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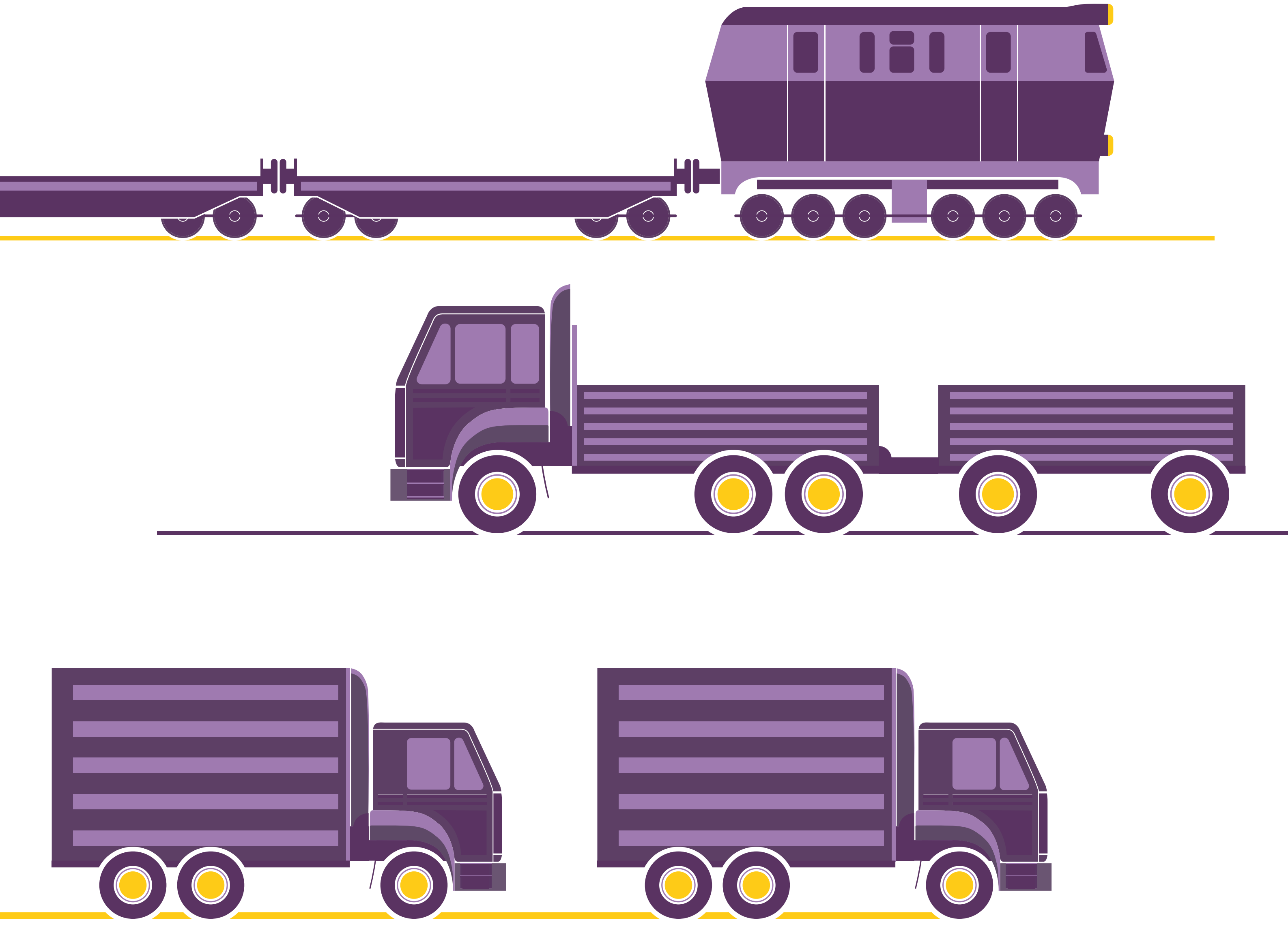

Logistics sector

Impact of the Sunday trading ban

Key findings

How will the draft law on the Sunday trading ban affect the logistics sector and, as a result, the entire economy? In this report, we analyse the logistics sector's role in the Polish economy, as well as the scope and impact of the regulations proposed by trade unions. We then discuss the measures proposed by various circles to soften the Sunday trading ban, assessing the likelihood that they will be adopted and their impact.

Trade unions want the ban to extend to part of the logistics sector. According to the people's legislative initiative, the Sunday trading ban would apply to almost all entrepreneurs working in retail and wholesale (section G in the classification of economic activity), plus companies providing services relating to the warehousing, storage and cargo handling (H52). In addition, the ban would also apply to a part of service activities incidental to transportation, such as trading in ports or railway stations. As a result, most enterprises in group H52, the second-largest segment in the logistics sector after freight transport by road, would not be allowed to conduct economic activity on Sundays.

The logistics sector is one of the key branches of the Polish economy. Its importance results from the big and rapidly growing internal market, lower unit labour costs than in neighbouring countries and a favourable geographical location. According to our estimates, annual turnover in the sector amounted to over PLN 160 bn in 2016, with logistics companies generating PLN 47 bn in value added. Accounting for the self-employed and companies providing logistics support services, the sector's share in GDP amounted to slightly over 5 per cent, more than the automotive, financial or energy sector.

Logistics companies employ over 630,000 people. Another 50,000-60,000 people are self-employed, mostly providing freight transport services. This means that 4.5 per cent of working Poles are employed in the logistics sector. Companies providing freight transport by road account for the largest share of employment in the sector (53 per cent), followed by companies support activities for transportation, from distribution terminals to railway stations, through businesses maintaining transport infrastructure. They account for 11 per cent of employment.

Warehouse and distribution centres are being established at the fastest pace. The share of companies providing warehouse services in the logistics services market has risen to around 5 per cent, from 3 per cent in 2009. These currently employ over 20,000 people; over the past few years, the figure has risen by 2,000-3,000 people a year. This results from an increase in the offshoring of warehouse services by foreign companies and Poland's development as the forwarding centre within the EU, fostered by the sharp increase in the quality of its roads between 2009 and 2014.

The number of foreign-owned companies has been rising. There are currently around 180, up from 126 in 2008, with the largest increase in companies servicing warehouses, logistics and distribution centres. They currently account for around one-fifth of sector's turnover and one-sixth of its added value. Employees at companies with foreign capital are somewhat more productive, which means that international corporations employ 12 per cent of the sector's workers – 30,000 people work at foreign-owned companies providing road transport and another 32,000 in warehouses.

Most logistics companies are located along trade routes. The east-west route is somewhat more popular; around 30 per cent of the sector's workers are employed in Mazowieckie voivodship, 9.4 per cent in Wielkopolskie and 5.8 per cent in Łódzkie. The north-south route has fostered the development of logistics companies in Śląsk (11 per cent of people employed in the sector), Małopolska (7.1 per cent) and Pomorze (6.2 per cent). Other voivodships' share is below 6 per cent.

The logistics sector is highly competitive. In 2014, 94,000 entities were registered as logistics companies, over half of them one- or two-person companies providing road transport. Under 4,000 of them employed more than 10 people; of those, just 138 had over 250 employees. The big companies operated almost exclusively in three areas: freight transport by road, support activity and warehousing. This means that individual firms' margins and bargaining power are very limited.

The sector is resistant to economic shocks. In 2008-2014, profitability, the ratio of the gross operating surplus to turnover, amounted to 14-15 per cent. Even the financial crisis, which sharply reduced global trade turnover in 2009, did not dent Polish logistics companies' profitability significantly. This results from the highly elastic job market in this segment; profitability remained high in 2009 because employment was reduced by 6 per cent, accompanied by a decrease in wages.

The trading ban would have two types of consequences for the logistics sector: direct and indirect. The direct consequences would stem from the ban on some logistics companies' activity. The ban would significantly reduce their ability to provide services to retail companies, especially online orders from Poland and abroad. The indirect consequences would be linked to the decrease in total trade turnover at shops and warehouses and the need to increase maximum daily trade turnover on other days of the week. These would reduce all logistics companies' revenues, while pushing up costs at some of them.

The main direct consequence would be the outflow of foreign capital from the logistics sector. Banning work on Sundays would delay package deliveries both domestically and abroad. The need to spread the increased demand, especially for online sales, across other days of the week would force logistics and distribution centres to increase their processing power by an average of 15-20 per cent, and in some cases even by 100 per cent according representatives of the sector. Keeping foreign-owned logistic and distribution centres in Poland would cease to be profitable and many companies that drove the sector would leave. We estimate that, as a result, value added in the H52 group would fall by 7.1 per cent and employment decrease by 9,500 people.

Freight transport companies' turnover would fall the most. The simultaneous drop in turnover at shops and warehouses would push down road transport companies' turnover by 7.1 per cent. Warehousing companies (down 5.7 per cent) and those supporting transport (down 4.6 per cent) would be slightly less affected. In logistics centres turnover would decline the least, as they are more dependent on the e-commerce and export sectors. Unlike in road transport, though, the decrease in value added in this group would be higher than the decline in turnover, mainly due to the high share of variable costs.

Value added would fall the most at warehousing companies. It would drop by as much as 17 per cent. Distribution and logistics sectors would feel the indirect consequences slightly less; value added would decline by 14.6 per cent. Value added would drop disproportionately compared to turnover because this part of the logistics sector would need to increase its capacity. Representatives of the sector suggest that it would have to increase by 15-25 per cent, which we estimate would push up warehousing costs by 0.6 per cent, and distribution and logistics costs by as much as 1.5 per cent, even after the decrease in variable costs due to lower turnover.

Many warehouse and logistics companies would cease to be profitable. The direct and indirect consequences of the Sunday trading ban would strongly reduce the profitability of companies in the H52 group, from 4.5 percentage points for warehouses, through 3.0 points for distribution and logistics centres, to 0.8 points for other transport support companies. This could cause a wave of bankruptcies among smaller companies, which would concentrate activity in the sector.

The people's legislative initiative would reduce the sector's value added by 13.5 per cent. This is the equivalent of GDP decreasing by 0.5 per cent. Half of it would result from the outflow of foreign investment as warehouse, logistics and distribution centres gradually leave Poland. 33,000 people would lose their jobs. These calculations do not include the decrease in value added in the retail sector.

Politicians want to exempt the logistics sector from the ban. All the proposed changes to the draft law being considered by politicians would exempt the logistics sector from the ban. In the most radical case, it would be the only economically significant change to the version proposed by trade unions. Formally, exempting trading support activities ought to be proposed by the start of October. If approved, value added in the sector would decline by just 4.9 per cent (0.2 per cent of GDP) and employment by 20,000.

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Contents

The logistics sector in the Polish economy

100,000

companies
in the logistics sector

4.4%

of them employ
>10 people

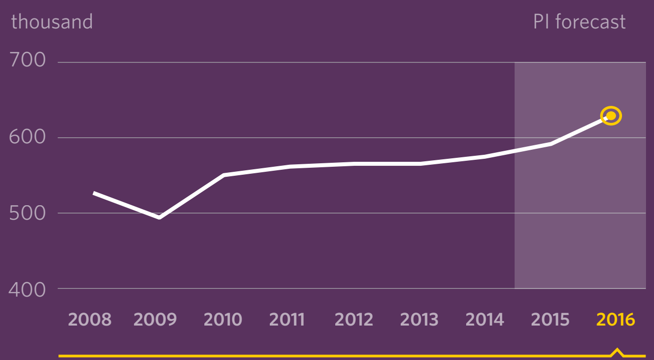
The logistics sector is among the key branches of the Polish economy. Its importance results from the big and rapidly growing internal market, lower unit labour costs than in neighbouring countries and a favourable geographical location. According to our estimates[1], annual turnover in the sector amounted to over PLN 160 bn in 2016, with logistics companies generating PLN 47 bn in value added. Accounting for the self-employed and companies providing logistics support services, the sector's share in GDP amounted to slightly over 5 per cent, more than the automotive, financial or energy sector.

Logistics companies employ over 630,000 people. Another 50,000-60,000 are self-employed, mostly in freigth transport by road. This means that 4.5 per cent of working Poles are employed in the logistics sector. Although the pace of growth over the past two decades resembled that of the broader economy, there were two periods of rapid growth in individual segments. The first boom came shortly after Poland joined the European Union, when employment in freight transport by road rose sharply; by 20 per cent between 2004 and 2007.

The second boom, between 2012 and 2016, resulted from the development of logistics, warehouse and distribution centres in Poland. Employment in these areas rose by 11-14 per cent a year. This development was linked to rapid growth in e-commerce in the EU and international companies opening distribution and logistics centres in Poland. As a result, logistics services exported from Poland increase each year, with Polish companies aiming to become increasingly important links in the European supply chain. According to the latest data, the share of foreign sales in overall turnover was 14 per cent for warehouse and distributional services and 21 per cent for road transport services (along with passenger transport).

The development of shipping companies and opening of distribution and warehouse centres has been accompanied by a decline in the economic significance of water and air transport, as well as postal and courier services. Since the global financial crisis, employment in the latter category has been declining, which is linked to the restructuring of Poczta Polska and how couriers are being displaced by parcel collection points.

EMPLOYMENT IN THE LOGISTICS SECTOR



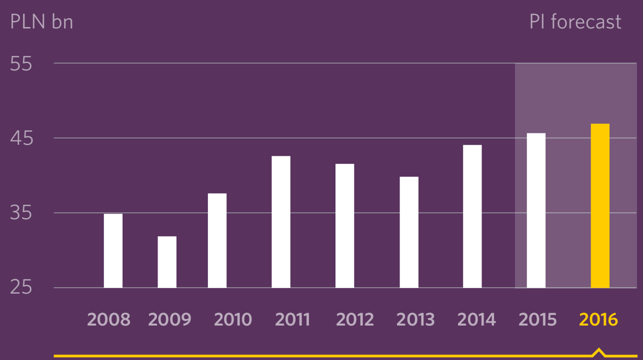
630,000

people employed
in the logistics sector

4.5%

of all employment

VALUE ADDED IN THE LOGISTICS SECTOR



PLN 47 bn

in value added

5.1%

share of the logistics
sector in GDP

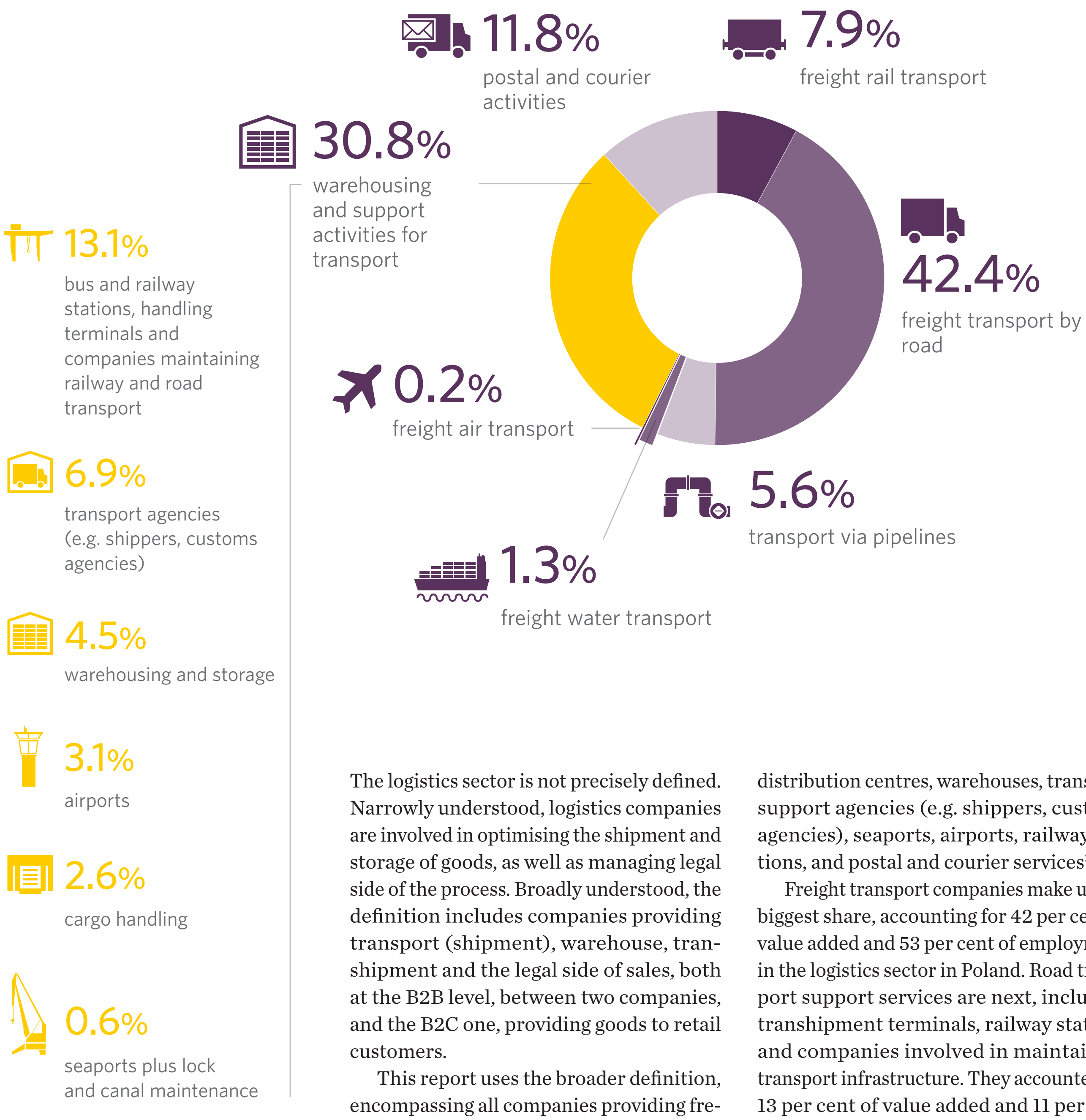
Source: Eurostat, own calculations.

1 Further information on how these estimates and the economic impact of the Sunday trading ban were calculated,

Structure of the logistics sector

STRUCTURE OF VALUE ADDED

Source: Eurostat (2014 data), own calculations.



The logistics sector is not precisely defined. Narrowly understood, logistics companies are involved in optimising the shipment and storage of goods, as well as managing legal side of the process. Broadly understood, the definition includes companies providing transport (shipment), warehouse, transhipment and the legal side of sales, both at the B2B level, between two companies, and the B2C one, providing goods to retail customers.

This report uses the broader definition, encompassing all companies providing freight transportation (land, water and air), distribution centres, warehouses, transport support agencies (e.g. shippers, customs agencies), seaports, airports, railway stations, and postal and courier services[2].

Freight transport companies make up the biggest share, accounting for 42 per cent of value added and 53 per cent of employment in the logistics sector in Poland. Road transport support services are next, including transhipment terminals, railway stations and companies involved in maintaining transport infrastructure. They accounted for 13 per cent of value added and 11 per cent of employment in the sector.

2 According to classification NACE rev. 2.0 as logistics firms we understand all companies classified in groups and classes numbers 49.2, 49.41, 49.5, 50.2, 50.4, 51.2 and whole groups 52 i 53 of section H.

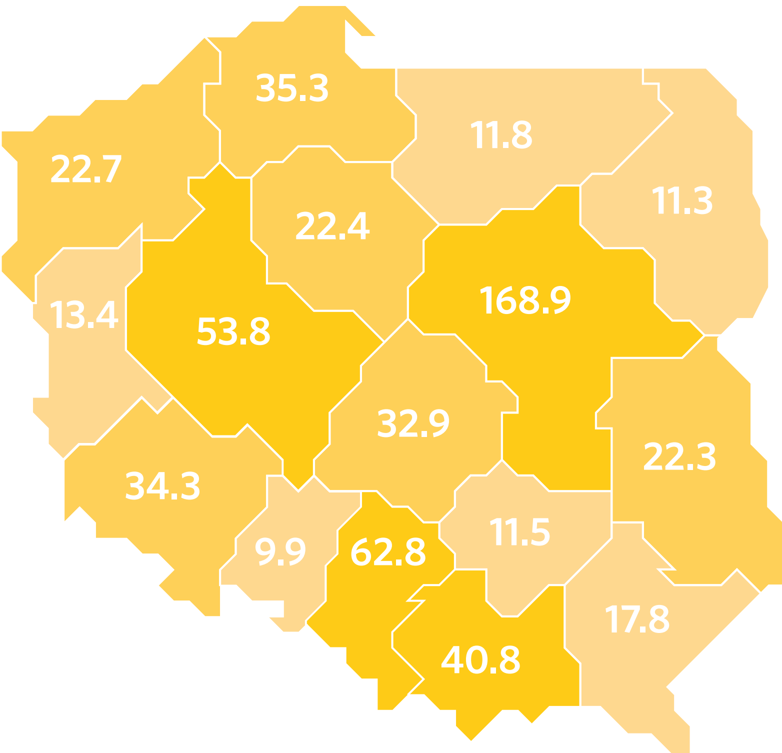
The third-largest group are companies providing postal and courier services. They account for 12 per cent of value added and 16.6 per cent of employment. Most of these people work at Poczta Polska's branches. According to our estimates, the value added of courier companies alone amounts to PLN 650-700 million, or 1.5 per cent of the value added of the entire sector. The share of employment is even smaller, just above 1 per cent.

Rail transport (8 per cent of value added in the logistics sector), transport agencies (7 per cent) and pipeline transport (6 per cent) are much less significant for the economy. Companies involved in warehousing deserve particular attention; their share in value added is approaching 5 per cent, up from less than 3 per cent in 2009. These currently employ over 20,000 people; over the past few years, the figure has risen by 2,000-3,000 people a year. This results from an increase in the offshoring of warehousing and cargo handling services by foreign companies and Poland's development as the forwarding centre within the EU, fostered by the relatively low cost of renting warehouse space, competitive labour costs and the sharp increase in road quality between 2009 and 2014.

Regional variation of logistics companies

EMPLOYMENT IN LOGISTICS (IN THOUSANDS)

Source: Eurostat (2014 data), own calculations.



There is significant regional variation in employment and salaries at logistics companies. Most companies are located along trade routes, with somewhat more on the east-west route. Around 30 per cent of the sector's workers are employed in Mazowieckie voivodship, 9.4 per cent in Wielkopolskie and 5.8 per cent in Łódzkie.

The north-south route has fostered the development of logistics companies in Śląsk (11 per cent of people employed in the sector), Małopolska (7.1 per cent) and Pomorze (6.2 per cent). Other voivodships' share is below 6 per cent. Interestingly, the logistics sector has developed relatively evenly in recent years, except in Wielkopolskie voivodship. With the construction of the A2 motorway, this region's share in Poland's logistics sector has risen gradually, by an average of 0.15 percentage points a year.

The highest average gross monthly salary is paid by logistics companies from Mazowieckie voivodship (PLN 3,455) and Pomorskie (PLN 2,945). In other regions, it does not exceed PLN 2,500 gross. This results from considerable variation in the structure of the logistics sector in different voivodships. Logistics, warehouse and distribution centres, along with their offices, where salaries are the highest, are mostly located in Mazowieckie (43.8 per cent), Śląskie (11 per cent), Wielkopolskie (9.1 per cent) and Pomorskie voivodship (8.4 per cent).

Concentration of the logistics sector

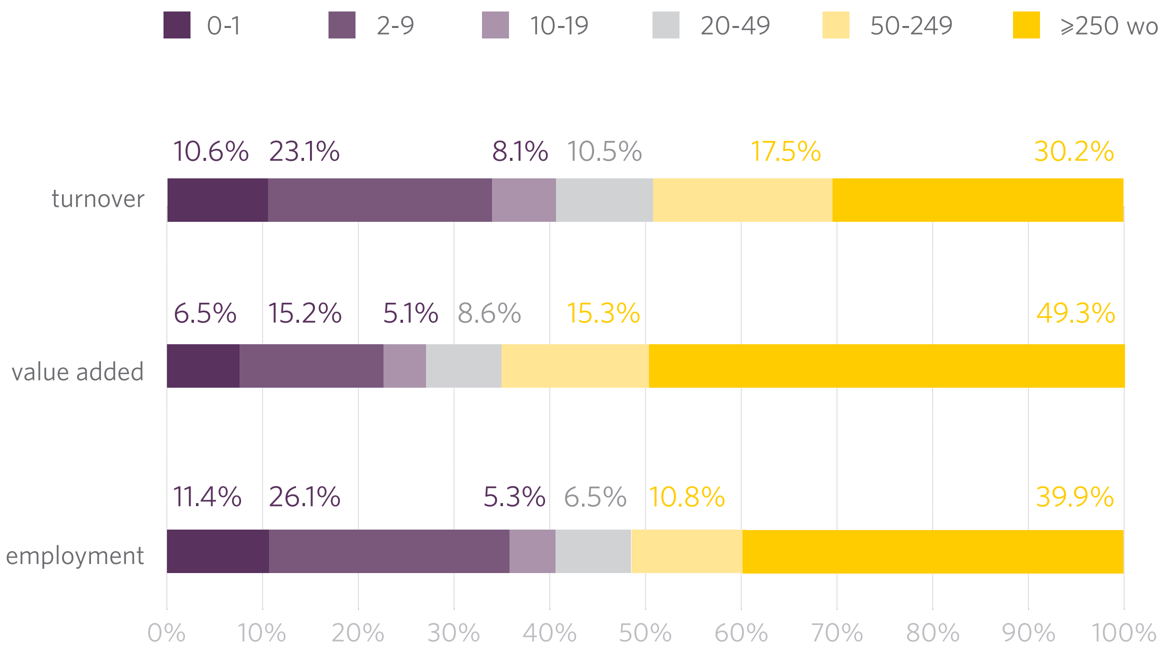
In 2014, 94,000 entities were registered as logistics companies, over half of them one- or two-person companies providing road transport. Under 4,000 of them employed more than 10 people; of those, just 138 had over 250 employees. The big companies operated almost exclusively in three areas: freight transport by road, support activity and warehousing. They also include Poczta Polska, its activity regulated by law. Big companies generated PLN 22 bn in value added, almost half the total in the logistics sector. They were also characterised by higher productivity, as they account for 40 per cent of employment in the sector.

The second-largest group of companies in terms of share were microenterprises with two to nine workers, which accounted for 15 per cent of value added, 23 per cent of turnover and 26 per cent of employment. These mainly provide freight transport by road or services supporting this type of transport.

This data indicates that, with a few exceptions, the logistics sector is highly competitive, which means that individual entities' margins and bargaining power are very limited. Logistics and distribution centres are the exception. The specific nature of their activity gives big companies, often with foreign capital, an advantage. Even so, their bargaining power and margins are also limited, as they are operating on the highly competitive EU market.

SHARE OF COMPANIES IN THE SECTOR'S TURNOVER, VALUE ADDED AND EMPLOYMENT, BASED ON NUMBER OF EMPLOYEES

Source: Eurostat (2014 data), own calculations.



Financial conditions of logistics companies

In recent years, the profitability of the logistics sector, measured as the ratio of gross operating surplus and turnover, was 14-15 per cent. Even the financial crisis, which sharply reduced global trade turnover in 2009, did not dent Polish logistics companies' profitability significantly. It fell by a mere 0.4 percentage points, reflecting the sector's high elasticity. Employees in this segment can be laid off quickly and inexpensively. Profitability remained high in 2009 because employment was reduced by 6 per cent, accompanied by a decrease in wages.

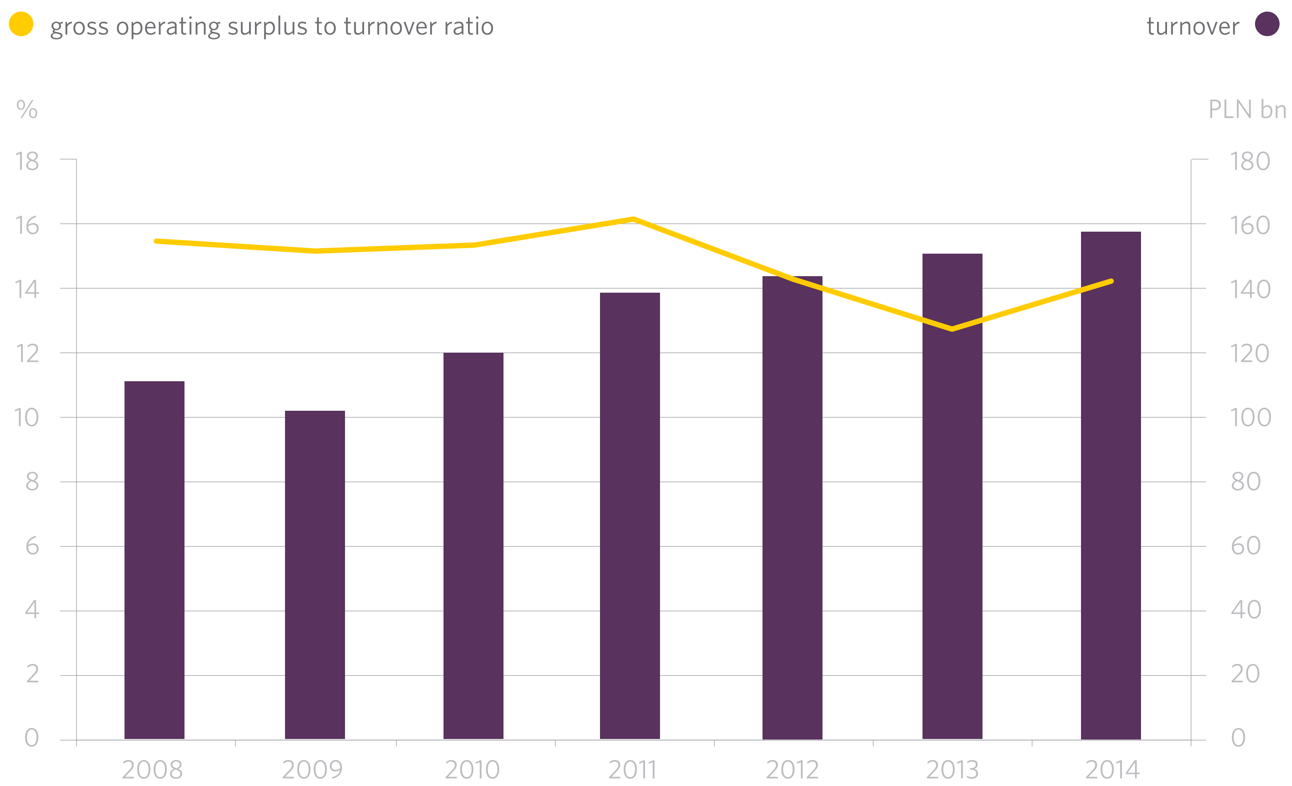
Nevertheless, the situation is gradually changing; even in the logistics sector, the labour market is increasingly becoming an employee's market. In 2013, the strong slowdown in the Polish economy, along with the recession in the eurozone, had a much stronger impact on freight transport companies' condition. Profitability temporarily fell by 1.5 percentage points, dragging down profits in the entire logistics sector.

The most profitable group are businesses managing transport via pipelines, where the ratio between the gross operating surplus and turnover is usually above 50 per cent. Profitability is also above the sectoral average at freight water transport companies, both maritime and inland.

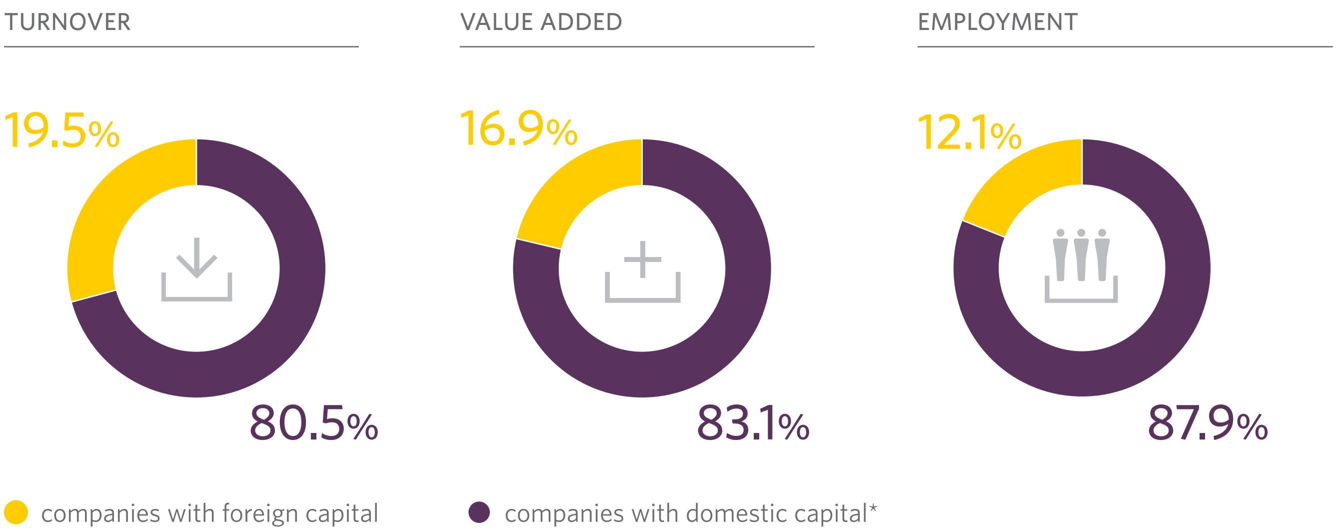
Companies offering postal and courier services are the least profitable. The profitability index there oscillates around 10-11 per cent, falling temporarily to as low as 6.2 per cent in 2008. Poczta Polska is mainly responsible, as it undergoes continuous restructuring. Profitability is a few percentage points higher at courier companies.

RESULTS OF LOGISTICS COMPANIES

Source: Eurostat, own calculations.



Significance of companies with foreign capital



*assuming that companies employing up to 9 people are owned exclusively by Polish shareholders

Source: Eurostat (2014), own calculations.

Foreign-owned companies account for 17 per cent of value added in the logistics sector and 20 per cent of its turnover. This means that, unlike in other sectors of the economy, logistics companies with foreign capital are less profitable[3] than domestically owned (10.7 per cent compared to 17.1 per cent, at companies with at least 10 employees). The difference in profitability partly results from the fact that foreign-owned companies often do the least profitable work, such as road transport, warehousing or managing logistics and distribution centres.

Secondly, salaries are much higher at companies with foreign capital. The average gross salary at a foreign employer with at least 10 employees is around PLN 4,100, PLN 650 more than at companies in the same category with domestic capital. Salaries between companies with domestic and foreign capital are only similar in the group of companies providing warehouse and distribution services.

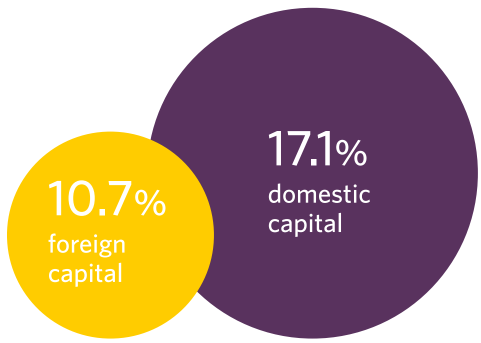
At the same time, people working at companies with foreign capital are somewhat more productive; they account for 12 per cent of employees in the sector. Around 30,000 people work at companies with foreign capital providing road transport and another 32,000 in warehouses.

The number of companies with foreign capital is systematically rising, especially among those servicing warehouses or logistics and distribution centres. There are around 180 of these now, up from 126 in 2008. The number of companies with foreign capital working in freight transport by road dropped temporarily due to the global financial crisis. It began increasing again a few years ago, exceeding 200 in 2014.

3 Profitability indicator measured as the ratio between the gross operating surplus and turnover.

PROFITABILITY OF COMPANIES WITH DOMESTIC AND FOREIGN CAPITAL

Source: Eurostat (2014), own calculations.



Impact of the Sunday trading ban on the logistics sector and the economy

The draft law banning trading on Sundays was submitted to the Sejm by the legislative initiative committee, led by NSZZ Solidarność. The committee also included other trade unions, employers' organisations from the retail sector and social organisations, such as Związek Rzemiosła Polskiego, Akcja Katolicka, Polska Izba Paliw Płynnych and Polska Grupa Supermarketów. They collected over 350,000 signatures for the draft, more than three times the required minimum.

The draft reached parliament on September 22, 2016, with the first reading on October 6. It was then sent to the Sejm's permanent subcommittee for the labour market, where work on it practically ceased. It was not until Janusz Śniadek, a PiS MP and former leader of Solidarność, took over as the subcommittee's chairman that the likelihood of work resuming increased.

At this stage, it is unclear what the final regulations might be, or when the draft will return to the Sejm's plenary chamber. For this reason, this analysis focuses on the impact of the most restrictive version of the provisions, which was proposed by the committee.

After that, the third chapter examines the extent to which the softer versions of the law proposed by various circles would affect these findings.

Scope of the proposed regulatory changes

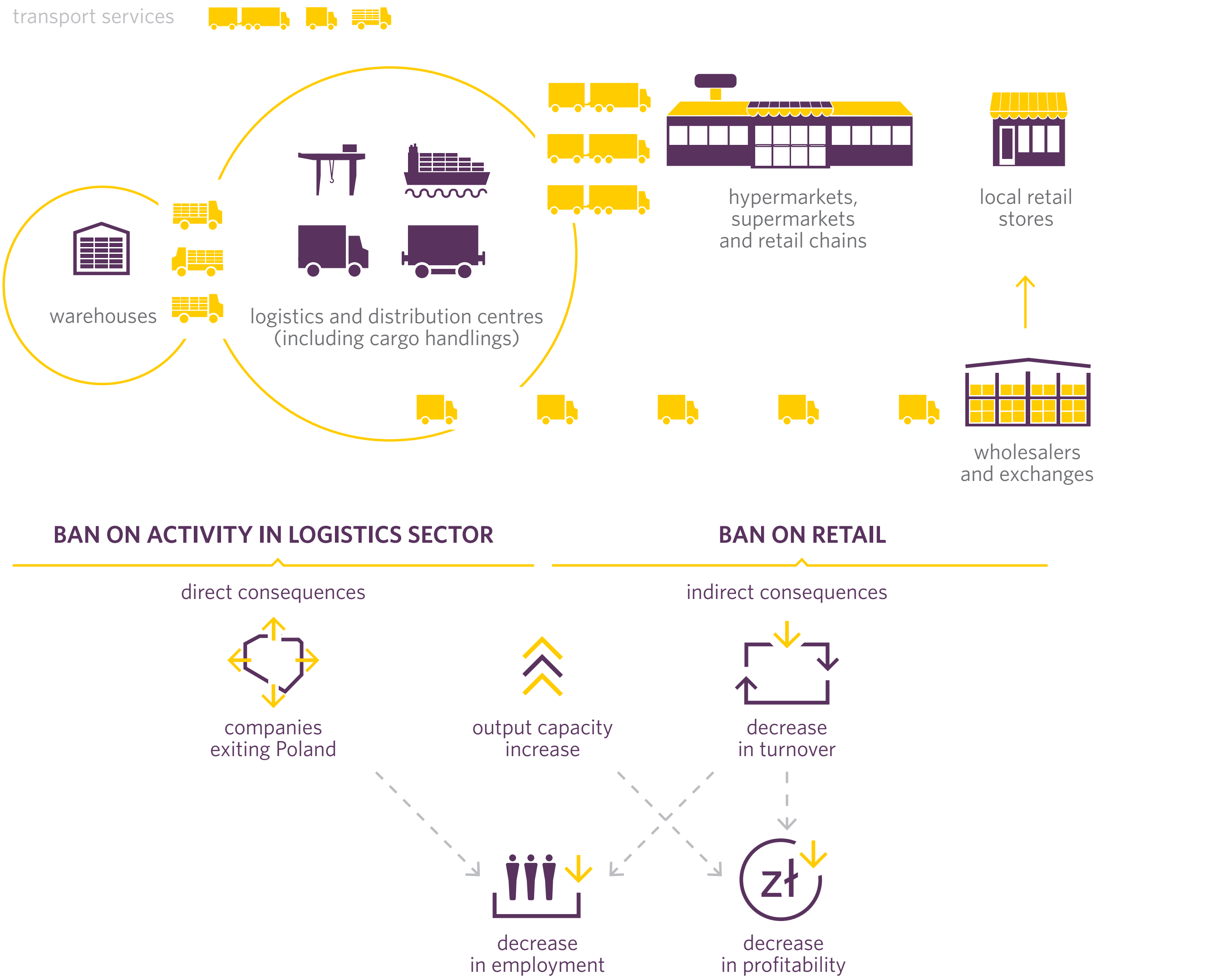
The people's legislative initiative would restrict trade understood in two ways; as entrepreneurs exchanging goods for money and as conducting "other sales actions (...) at trading points and entities providing services for trade", both in Poland and abroad. The latter conception is relatively broad and is not defined precisely in the draft law. The committee specifies that other trading actions are actions linked to logistics, warehousing, transhipping and distribution, but these terms are not defined using the classification of economic activity, just described in the draft itself.

Referring to logistics centres that would be included in the Sunday ban, the draft means "spatially functional objects", along with the "infrastructure and organisation" where logistics services linked to accepting, storing, allocating and distributing goods are provided. Warehouse centres enable the storage and movement of goods between the provider and the recipient, while transhipment terminals are where the landing, unloading, transhipment and temporary storage of containers takes place. Distribution centres are places where goods owned by the providers are stored and allocated to recipients, as determined by the owner.

The draft law also includes a few exemptions. The ban would not apply to objects needed to ensure continuous work and to supply the population with water, gas, electricity, fuel and petrol, along with trade in duty free and hospital zones.

The ban would, however, encompass almost all entrepreneurs involved in retail and wholesale trading (section G in the classification of economic activity), companies providing services linked to the warehousing, distribution and transhipment of goods, and trading in ports and bus or railways stations (most of group H52).

HOW THE SUNDAY TRADING BAN WOULD AFFECT THE LOGISTICS SECTOR



Direct consequences for logistics companies

The citizens' draft not only bans trading at retail units on Sundays, but also the operating of logistics, warehouse and distribution centres, along with transhipment terminals. This would have a direct and indirect impact on the state of the sector. On the one hand, these companies would not be allowed to operate on Sundays, which would significantly limit their ability to provide services to retail companies, especially for online orders in domestic and from abroad. On the other hand, the sector would feel the indirect impact of the decline in turnover at shops and warehouses.

The main direct consequence would be the high risk that many international distributional companies would leave Poland, after becoming the main drivers of the sector's development in recent years. The good location, attractive ratio of employees' qualifications and productivity to remuneration, and the relatively cheap cost of land, were the main reasons why logistics and distribution centres providing services for other countries in the region were built in Poland.

Banning operations on Sunday would lessen the benefits of investing foreign capital in Poland, as the inability to work seven days a week would interrupt the flow of shipping goods and delay deliveries not just to Poland, but also to Germany, the Baltic States and the Czech Republic. Furthermore, having to spread demand across the rest of the week would force these centres to increase production power by an average of 15-20 per cent, and by as much as 100 per cent in some cases as most orders placed online over the weekend would have to be processed on Monday.

Right now, one-third of turnover in the entire sector is generated by companies with foreign capital in the H52 group (warehouse and support activities for transportation) and exporting their services accounts for 15 per cent of the group's entire revenue. Conversations with representatives of the sector have led us to conclude that companies providing two-thirds of the export of services would leave Poland due to the ban. We estimate that, as a result, the revenue of companies in the H52 group would drop by PLN 7 bn and the value added by PLN 2.2 bn, or 7 per cent. This would reduce employment by 9,500 people.

Indirect consequences for logistics companies

Some segments in the logistics sector react to changes in turnover at shops by a magnitude of one-to-one, or even larger. This means that every fall in sales, especially at hyper- and supermarkets using logistics services on a large scale affects the state of the sector. Based on earlier estimates by PwC[4] and experts' opinions, we assume that turnover at shops will fall by an average of 4-6 per cent after the introduction of the Sunday trading ban. We expect larger drops at big shops and smaller ones at small shops, which are often closed on Sundays anyway.

Companies transporting goods would feel the indirect impact of the Sunday ban most strongly. We estimate that the simultaneous fall in turnover at shops and warehouses would push down transport companies' turnover by 7.1 per cent. This would reduce value added by 5.5 per cent, or PLN 1.2 bn a year. Small and medium enterprises providing freight transport by road would be affected, too. In the worst cases, they could lose most of the demand for their services and go bankrupt.

The lower decrease in value added than in turnover reflects the transport sector's elasticity when cutting costs, as well as the increase in transport efficiency as there is more work on other days of the week. As a result, we expect a relatively small decrease in profitability, measured as the ratio of the gross operating surplus to turnover, in the transport sector – 0.6 percentage points.

4 PwC, 2015, Rynek handlu detalicznego w Polsce. Potencjalne skutki wprowadzenia węgierskich rozwiązań regulacyjnych dla polskich sieci handlowych.

Warehouses and companies providing support activities for transportation would be slightly less affected by the ban, with a decline in turnover of 5.7 and 4.6 per cent respectively. This includes logistics centres, where turnover would decline the least, as they are more dependent on e-commerce and exports. Unlike in road transport, though, the fall in value added in this group would exceed the drop in turnover, mainly because of the high share of variable costs.

Capacity of warehouses, distribution and logistics centres would have to increase, as 30-70 per cent of Sunday's turnover would be processed on Saturdays and Fridays, as well as Monday at companies dealing with online orders. This would require additional investment and push up companies' costs, as they are forced to maintain larger warehouse facilities, more distribution points and jobs. Representatives of the sector indicate that capacity would have to rise by 15-25 per cent.

In the optimistic scenario (increase of 15 per cent), we estimate that indirect costs at warehouses would rise by 0.6 per cent, and by as much as 1.5 per cent at distribution and logistics centres, already after accounting for the decline in variable costs caused by the fall in turnover. As a result, value added would decrease by 17 per cent at companies providing warehouse services, by 14.6 per cent at distribution and logistics centres and by 5.5 per cent at other transport support companies.

In this way, the direct and indirect impact of the Sunday trading ban would strongly reduce the profitability of companies in the H52 group, from 4.5 percentage points for warehouse centres, through 3.9 points for distributional and logistics firms, to 0.8 points for other companies providing support activities for transportation. The scale of the decline in profitability would largely depend on employees' negotiating power when determining new salaries. For them, the Sunday trading ban would mean a decline in real earnings, which some would probably wish to counter by demanding a higher base hourly rate.

The Sunday trading ban could result in some companies in the logistics sector, especially those providing warehouse and distribution services, ceasing to be profitable. This could mean a wave of bankruptcies at smaller companies operating near big cities, where it is harder to find employees. As a result, the sector would become more concentrated.

Impact on GDP, the labour market and public finances

The total decline in value added at the different groups of companies in relation to the value added of the whole logistics sector would be as much as 13.5 per cent, which would reduce GDP by 0.5 per cent. Half of this would be caused by the outflow of foreign investments from Poland, as warehouse, logistics and distribution centres are gradually moved to other countries. The impact of the Sunday trading ban would be spread out over time, amounting to 0.3 percentage points in the first year after the regulations enter into force and no more than 0.1 points in two subsequent years.

-33,000
employment in logistics

VAT
PLN -0.5 bn
in tax revenues

WD
-13.5%
-0.5% of GDP
value added in logistics

Employees in the sector would feel the decline in employment. Overall, 33,000 people would lose their jobs, mainly in voivodships located along trade routes, like Mazowieckie, Wielkopolskie and Śląskie. The impact on the economy as a whole would be slight, though; with the current labour shortage, workers in these regions would be absorbed by other sectors and the lay-offs are unlikely to have a statistically significant impact on the unemployment rate.

The ban would also have a negative impact on the state's tax revenue. We estimate that it would decline by around PLN 0.5 bn, mainly due to lower revenue from indirect taxes in transport, including excise. The combined decline in other tax revenue, including from PIT and CIT tax, is unlikely to exceed PLN 0.2 bn. Local governments' revenue would fall by less than PLN 0.1 bn, and this decline would only be felt in municipalities and districts where logistics and warehouse centres are located; that is, smaller regions of Mazowieckie voivodship.

Impact of softening the Sunday trading ban

Exceptions

Proposal

Two types of exemptions from the Sunday trading ban are currently being considered. The first would exempt certain types of units such as pharmacies, petrol stations, bakeries and one-man businesses, where the entrepreneurs conducts sales himself. The second would exempt trading support activities, which are included in the current draft; in other words, logistics, distribution and warehouse centres, along with transhipment terminals.

Likelihood of it being adopted

A Sejm subcommittee is already working on the first type of exemptions. It stands a high chance of being adopted, possibly with minor corrections. The second type faces opposition, especially by trade unions, but our sources indicate that the proposal has already been accepted by the Cabinet and MPs involved in work on the draft. The governing camp argues that banning distribution centres and terminals from operating on Sundays would lead to shortages in Monday deliveries for shops. Moreover, the government fears that the ban would prompt companies providing logistics services for the entire region would leave Poland for e.g.Czechia or Slovakia. Formally, the proposal to exempt trading support activities from the ban ought to be submitted in early October, when work on the law in the Sejm resumes.

Economic consequences

The first type of exemptions would not significantly mitigate the negative economic consequences of the ban for the logistics sector, but it would reduce the social costs. The businesses in this group account for a small percentage of trade turnover and do not require the constant restocking of goods, unlike shopping malls, hyper- and supermarkets or discount stores.

In contrast, the costs of the law for the logistics sector would fall significantly if those companies were exempted from the ban. All the direct effects mentioned in the previous chapter would disappear and the required increase in processing power at warehouses and logistics and distribution centres would be much smaller. Some transactions conducted on Saturdays or Mondays could be processed on Sundays, which would reduce traffic at peak delivery time. Based on statistical data and conversations with representatives of the sector, we expect that capacity of warehouses and distribution centres would have to be increased by no more than 5 per cent.

With this assumption, we estimate that the ban exempting trade support companies would limit its negative impact on the logistics sector to a fall of 4.9 per cent in value added, the equivalent of GDP decreasing by 0.2 per cent. The impact would be entirely felt during the first year after the law enters into force. Employment in the sector would drop by 20,000 people and tax revenue decline by PLN 0.3 bn.

WD -4.9%

-0.2% of GDP

value added
in logistics

-20,000

employment
in logistics

VAT PLN -0,3 bn

tax revenues

Just two Sundays a month covered by trading ban

Proposal

Another option being considered is limiting the ban to two Sundays a month. On the two free Sundays, all the exemptions in the previous proposal would apply, including allowing logistics, distribution and warehouse centres to operate. On the two working Sundays, everything would continue as usual. There would be two additional working Sundays before Christmas and on Palm Sunday.

Likelihood of it being adopted

This proposal is currently the most likely option for softening the Sunday trading ban. It is backed by deputy prime minister Mateusz Morawiecki and minister for family, labour and social policy Elżbieta Rafalska. It is opposed by PiS MP Adam Abramowicz, who chairs the parliamentary team for supporting entrepreneurship and economic patriotism. In his view, this solution would lead to chaos, with consumers uncertain which Sunday is working and which is free. However, Abramowicz added that this is his private opinion and that he will adapt to politicians' decision on the final shape of the regulations. Trade unions have not yet adopted an official stance on the matter, but our sources indicate that they would find this option acceptable.

Economic consequences

Estimating this solution's impact on the economic situation in the logistics sector is difficult, as it is unclear how consumers would behave; in particular, whether they would shop on the working Sundays. This is a good solution in the context of exemptions, as it would not result in an outflow of foreign capital from Poland and would not require a significant increase in capacity of logistics and distribution centres. With this option, their increase on some weekends would not exceed 5 per cent.

We expect that this option would cause value added in the logistics sector to decrease by 2.8 per cent, lowering GDP by 0.1 per cent. This would happen entirely during the first year after the law enters into force. Employment would decrease by 11,000, as the consequences of this solution would be the least severe for companies involved in the transport of goods. Tax revenue would decline by PLN 0.1 bn.

WD -2.8%

-0.1% of GDP

value added
in logistics

-11,000

employment
in logistics

VAT PLN -0.1 bn

tax revenues

Banning trade from a certain hour onwards

Proposal

Seeking compromise between the retail sector and trade unions, MP Abramowicz proposed a time restriction: trading would be allowed until 1 p.m. on Sundays and from 6 a.m. on Mondays. This proposal also includes a few exemptions, but far fewer than in the first proposal. Only petrol stations, pharmacies and logistics, distribution and warehouse centres would be allowed to operate.

Likelihood of it being adopted

Until recently, this was the most likely option for softening the ban, as Abramowicz's proposal was tentatively approved by the governing camp, the retail sector and some trade unions. Ultimately, though, the retail sector withdrew its support, as its representatives submitted their own proposal; inscribing two free Sundays a month for every worker into the labour code. The latter idea has received hardly any backing, though.

Economic consequences

Abramowicz's proposals is the best option of the Sunday trading ban for the logistics sector in this scenario. International companies have no reason to leave Poland, and logistics and warehouse services would not have to increase their capacity. The sector could handle retail and online shopping in Poland and abroad smoothly. Logistics companies would only feel an indirect impact due to lower turnover in certain groups of shops, especially shopping malls. As these tend to open at 10 a.m. or 11 a.m. on Sundays, banning trading from 1 p.m. onwards would make opening them on Sundays unviable.

As a result, value added in the logistics sector would decrease by 1.8 per cent, two-thirds of this due to the decline in the transport of goods and one-third due to lower warehouse activity. The consequences would not be felt in the economy as a whole, though. GDP would not decline by more than 0.1 per cent and employment would fall by just a few thousand people.

WD -1.8%

-0.1% of GDP

value added in logistics

-7,000

employment in logistics

VAT no impact

tax revenues

Appendix: methodology

To calculate the value added at factor cost, turnover (or gross premiums written) and number of persons employed by group of companies using the PKD classification, Eurostat's Structural Business Statistics (SBS) database was used. To interpolate missing data for 2009 for H50, the average of the years 2008 and 2010 was taken. For data for 2008, 2010 and 2011 for the H50.4 group, linear regression was used.

This gave complete data for H549, H50, H51 and H52, with data for H53 in 2008-2011 calculated residually. To get an approximate number for value added in H53.2 in 2012-2014, growth in revenue from the PwC report was used. Value added for H53.1 was then calculated residually. For data on employment in H50.2 and H50.4 in 2008-2011, a similar algorithm to that for value added was used. To break down H53 from 2012 onwards, the share of H53.1 in H53 was extrapolated from a linear regression. To calculate statistics for companies grouped by size, Eurostat's SBS database was used. For classified or inaccessible data, approximations were used, assuming constant estimated size per worker (value added, employment, turnover) in a given year, regardless of the size of the company. When there were discrepancies between data calculated this way and the total for the entire group, the remainder (positive or negative) was divided by the number of people employed in the sector. The SBS database was used to estimate companies' profitability. For missing financial data and revenue in H50 and H53 in 2008-2011, permanent shares for section H were used, excluding groups H49, H51 and H52 for 2012. To supplement missing data for H50, averages and linear regression similar to those for value added were used. For data on the ownership structure, SBS data for companies with 10 or more employees was used.

To estimate gaps in the data for H50 and H53 in 2008-2011, permanent shares for 2012 in H, excluding groups H49, H51 and H52, were used. To separate turnover in water and air transport, the share of this type of transport in the sector as a whole, calculated to estimate the value added. At the end, the data was corrected for companies with fewer than 10 employees, assuming that microenterprises' capital is entirely domestic. In addition, discrepancies between data on value added and employment in the SBS database and data on national accounts (NA), as well as big gaps in data for 2014-2016, estimates about the current size of the logistics sector and its share in Polish GDP had to be made. These are expert estimates, based on the available data on value added and employment for the entire H sector published by GUS and Eurostat, as well as GUS data on the transport of goods and logistics companies' activity reports.

The estimates on the impact of the Sunday trading ban are based on the data above and the WIOD database for 2008-2014. They were used for the econometric estimation of cointegrating models, which enabled the dependencies between different groups of companies in the economy to be estimated, and the ratio between turnover, value added, indirect consumption and personnel costs within a single group of entrepreneurs to be established.

The following assumptions were used in the estimates:

- the average increase in processing power in group H52.1 and class H52.24 in the baseline scenario is 15 per cent (5 per cent in the first and second scenario and 0 per cent in the third) and means an increase of 15 per cent in all fixed indirect costs for H52, based on the Leontief matrix.
- the dependence between a change in employment and a change in labour costs is fixed, i.e. an increase of 1 per cent in labour costs corresponds to an increase of 1 per cent in employment.
- after the ban enters into force, turnover would fall by the equivalent of two-thirds of all exports in H52;
- based on data in the PwC report (see footnote 4), we assumed that big shops (with a surface over 400 m^2) account for 66.1 per cent of class G47.11, and small, non-specialised food shops for 33.9 per cent of this section;
- department stores and shopping malls are companies in group G47.1, excluding class G47.11;
- the fall in turnover in the baseline scenario will be 5.9 per cent for big shops and 3.9 per cent for small shops (based on PwC);
- the fall in turnover at department stores and shopping malls will be 4 per cent, and 1 per cent at wholesalers (sections G46.3 and G46.9) in the baseline scenario;
- in the second scenario turnover in all segments will fall by half the amount in the baseline scenario;
- in the third scenario, big shops' turnover will fall by half the amount in the baseline scenario, small shops' and wholesalers' turnover will not change, and department stores' and shopping malls' turnover will fall by the same amount as in the baseline scenario.

Given the discrepancy between data from Eurostat's SBS and NA database, the consequences for GDP in 2017 of the Sunday trading ban's impact on the transport sector were calculated similarly to those used in the first chapter.