



Weekly Briefing

**Poland Economy briefing:
Economy Development in Poland
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In February further important news on the development of Polish economy were delivered. First, Polish Oil Mining and Gas Industry (further as PGNiG) discovered new gas deposit in Poland, second more Ukrainians would be allowed to work in the Czech Republic and third further centralisation of Polish national champions is expected. In the briefing, the questions on the future of Polish energy security, relations with Ukraine in terms of the labour market and the reasons for further centralisation of own state enterprises will be addressed.

In the area of Przemyśl (southern Poland) over 2,000 meters underground, the new gas deposits were discovered. The PGNiG Geology and Hydrocarbon Production Branch have completed a test on the Przemyśl-290 production well, located in the Ujkowice area north of Przemyśl. The analysis showed a gas flow rate of approximately 150 m³/min. The company emphasises that the discovery allowed the use of innovative research and drilling methods. *“3D seismic images have fundamentally changed our view of the geological structure of the deposit. They have prompted our decision to revitalise the field and keep it producing for decades to come,”* said Piotr Woźniak, President of the PGNiG SA Management Board. As argued by the president of the Polish Oil Mining and Gas Industry the discovered deposits will provide the raw material for several dozen years. By the end of the year, PGNiG plans to drill three more wells in this region. The field near Przemyśl is the most significant gas extraction site in Poland. The raw material obtained from it is of the highest quality - the methane content is about 98-99 percent. From the beginning of mining, over 64 billion m³ of gas has been extracted from the deposits. Currently, PGNiG holds 21 licenses for exploration and appraisal of crude oil and natural gas as well as 25 concessions (exploration, recognition and extraction). The company also has 213 operating licenses, of which 151 are licenses for natural gas extraction, 14 - oil, and 48 - oil and gas. PGNiG also has excellent permits for natural gas storage and three licenses for landfilling.

To develop further excavations, PGNiG planned to buy the new equipment namely: the Bentec 2000 HP. This “drill” has a lifting capacity of 500 tons and a power of 2,000 horsepower, which allows it to drill more than 6,000 meters in length. The total height of the device is 59 m, including the height of the mast - 46.33 meters, and the drilling table is at the height 9.75 meters.

Regarding the second issue, it needs to be recognised that the competitions over the Ukraine labour forces started. The Czech Republic has doubled the work permit limit for citizens from Ukraine. In fact, this is an essential signal for Polish companies. Czechs pay better, and their life is cheaper than in Poland. In the Czech Republic in 2018, there will be less than 20,000 employees from Ukraine, who work legally. At the first glance, this is not impressive. It is only about a percent of the number of Ukrainians lawfully working in Poland. But when we see the dynamics of the changes situation is different. As in 2016, the limit was 3,800 people, and a year ago was 9,600. There is no indication that the trend should be reversed, especially that unemployment in the Czech Republic is purely theoretical - employees are missing.

According to Eurostat, in the Czech Republic, 2,3 percent remain unemployed. The number of people who could take up employment in December 2017 was 216 629. At the same time, there were 259929 job places. Deputy Minister of Foreign Affairs of the Czech Republic, Martin Stropnický, who reported on the changes on Twitter, assured that Czech companies do not intend to apply “pay to dump”. As was declared Ukrainians are to receive the same salary as the Czechs. This should be the most critical alarm signal for Polish companies that employ people from the East. The average monthly wage in the Czech Republic is around 80-100 euro higher than in Poland. To the disadvantage of Poland are also the cost of living and purchasing power of the average salary. The Czechs can buy more than Poles for their payments. A survey carried out at the end of last year shows that Czechs have cheaper products like bread, pasta, rice, meat (except poultry), milk, cheese, oranges, bananas, tomatoes, wine or beer.

Out of almost 2 million Ukrainians who worked legally in our country in the last year, 1.8 million did so from a simplified procedure, i.e. a declaration of intention to entrust work to a foreigner for six months. The process takes several minutes. Introduced from this year a new type of permit, which allows you to work in Poland for nine months, should improve this result. The Czechs tried to use Polish experience and at the expense of 50 million kroner (PLN 8.2 million) Shorten the time of issuing the permit, which currently takes seven months. According to the head of the Czech Chamber of Commerce Irena Bartnowa, Palkoverj is the most significant problem for employers who would like to hire an employee from Ukraine.

Poland is the second most desirable direction of economic emigration among the residents of Ukraine. *Only the Germans were ahead of us* – as mentioned by the media. And in fact, the survey that we can enjoy should concern the Ukrainian government. Almost every second citizen of this country is looking for the opportunity to work outside of his country. Among the youngest, it reaches 68 percent. The same survey shows that every fourth (26 percent) citizen of Ukraine wants to work in Poland. We overtook, among others USA, Canada and the Czech Republic. Every sixth Ukrainian intends to work in the countries mentioned above (16 percent).

The consolidation of the most significant state own enterprises in the energy and heating sector are likely to become real. As declared by “Gazeta Prawna” (Law Newspaper): *Although no decisions have been made and no letters of intent have been signed yet, the concept of a new power system in the energy sector is beginning to clarify.* In January 2018, the Polish Energy Group, which took over PLN 4.27 billion in Polish assets of the French EDF last year, including several heats and power plants, it may reach for the heating company of Tauron. The “Gazeta Prawna” informers indicated that the most likely version is the pairing of PGE and Energy as well as Enea and Tauron. A few years ago the Polish Energy Group was about to buy Energa for 7.5 billion zlotys (3.8 billion RMB). At that time, however, the Office of Competition and Consumer

Protection did not agree. This time it could be different - experts speculate. Conditional consent may be that the Polska Grupa Ciepła (The Polish Heat Group) would be sold to the Polish Oil Mining and Gas Industry. Besides, there would be about 30% consolidation. Domestic heat market as part of the planned Polish Heat Group. The second possible merger is the combination of Lotos and PKN Orlen. Both companies conduct consultations, and the newly appointed president of PKN Orlen is likely to take continue the negotiations. Moreover, since the Law and Justice took power in 2015, the combination of Lotos and PKN Orlen will also be considered. *According to our industry interlocutors, working groups have been set up in both companies to conduct consultations* as said by media. The consolidation of the petrochemical industry seems to be essential to win the competitions at the international market. In 2016 the issue of relations between Polish company and J&T Company was discussed by the Polish media. J & T Finance Group SE is an investment group operating in the banking, energy, media and development sectors. The Group has offices in the Czech Republic, Slovakia and Russia. Its owners are Jozef Tkac (45.6%), Ivan Jakobovic (45.6%) and two companies belonging to the CEFC Group China Energy Company Limited (almost 9% shares). The most prominent controversies in Poland was because, in the Czech media, some reports of lawsuits against PKN Orlen appeared. PKN Orlen is the minority shareholder of Unipetrol. J&T was supposed to complain about dividend policy, acquisition of Spolana among the others. It seems that it is about typical business issues and rational actions of a minority shareholder, who seeks to defend his interests in a situation where the dominant shareholder uses its position. The problem was that the CEFC Group China Energy Company Limited hoped to buy more than 50% of shares in J&T Finance Group and the lawsuits against the Polish company were mainly driven by the competition between Chinese and Polish companies. The consolidation of Lotos and PKN Orlen should have secured the Polish companies positions in the international markets.

Conclusions

The newly discovered gas reserved in the South of Poland indicates the possibility of being more independent from Russia in the energy sector. Apart from the LNG purchased from Norway and the United States, the intensification of the excavations taken by the Polish Oil Mining and Gas Industry should be understood as the further step into the less dependent on Russian natural resources. The second issue that should be carefully watched is the Polish labour market. As was said the Czech Republic has intensified its policy towards the Ukrainian workers and should be perceived as the competition over the labour forces. Finally, the consolidation of the fuel and heating sector is needed in Poland. It is because by having strong, huge companies their domestic and international competitiveness will be strengthened. They will have the better negotiating position in talks on oil supplies, as argued by the editor-in-chief of the industry webpage [energetyka24](#) Piotr Maciążek. Moreover, the companies will have the higher creditworthiness, higher chances of connecting people to cities in the systemic heat network, but also the potential to raise money for the modernisation of smaller heating plants and the development of cogeneration. Finally, as raided by the Polish government the consolidation, it will help protect the companies from attempts to take over by the foreign companies.