversion cost between banks and borrowers, but only provided the banks will bear the bigger part of the burden.

Re-nationalisation of banks. PiS proposes to limit the dominant role of foreign capital in the banking sector. It plans to support domestic financial institutions, both state-owned and private, in their plans to take over banks currently being a part of international capital groups. PiS representatives underline the bank's headquarters and decision-making should take place in Poland, not abroad. In their opinion, the banks operating in Poland should be supporting the country's economic development rather than transfer profits to their foreign owners, who often are in worse financial condition than their Poland-based subsidiaries.

Possible preferences for SKOKs. PiS is a long time supporter of cooperative financial institutions (SKOKs). Grzegorz Bierecki, a head of national SKOK council, is a PiS senator. The cooperatives provided financing for PiS campaign and control, among others, Fratria, a publisher of the right wing weekly "W sieci". PiS believes the 2013 amendment of law on SKOKs is unconstitutional and the Polish Financial Supervisory Authority (KNF) is excessively interfering with the industry's operations. Analysts reckon the party will attempt to force lower capital requirements for SKOKs and make the regulator's policies more liberal.

KEY FIGURE IN PiS



Henryk Kowalczyk

PiS MP, the party's chief tax expert. He is the most important PiS representative in the Sejm committee on public finances and deputy head of the subcommittee on budget realisation supervision. He holds moderate views and understands liberal and social arguments, and believes in successful limiting the tax gap by state institutions.

▲ WHO WILL GAIN

PiS-proposed changes will be beneficial only for the smaller financial institutions, exempt from the tax on assets. Their competitive position would improve and they will be able to offer cheaper loans and attract more clients.

▼ WHO WILL LOSE

The banking tax and FX mortgage conversion could significantly lower the banks' profitability. Investors on the WSE will also lose among the financial sector's dropping stock prices dragging down the indices. Should PiS opt to introduce the financial transactions tax one could expect a significant drop in turnover on the market, especially on derivative instruments.

Retail: taxes for large chains

Piotr Semeniuk, *Senior Legal Affairs Analyst*
Adam Czerniak, *Chief Economist*



KEY POSTULATES

New tax on large retail stores. PiS wants to impose a levy on stores with a trading floor larger than 250 m², amounting to 2 per cent of goods sold and their transportation costs. The party considers also a less strict proposal, with the tax progressively rising: stores with quarterly turnover below PLN 700,000 would be exempted from taxation, while the highest, 2 per cent rate would be applied to those with turnover exceeding PLN 3.5 mln. Depending on the selected variant, we estimate budget revenue will reach PLN 3 – 4 billion annually.

Transaction prices to be reported. In order to limit the tax gap, PiS wants to equip tax offices with an array of control instruments. For retail chains, especially international ones, obligation to report transaction prices will be the most burdensome, forcing them to report practically every transaction with subsidiaries. Also, retail chains will have to report any actions they undertake with an aim of lowering income tax by more than 0.1 per cent of revenue. In order to limit tax optimisation, PiS wants to implement a so-called exit tax: a Polish company will have to pay an additional 19 per cent tax when it sells part of its assets to a foreign entity and the transaction resulting in a drop in taxable income.

Implementing PiS promises would foster consumption. The party proposes increasing the tax-free amount to PLN 8,000 and providing monthly subvention of PLN 500 per child in families with two or more kids. Both proposals would boost Poles' income by PLN 43 bln altogether. Assuming 85 per cent of the amount will be

spent on consumption, it can be estimated the overall spending on goods and services would rise 3.5 per cent. However, large stores sell only basic goods, consumption of which rises slower than income. Thus, we assume a rise in large stores' turnover would be smaller and reach 2.5–3.0 per cent.

New regulations would strengthen smaller players. PiS politicians and experts close to the party support the thesis the large retail chains in Poland enjoy excessive privileges, especially at the expense of small and medium sized suppliers, and farmers in the first place. The party's experts believe pro-competition regulations forbidding charging fees for product placement on shelves, passed in 2002, is not being enforced by competition supervisor UOKiK nor the courts. Similarly, the experts believe the regulations setting the limit of house brands on 20 per cent of total offer is not being enforced. When PiS comes to power, a newly appointed UOKiK head could start enforcing these regulations.

PiS skeptical towards global brands. PiS experts believe activity of global retail chains selling groceries, electronics, and cosmetics, should be limited to protect healthcare, consumers, and smaller suppliers. Potential members of National Broadcasting Council (KRRiTV) believe television advertisements of OTC drugs and junk food should be limited. PiS MPs want to simplify trademark registration for smaller suppliers – they recently supported an amendment to industrial property law taking a step in that direction.

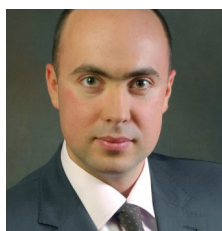
▲ WHO WILL GAIN

The introduction of a turnover tax will favour urban retail chains working through franchise system. They will be excluded from the new tax, while they take advantage of the economies of scale in joint purchases of goods. In addition, the entire retail sector will gain from the rise in consumption, but to a lesser degree than service providers and stores specialising in the sale of luxury goods.

▼ WHO WILL LOSE

Large retail chains will suffer, mainly hypermarkets and discount stores which have their income based on the sale of daily necessities. On the one hand, they will have to pay a higher tax rate than smaller entities because of higher quarterly turnover. What is more, their gains from a rise in consumption will be the smallest. International retail chains will also lose because they will face increased bureaucratic requirements and costs of possible transfer of assets within the group.

KEY FIGURE IN PiS



Maks Kraczkowski

MP since 2005, currently deputy head of the economic affairs committee. He holds liberal economic views, but defends a domestic production sector, including farmer and orchard owners. He is a proponent of simplifying the tax system for small suppliers and strengthening of their position in relation to large retail chains.

Energy: more obstacles for wind farms

Robert Tomaszewski, *Energy Sector Analyst*



KEY POSTULATES

PiS announced the establishment of Ministry of Energy.

It would take over the supervisory and regulatory competences towards the energy sector, currently split between MinEcon, MinTrea and MinEnv. The ministry would most likely be headed by Piotr Naimski. The party also declares it wants to maintain state control over the utilities. Moreover, it will make efforts to have Polish energy producers excluded from EU-imposed CO2 emission limits, as well as to have more funds for power plants' modernisation. PiS might also aim to question the EurCou's decisions with regard to climate package.

Coal: against shutting down mines. PiS promises to fight EU discrimination against coal and pulling out of mine closures. Shortly after elections, the party wants to adopt a new strategy for the development of the mining sector and to conduct an audit of the mines. If, however, the situation on coal market starts to deteriorate, the Cabinet would have to consider shutting down the most unprofitable mining sites. A solution to the situation would be forcing state-owned utilities to take over or co-finance unprofitable mines. The idea of limiting the import of Russian coal to Poland could also be relaunched - a full-scale embargo is, however, impossible, as it would violate the rules of WTO.

Nuclear energy: the suspension of atomic plant construction programme. It was PiS that first, in 2006, offered to build the nuclear power plant, and the then Prime Minister Jarosław Kaczyński even suggested in his exposé the use of French technology. Today, however, the party is divided on the issue. There are

voices that a simultaneous investment in nuclear energy and shale gas would be too expensive for the state. The party questions the locations of the power plant in Pomorze, as it reckons it will affect tourism on the seaside. At the same time, PiS's expert base does not want to abandon the construction of the plant. The most likely outcome is therefore a suspension of the nuclear project.

Renewables: yes to prosumers, no to wind farms. PiS wants to support those renewable energy technologies that guarantee the use of resources available in Poland: biomass, municipal waste, solar energy and hydro-power. A possible PiS government would work on a bill limiting the construction of wind farms. It would also support the development of prosumer electricity generation by restoring higher subsidies for micro-installations. The party does not have an explicit opinion regarding subsidies for the system of RES energy production, but for the moment there is no indication that PiS would want to change the auction system.

Gas: diversification to be continued. PiS's attitude towards energy union is neutral, according to experts who support the party, the plan carries no great added value and its provisions (for instance, the control of gas contracts with Russia or expansion of power inter-connectors) can be achieved on the basis of the existing laws. PiS wants to continue diversifying gas through: expanding the LNG terminal (up to 7.5 bln m3) and accelerating work on the Baltic Pipe, the pipeline which would connect Poland with Denmark and allow gas to be imported from Norway. PiS's gas policy would not be significantly different from that of the current government.

KEY FIGURE IN PiS



Piotr Naimski

PiS MP since 2011, the party's main expert on energy and likely the next minister of energy. In 2005-2007 Naimski served as deputy MinEcon responsible for energy security. He was behind the idea of building the gas terminal in Świnoujście. In his opinion, every binding agreement reached at the UN climate summit in Paris will be detrimental to Poland.

▲ WHO WILL GAIN

The beneficiaries of PiS's energy policy will include, most of all, domestic renewable energy producers and private companies trading gas.

▼ WHO WILL LOSE

Producers of energy from wind farms may lose the most from the change of government. State-owned utilities will bear the burden of propping up coal mines.

Construction and infrastructure: more apartments, funding for railways



Dominik Sipiński, *Infrastructure Analyst*

KEY POSTULATES

Local governments to spur housing construction. PiS intends to create legal framework to initiate the Housing Special Purpose Companies, shares in which would be given to MinTrea or local government, and a developer. The state would contribute in kind with land parcels for the developer to build housing on. Apartments would be available for sale or rent with an option to buy them cheaply after 20-25 years of renting out. About 300,000 apartments could be built this way, more than twice an average from recent years. Additionally, PiS wants to return to the idea of housing credit unions – future buyers would save for their down payment in return receiving a preferential banking loan.

More funds for rail investments. PiS proposes at least 40 per cent of EU funds to be designated for railways – about 1.5 percentage point more than the programmes agreed between PO and EurCom. Opposition wants to move some funds from road construction projects, but in practice, there is no possibility to accomplish this. Should PiS gain power it will make sure to shift national funding – 6 per cent of excise tax inflows will go on rail. The move will benefit domestic cargo companies, especially given the PiS plan to focus on development of national roads rather than working on transit routes. It means that ultimately a larger share of international transit would be transported through railways.

Special companies to build roads instead of GDDKiA. PiS proposes to fully redesign the procedure for conducting road investments. Special investment vehicles would take over the role of supporting investor from GDDKiA – such vehicles would be set up for every investment, with its goals, especially deadlines, being set in a contract with MinTran, meant to be recreated after the future division of MinInfr. Employees' salaries would depend on the company's ability to meet deadlines. As an alternative, PiS proposes to name a government plenipotentiary responsible for highways

development. Moreover, construction companies will be required to outsource 40 per cent of their contracts to small and medium-sized companies, which might prove troublesome in the event of orders piling up together, as it will make the quality control more difficult.

Return to grand infrastructure projects. PiS wants to return to two projects suspended by PO – high speed railways on the so called Y-line and the Central Airport. The former reached a preliminary phase, but was abandoned due to excessive costs (PLN 22 bln). However, PiS believes a fast connection from Warsaw to Łódź, Poznań, and Wrocław would benefit the economy to such an extent that it is worth spending these funds. PiS counts on EU funds and on financial support from private investors under the private-public partnership scheme – the former will be, however, impossible because transportation investments have already been approved. The latter is difficult due to questionable profitability of the projects, especially the high speed railways ones.

Stronger LOT, PKP and Przewozy Regionalne. PiS wants to strengthen the national carriers. LOT will most likely be consolidated with servicing companies, and possibly PPL, to form Polish Aviation Holding. Moreover, once the Central Airport will be established, the airline will move there. PiS will push LOT to recreate the network of foreign connections from regional airports. Przewozy Regionalne are to be re-nationalised (they are currently controlled by local governments and Agency of Industrial Development), with a capital increase to follow. When ordering new rolling stock, domestic producers would be favoured. The party also wants to curb the creation of regional railways competing with Przewozy Regionalne. PiS has also no coherent position on LOT or PKP privatisation – the party's experts see it as necessary, but will not push for quick decisions.

KEY FIGURE IN PiS



Andrzej Adamczyk

PiS MP for Kraków since 2005, currently deputy head of the Sejm committee on infrastructure. Adamczyk is being named as a potential Minister of Transportation in the PiS government. He specialises in housing and road construction, advocating an overhaul of the infrastructure development model.

▲ WHO WILL GAIN

Infrastructure investments to a larger extent will be directed at domestic producers, also small and mid-sized ones. Stimulating housing will benefit developers, but these ideas will be carried out only to a limited extent.

▼ WHO WILL LOSE

The biggest construction companies will face a tougher time. They will be forced to search for new subcontractors and order work to smaller companies, which after initial roll-out could have problems with meeting all the obligations and due to limited capacities will not have the capacity to handle overloading contracts.

Mining: the mines to continue extraction

Robert Tomaszewski, *Energy Analyst*



KEY POSTULATES

Kompania Węglowa's capital increase and audit of mines. First and foremost, the new Cabinet will have to secure financial liquidity for Kompania Węglowa. An idea is being raised within PiS about a financial by-pass that will help the company survive the next few months. Party experts are not disclosing any details, but one can assume PiS will take advantage of the MinTrea plan and will try to help Kompania Węglowa through state-owned TF Silesia. However, there is a major risk the EurCom will see it as illegal state aid and will demand a return of the financial support. Meanwhile, PiS wants to start a technical and financial audit of the coal mines and approve a new strategy for the development of the coal sector.

Coal and energy tied-up. After securing Kompania Węglowa's financial liquidity, PiS wants to integrate coal mines with energy producers. Two scenarios are being considered: switching to coal differentiating contracts or combining utilities with coal mines. Under the first scenario, the coal producers would remain independent, but would be selling coal to energy producers at a fixed price. The second scenario sees the merger of utilities and coal mines. PiS argues a well functioning relationship of the utilities and the coal mines is possible, as exemplified by a brown coal mine in Bełchatów and a nearby electricity plant owned by PGE, as well as Tauron's hard coal mines.

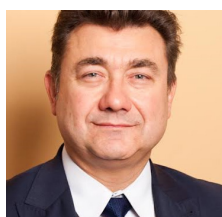
Limiting coal imports and expanding power plants. PiS could propose to amend the public procurement law in such a way to allow for state budgetary units (such as hospitals, for instance) to exclude offers including an over 50 per cent share of non-EU products (including coal). PiS MPs were pushing for similar legislation early this year, underlining it could limit coal imports from the East.

However, in April, the Sejm economic affairs committee blocked the legislation. Increasing demand for coal thanks to construction of coal-based electricity plants is also expected to improve the industry's condition. Reactivation of Ostrołęka power plant's expansion is first on the PiS's list of priorities.

Derogation or opt-out from EU's climate policy. In the eyes of PiS, the EU's environment policy harms Poland's interests and the party will try to undermine the climate and package. In theory, the party could negotiate to receive an opt-out clause, or an option for a member state to be excluded from implementing the EU regulations. For example, Poland is already using an opt-out by not accepting a part of the fundamental rights charter, together with the United Kingdom. PiS is also considering fighting to extend the derogation period for the energy sector. According to the party's politicians, the EU does not specify how long could the derogation be in place, be it 5 or 50 years, and thus Poland should push for a period as long as possible.

Tax changes for miners. Beside saving the coal mining sector, PiS also wants to help another state-owned mining giant KGHM. The party proposes to lift the tax on selected mining products, known as copper tax, implemented in April 2012, claiming the tax's current form will lead to a decline in KGHM's profitability and threaten workplaces (KGHM employs 34,000 people). It is possible that tax policies regarding coal mining sector could be revisited, but PiS is not precise about which taxes could be lowered. In its economic programme, dated July, PiS mentions lower tax rates on construction of new buildings for energy sector investments.

KEY FIGURE IN PiS



Grzegorz Tobiszewski

MP since 2005, deputy head of the PiS parliamentary caucus. Represents the party in issues related to coal, is the unofficial leader of the team preparing the PiS programme for the coal mining sector. He is a proponent of merging the mines with state-owned utilities.

▲ WHO WILL GAIN

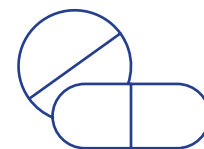
The main beneficiaries of the PiS mining policy will be the unprofitable mines, which will be able to count on the support from state utilities. Mining labour unions will also benefit as they will be able to take part in the works on the programme for the sector.

▼ WHO WILL LOSE

The electricity sector will bear the burden of costs of rescuing the mining sector, which will lead to an increase in electricity prices for end users. If coal prices continue to fall, it is equally likely that some of the mines will be closed down.

Pharmaceutical sector: supporting family pharmacies

Piotr Żakowiecki, *Healthcare Analyst*



KEY POSTULATES

Simplifying and tightening regulation - unclear. PiS politicians believe that regulations governing the healthcare market are overcomplicated. This also applies to the reimbursement law, which they describe as “harmful and detrimental to the patient’s welfare” and which requires some “deep changes”. The party wants to increase control over the sales of dietary supplements, and reduce the instances of drugs being sold outside pharmacies, for example in supermarkets or petrol stations. In addition, PiS is also keen to quickly introduce “legal mechanisms allowing for a complete elimination of the illegal business of drugs re-sale onto foreign markets”.

Preventing the consolidation of pharmacies and wholesalers - certain. PiS supports smaller pharmaceutical wholesalers and family pharmacies – Grzegorz Kucharewicz, the head of pharmaceutical sector’s self-governing body, is running for the Sejm from the party’s list. PiS politicians would like the system of drugs distribution to contain anti-concentration regulations. They also support developing “a map of pharmaceutical needs”, which would keep the creation of new pharmacies in check. In addition, PiS would like to impose limits on the manufacturers’ direct drug sales to pharmacies and make it compulsory to supply all wholesalers.

Reducing drug subsidies - gradual. The party has been inspired by the British system of reimbursement, with patients contributing to the payments for drugs (PiS wants the maximum patient co-payment to amount to PLN 9), and with underage patients and pensioners receiving their pharmaceuticals free of charge (party

representatives believe it is an “ambitious” project could be realised within 8-10 years). In the current campaign, PiS wants to extend the right for free reimbursed drugs onto people over 75 years of age, but its politicians stress that such move would require a special IT system preventing possible abuse.

Increasing expenditure on innovative drugs – possible. PiS representatives voiced their criticism, on a number of occasions, with regard to NFZ spending nearly PLN 4 bln in savings from the reimbursement law for purposes other than reimbursing new drugs. They also view innovative therapy in a positive light, but this could be the effect of logic used in the opposition benches, typically based on criticism of insufficient actions taken by MinHea. PiS has not addressed the issue of using, in the reimbursement system, a less expensive substitution drug instead of the originally prescribed one. When the party assumes power, it will not, however, move away from the idea to carry out tough negotiations on drug pricing with pharmaceutical companies.

Supporting the pharmaceutical industry - questionable. PiS does not point to the need of favouring domestic drug manufacturers, nor does it address the industry’s postulates of introducing the governmental strategy for the pharmaceutical sector. Some representatives of the party would like to support research and development in the field of pharmaceuticals and biotechnology. This would involve increasing the financing of research at universities, but PiS could also encourage the creation of R&D centres by foreign companies.

KEY FIGURE IN PiS



Czesław Hoc

The deputy head of the Sejm’s health committee. Internist and endocrinologist, specialist in family medicine. He is a vocal critic of the current policy regarding pharmaceuticals and one of the two PiS MPs, along with Tomasz Latos, who regularly represent the party in all matters related to pharmaceuticals.

▲ WHO WILL GAIN

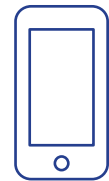
Family pharmacies and small wholesalers of medicines will benefit from the PiS policy regarding pharmaceuticals.

▼ WHO WILL LOSE

After PiS take power, the party may step into the distribution market, which would hurt pharmacy chains and large distributors. The party’s proposals are still not precise enough to precisely estimate how they would affect pharmaceutical companies.

Telecommunications: easier investment

Andrzej Bobiński, Senior Business Analyst



KEY POSTULATES

Lower investment barriers. PiS promises to amend existing legislation related to telecommunications investments and eliminate red tape barriers for the investment. Changes will cover mainly telecommunications law, construction law, and the act on support for developing telecommunications services and networks. New ideas to foster and facilitate investment would be put together into two legal acts – PiS wants to write a new law on transmission corridors and a new Construction Code, which the PO-PSL coalition failed to pass this term.

Joint investments will lower costs. PiS wants to combine investment in fibreoptic networks with, for example, pipelines or electricity networks. It is a *idée fixe* of the former head of Office of Electronic Communications (UKE) Anna Strężyńska and her team, which prepared PiS telecommunications strategy. The team proposes tax exemptions (for example for operators developing technological channels), lower fees for blocking road lanes, mandatory construction of technological channels on new and refurbished bridges. Investors in new and refurbished buildings would have to apply for telecommunications certificates confirming that its residents would be able to choose from several different internet providers.

EU funds for new networks. According to PiS experts, a new plenipotentiary for digitisation (a minister at PMChan) has to quickly prepare new criteria for spending EU funds from the Digital Poland European Operational Programme. The programme's most

important priorities include investment's technological neutrality and setting up such a timetable for investments and tenders that prioritizes cheaper solutions in economically weakest regions. Tenders' criteria should promote solutions based on infrastructure sharing by the operators.

Incentives to invest outside cities. PiS offers a package to incentivise and facilitate companies ready to invest in the regions with the least developed broadband infrastructure, highest development costs, and in least populated areas. Incentives would include tax breaks, mechanisms simplifying legal and formal procedures, credit products, and co-financing from state controlled entities. Incentives would be focused on radio-based technologies (up to 30 Mbit/s) and investments developed by smaller operators.

Weaker operators - stronger customers. PiS wants to implement telecom services monitoring system both on a retail (customers) and wholesale (inter-operator) levels. The party also plans to introduce guaranteed minimum requirements for services. Operators' position will be weakened relative to super-regulator that would combine the competences of the National Broadcasting Council (KRRiTV) and Office of Electronic Communications (UKE). The new regulator could make ex-ante (setting regulatory requirements) as well as ex-post (penalising) decisions. It would cooperate closely with Office of Competition and Consumer Protection (UOKiK), which would oversee the actions as a national competition watchdog.

KEY FIGURE



Anna Strężyńska

She is not a PiS politician, but the party's telecommunication policy was created on the basis of "Digital Poland" written by Strężyńska and Krzysztof Szubert. She bases her opinions on her experiences as the chief executive of Wielkopolska Sieć Szerokopasmowa and from her earlier post as the head of Office of Electronic Communications.

▲ WHO WILL GAIN

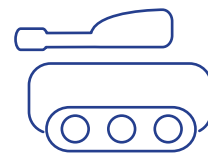
PiS wants to support smaller operators that will invest in the expansion of the network in the least profitable locations. It plans to strengthen the position of the regulator, which will actively promote consumer interests.

▼ WHO WILL LOSE

Large operators may lose from the changes. And, if they are forced to retreat, they will likely reduce investment.

Armaments: more orders in Poland

Marek Świerczyński, Senior Security Affairs Analyst



KEY POSTULATES

Possible change of the air defence system order. PiS will not challenge the delivery of the Wisła medium-range air defence system from the US, but could favour another company than Raytheon with its Patriot system, selected by the current government. It is widely known Lockheed Martin exercises a considerable degree of influence in PiS. Its politicians declared that the elimination of another US company, which offered the MEADS system, had been a mistake. Raytheon has recently established direct relationship with PiS leaders all thanks to Maria Anders, a Warsaw-based candidate running for the Senate. Several board members of her foundation have ties to the manufacturer of Patriots.

Three methods of cancelling the helicopter tender. PiS will be trying to cancel the decision taken by the current government to purchase 50 multi-task Caracal helicopters for the Polish army, manufactured by Airbus Helicopters. The party could do so using a number of methods: freeze the order until the court ruling is taken on the appeal lodged by its competitor, PZL-Świdnik; cancel the tender due to procedure-related errors or exert political pressure on Airbus to withdraw. These actions would be then followed by a sole-source order, presented as required due to some urgent needs of the army, which would be beneficial to companies that have production plants in Poland. Sikorsky Aircraft with its Black Hawk could then become a possible winner.

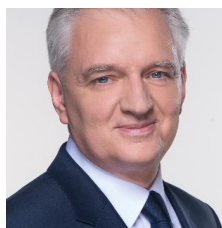
Submarines as a compensation for France. If the supplier of helicopters was changed, the order for new submarines of the U212A or U214-class from Germany would never materialise. The submarine contract would go to France, since, according to PiS, the French companies presented the most cohesive offer that the US side simply cannot beat. PiS MPs wanted the submarines to be equipped with

long-range guided missiles, and the French side declared that Poland would be allowed to use them independently. Experts associated with PiS also indicate that the budget of the entire project has been underestimated, which suggests that there could be a delay as to the plans adopted by MinDef.

More orders for the domestic industry. A catchy election campaign slogan can only materialise through the deliveries of less advanced systems, such as small-calibre weapons, artillery weapons or vehicles. PiS will push for the much-delayed modernisation of Polish Leopard 2A4 tanks, most likely with a Turkish, not a German partner. Gliwice-based OBRUM could hope for increased support of Gepard and Borsuk projects, aimed to develop a light tank and a new tracked transporter, respectively. Under PiS, the prospect of winning key orders, such as the air defence system, will hinge on the level of support for the country's industry and science sectors.

Three options for changes in PGZ. In 2007, PiS began the process of consolidating the defence sector, which is currently underway, so it will not backtrack on the decision. But changes are inevitable in the management of the PGZ group and its subsidiary companies. CEO Wojciech Dąbrowski will likely be recalled from office, and it is possible that the rest of the management might also be dismissed. PiS might also want to remove a number of other CEOs with ties to PO from their posts, for instance the current head of HSW Antoni Rusinek. PGZ could become part of the proposed National Armament Agency (PAU), reshaped into a company that manages particular hardware sectors or strengthened through the process of stripping its subsidiary companies of the capacity for legal actions.

KEY FIGURE



Jarosław Gowin

The PiS candidate for MinDef in the new government, the head of Polska Razem. Gowin's proposals include: higher spending on the army, increase the number of soldiers in the armed forces, more orders from the Polish weapon makers. In recent years, he took part in the meetings of the presidential National Security Council (RBN), representing almost the entire rightist opposition there.

▲ WHO WILL GAIN

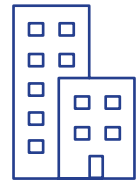
The domestic defence industry will benefit from the PiS defence policy as it will receive significantly more orders than so far. It will also be easier for US companies to gain contracts. The chances of French DCNS in the tender for the Polish order of submarines will rise.

▼ WHO WILL LOSE

The French will also be on the losing end because Airbus will likely lose the contract to deliver helicopters. Germans will see the likelihood of winning the submarine order shrink.

Small and medium-sized enterprises: lower taxes

Dominik Sipiński, *Infrastructure Analyst*



KEY POSTULATES

The sector will pay lower levies. The key proposal of Jarosław Kaczyński's party concerning the sector of small and medium-sized companies involves the lowering CIT rate from 19 to 15 per cent for enterprises with an annual turnover lower than EUR 1.2 mln. The basic condition is for those entities to employ a minimum of three workers with a monthly income that does not fall below the average national salary. Small and medium-sized enterprises would also benefit from the lowering of VAT rate to 22 per cent and VAT cash accounting (the tax will have to be paid after the payment has been received from the customer, not in the month the invoice was issued). All of those levies are to be paid using a single bank transfer to ZUS, which would then be responsible for dividing the amount among other institutions.

Facilitations for investment, especially in research.

According to PiS, the new lower tax rates have been designed to spur investment. After the changes, it would now be possible to make a 100 per cent depreciation (now the maximum level stands at 50 per cent). A number of additional benefits would be introduced for entities involved in innovative projects. In addition, PiS plans to facilitate activities of the so-called 'angels of business', or investors who provide funds for newly established business entities. Such investment would be exempt from the capital gains tax.

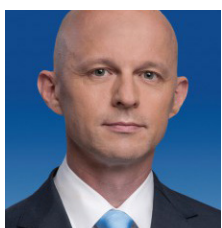
Support for state-owned banks. In situations when commercial banks reject a business plan submitted by a new company and decide not to offer any loans, PiS would like such rejected enterprises to be able to approach Bank Gospodarstwa Krajowego (BGK). Its guarantee capabilities would be boosted to PLN 65-100 bln. BGK will now have at its disposal increased funds to support small

and medium-sized companies. The party also wants to extend the changes onto National Bank of Poland (NBP) – under PiS leadership, the bank is to launch the programme of low-interest long-term loans, similar to the long-term refinancing operation (LTRO) introduced by the European Central Bank. The value of the NBP programme would amount to PLN 160-220 bln.

More public orders for smaller companies. PiS also proposes to change the public procurement process so that it contains criteria supporting smaller companies. As a result, at least 40 per cent of the value of such contracts (directly or through subcontractors) would benefit such companies. On top of that, PiS plans to introduce the possibility of making advance payments, particularly with regard to large infrastructural projects (PKP PLK is already implementing such payment method). The party does not explain, however, whether it could guarantee that smaller companies would have adequate resources to carry out a larger number of orders placed by contractors.

Simplification of rules and deregulation. PiS wants to decrease the number of reports that need to be submitted by companies by at least 20 per cent. It also proposes to engage enterprises in public consultations, which could remove five regulations determined to be the most detrimental. In addition, PiS would like to shorten administrative proceedings, introduce presumption of innocence if the officials fail to issue their decision on time and reduce the number of tax inspections among smaller companies. The party also plans to simplify the law, or, at least, try not to complicate it any further – each new regulation would have to replace the one already in force.

KEY FIGURE IN PiS



Paweł Szalamacha

PiS MP since 2011, deputy MinTrea in 2005-2007. In 2004, he founded the Sobieski Institute – a think-tank, which has become an expert power base for PiS. Between 2008 and 2011 he served as the head of the institute. He has liberal economic views and has completed a year-long management course at Harvard.

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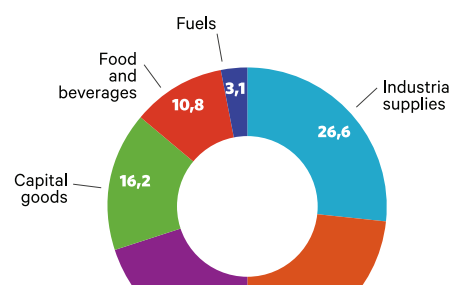
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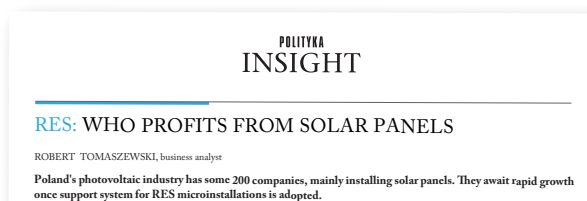
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