Is it time to step up a gear?
Deloitte survey

February 2012

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Introduction

Dear Sir/Madam,

We are pleased to present you with the second edition of the annual report entitled "*Is this time to step up a gear?*" prepared by our experts specialized with automotive sector issues. In order to diagnose the current status of the automotive industry in Poland and its perspectives for the nearest future, we carried out another survey addressed only to representatives of the industry.

Polish Automotive Industry Association (Polski Związek Przemysłu Motoryzacyjnego) and Instytut Samar acted as the sponsors of the initiative. AutomotiveSuppliers.pl and the organizer of MotoIdea conference were the survey partners.

Current years have seen rapid changes in the global economy as a whole, with automotive sector often situated in the mainstream of events. Therefore, we have decided to summarize the collected experience and present projections for the nearest future for Polish businesses.

The survey included over 80 representatives of management staff and finance departments of automotive enterprises in Poland.

As in previous year, we aimed at evaluation of macro scale interdependencies of the industry with additional focus on local environment, including investment and consumption incentives and the tax system. New technologies are a challenge for each industry. Does Polish market, though, provide relevant opportunities and are the market players and consumers ready to face the challenge? Among many other questions, we asked our respondents to what degree new trends, such as electric vehicles, may impact plans and operations of Polish enterprises. We have surveyed general industry predictions for 2012 in a number of respects: from sales volume all the way through consumption spends and employment level.

Having reached a broad range of respondents, our analysis provides a broad view on the automotive industry in Poland and its nearest future. They are extended with comments of the survey partner and patron, as well as with interviews with managers of leading automotive companies operating in Poland.

We hope you find the report an interesting source of information regarding the current standing of the automotive industry in Poland.

We would like to take the opportunity and thank all survey participants for their time.

Your comments and opinions are a valuable source of information.

Yours faithfully,

Marek Turczyński
Partner in Audit Department,
Deloitte Poland

Tomasz Pałka
Manager Tax Advisory Department,
Deloitte Poland

Survey results

1. Speaking in broad terms, how have the last 12 months contributed to a change in the scope of operations of your Company*?

a) We significantly increased our business

b) We slightly increased our business

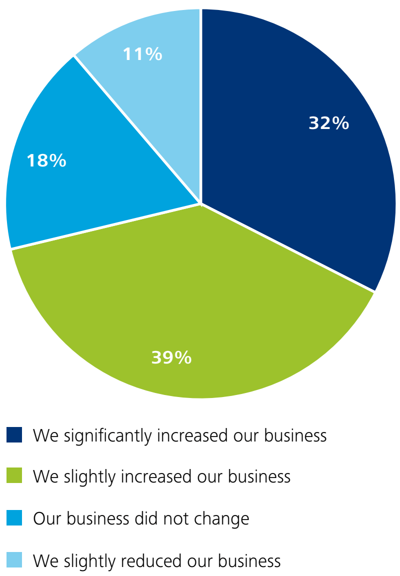
c) Our business did not change

d) We slightly reduced our business

e) We significantly reduced our business

f) Don't know

*(reduction of/increase in staff numbers, withdrawal of a specific product range, decrease/increase in sales revenue - attention: not the margin level).



Responses to the first question sound optimistic, both with regard to the current standing of our economy and the automotive sector and to the future. Over 70% of the respondents indicated that in the past 12 months they have expanded, and nearly one-third said that the expansion was significant. The trend is very interesting since during the previous survey, only 55% of respondents confirmed an increase in their business.

Respondents of 2012 survey do not indicate any significant reduction in their business over last 12 months, as did 5% of 2011 survey participants. The question was very broad and does not indicate profitability level since business increase has been defined both as a growth in employment, launch of new products and an increase in sales revenue.

Such a starting point for 2012 seems very optimistic, especially that comparison with 2011 results indicates a clear positive trend in the Polish automotive sector. Sources of the optimism may lie in the growing number of orders on European markets, which is crucial from the viewpoint of transformation initiatives and investment. Stability and positive opinions regarding market trends make entrepreneurs invest instead of optimize costs, which is typical for crisis and slowdown periods.

Responses to this question are nearly identical to the outcome and conclusions proposed in the comment to question 1. Nearly 60% of the respondents expect that within the next 6 months markets will grow and revenue will increase. This marks very optimistic perspectives for the broadly defined automotive sector in Poland for 1H 2012. Interestingly, incentives for buyers of new cars in most European countries expired a long time ago. Thus, the positive attitude seems to stem from the general standing of the global economy rather than from measures implemented by governments intervening in local markets.

However, translating these positive attitudes into specific decisions and measures undertaken by individual businesses remains a big question. What, then, should we actually expect in 2012? A number of answers may be given to this question, directly depending on long-term plans made by each entity and international capital group. Obviously, the unstable euro gives rise to doubts regarding longer investment horizons. Nevertheless, the bad times seem to be nearing the end.

2. In the next 6 months your markets/ sales volumes will:

a) Increase significantly

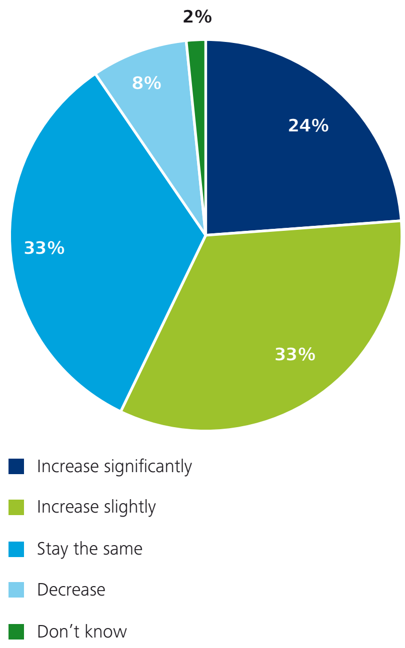
b) Increase slightly

c) Stay the same

d) Decrease

e) Decrease significantly

f) Don’t know



3. Will you carry out a new investment project in the next 12 months?

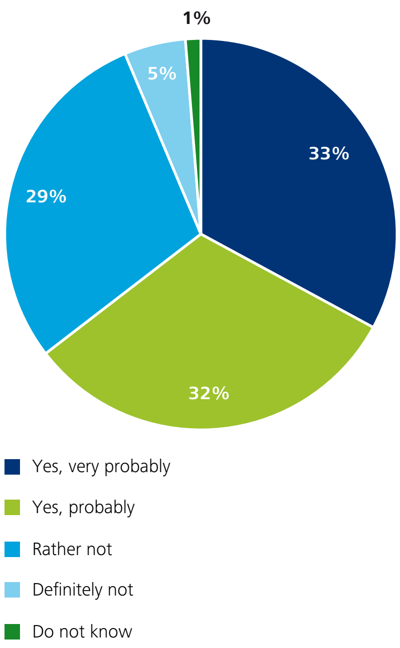
a) Yes, very probably

b) Yes, probably

c) Rather not

d) Definitely not

e) Do not know



As many as 65% of respondents indicate highly probable or probable investments in the coming year, which is fairly high in light of still uncertain market situation. In 2011, the ratio reached 75%, out of which 47% respondents indicated high probability of investment, so investment plans in the automotive sector have been significantly reduced.

Apart from the general economic standing, the structure of investment incentives in Poland will change. As EU structural funds to be used for large production investments have becoming short, investors will be able to use either Program supporting investments of significant importance for Polish economy for 2011-2020, or tax incentives in Special Economic Zones. The first source, though, is limited (usually, the aid does not exceed 7%), while according to the current regulations, SEZ are to be liquidated after 2020. Therefore, if their existence is not extended, available tax incentives will stay unused.

The change does not mean elimination of subsidies, though, just a modification of their structure, to which the sector must adjust. Grants for R&D activities will be available, funded from the domestic budget (e.g. INNOTECH), or a program to be dedicated solely to the development of electric vehicles, as well as Norwegian Financial Mechanism, EOG and the 7th Framework Programme including a very interesting offer for electric vehicles. Tax reliefs for new technologies are becoming popular as well.

Therefore, despite the automotive sector limiting the number of investments, it remains among global industries that spend the most on R&D activities, which, given development of relevant incentives in Poland, should enhance its activity in this field.

Comment:
***Magdalena Burnat-Mikosz**, Partner Deloitte*
R&D and Government Incentives Team Leader, Deloitte CE
***Beata Tylman**, Senior Manager*
R&D and Government Incentives Team

The structure of responses to this question is not a surprise. Over 45% of respondents indicated that they had received some funding of their projects. Actually, when analyzing lists of beneficiaries, it is clear that the automotive sector is quite successful in obtaining tax reliefs and subsidies. The number of contracts concluded with automotive enterprises just under Measure 4.5 of Innovative Economy Operational Programme intended for the largest investments, R&D and shared service centers amounts to eleven, out of which seven were signed in 2011. Further, the sector is using subsidies offered under Program supporting investments of significant importance for Polish economy for 2011-2020, tax reliefs offered in Special Economic Zones and subsidies for R&D projects. On the one hand, only 12% of respondents declare that despite having submitted an application, no grants were obtained, which indicates high effectiveness in seeking of public aid.

On the other hand, as many as 29% of respondents stated that they had not even tried to apply for incentives. Since the market remains highly uncertain, the sector may be more interested in additional funding in future, being somehow naturally adjusted to entry criteria of a number of aid programs. Most of research initiatives in the automotive sector regard development of new products being safer, more environment and user friendly, development of production technologies being the other popular investment field.

Comment:
***Magdalena Burnat-Mikosz**, Partner Deloitte*
R&D and Government Incentives Team Leader, Deloitte CE
***Beata Tylman**, Senior Manager*
R&D and Government Incentives Team

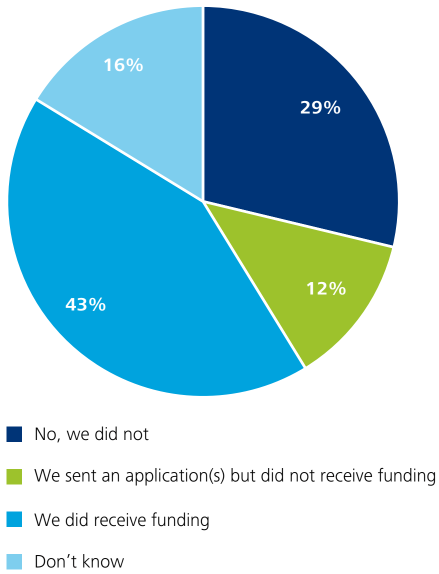
4. Did you use tax incentives or direct financing from any funds or grants for your previous investments (up to five years back)?

a) No, we did not

b) We sent an application(s) but did not receive funding

c) We did receive funding

d) Don’t know



5. In the next 12 months, the number of staff in your company will:

a) Increase significantly

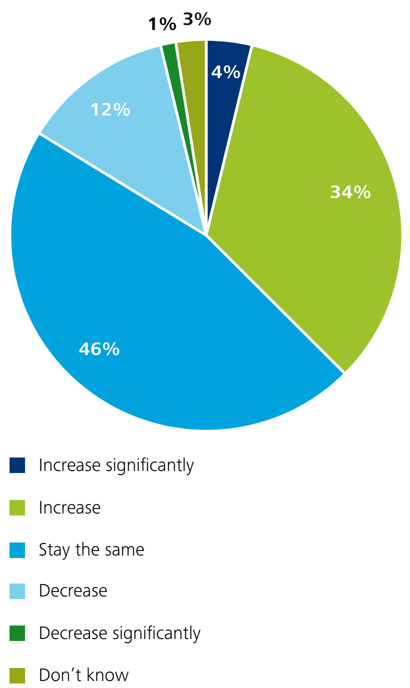
b) Increase

c) Stay the same

d) Decrease

e) Decrease significantly

f) Don't know



Headcount (and its projected changes) is obviously a crucial economic and social indicator. Predictions of respondents regarding changes in their headcount have been nearly identical for two years: 38% predicted an increase in 2012 (for 2011, the ratio was 36%, respectively) while 13% have predicted its reduction (both for 2011 and 2012). The predictions comply with the positive approach regarding business extension discussed earlier herein.

Please note that the automotive sector has remained a key employer in Polish economy. Therefore, its general trends, both positive and negative, impact the national unemployment level. The survey brings a positive message, both on the global and, maybe most of all, on the local level, in particular in light of layoffs seen in 2008/2009.

Although the results are moderately optimistic, one cannot oversee the fact that a certain portion of the automotive market is based on seasonal labor. Therefore, the statistics may be less optimistic if limited to permanent employment. Similarly, for headcount reduction, planned expiration of a contract concluded with an employment agency (i.e. without extending it) is not considered as a layoff although means actual headcount reduction by an employer.

One-third of the respondents expect that broadly defined consumer expenditure (including computer hardware, additional employee benefits, software purchase, repairs etc.) of their companies will grow in 2012. Interestingly, the number of respondents indicating a significant growth in the expenditure has nearly doubled, but still has not exceeded the number of respondents indicating the opposite approach (i.e. reduction in the expenditure; actually, this group has grown by several pp. to 15%).

Such statistics allow a conclusion that the crisis and slowdown itself did not harm a group of enterprises that focused on restructuring, in particular of fixed costs and external suppliers. Nevertheless, a major group of enterprises has been pursuing the previously developed cost optimizing policy, most of all regarding consumer expenditure. Obviously, opinions regarding "*management efficiency learning*" during crisis are actually reflected in business decisions made and future projections.

6. How are you planning to change your consumer expenditure* in the next 12 months as compared to the last 12 months?

a) Increase significantly

b) Increase slightly

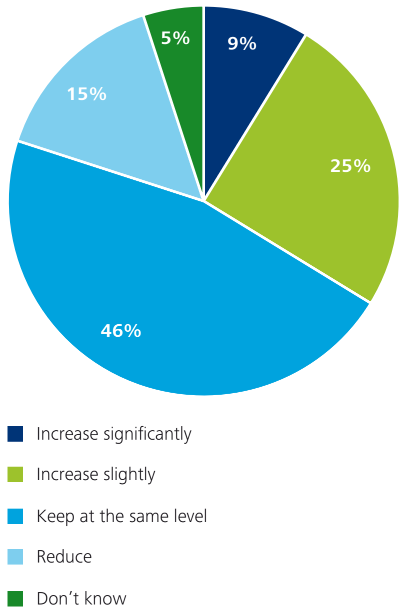
c) Keep at the same level

d) Reduce

e) Reduce significantly

f) Don't know

*(computer hardware, additional benefits for employees, purchase of software, repairs, etc.)



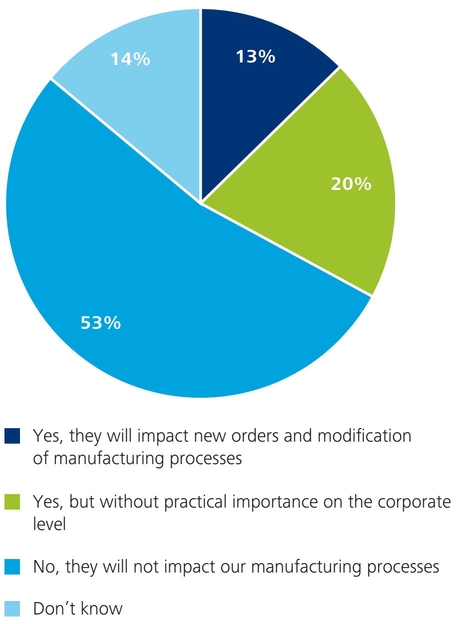
7. Will the electric vehicle concepts, as currently enjoying growing popularity, impact your business activity?

a) Yes, they will impact new orders and modification of manufacturing processes

b) Yes, but without practical importance on the corporate level

c) No, they will not impact our manufacturing processes

d) Don't know



Manufacturing and launch of electric vehicles (EV) on the Polish market is a new and interesting concept. At present, these vehicles constitute a fraction of the absolute number of actually used cars, which in Polish reality means annual sales of several dozen per manufacturer.

Will, therefore, trends involving promotion of eco-vehicles and relevant financial incentives translate into operations of OEM and the broad group of sub-assembly suppliers in Poland? Based on the survey, although one-third of respondents see the possible correlation, over half of them state it does not exist. In the nearest future, the global demand for electric vehicles will not impact the production level in Poland.

Similarly as in previous year, optimism regarding chances to introduce any incentives dedicated directly to the automotive industry in Poland is very low. Nearly 80% of respondents assessed measures as impossible or little possible (an opinion shared by 90% of respondents in the previous survey). This is the most uniform response in the survey. At the same time, the share of people believing such measures have a future has increased to reach 15% in the current survey.

Regardless of the basic conclusion that the automotive sector does not expect dedicated aid, Polish government, unlike most European ones, has not proposed any similar measures despite the automotive sector being so important for the Polish economy. The anti-crisis package will not be maintained. At the same time, we should not forget the existence of special economic zones in Poland. They are quite important for the automotive industry since a number of its representatives have located their businesses or their parts in these zones. As a result, they have become beneficiaries of CIT and real property tax exemption. Moreover, latest changes in zone-related regulations resulted in extending of the tax exemption period up to 2020, which is favorable for many entrepreneurs who would otherwise be unable to use their allowances.

8. Do you think that in the next 12 months Poland will introduce any incentives, assistance or reliefs* for the automotive sector?

a) It is very probable

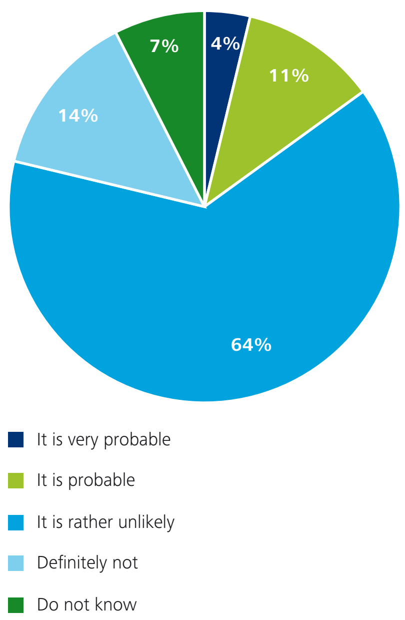
b) It is probable

c) It is rather unlikely

d) Definitely not

e) Do not know

* e.g. boost supply at a specific profitability and demand (individual buyers)



9. In light of your own experience or the experience of related parties operating in other markets, do you think that incentives or support for buyers of new cars in Poland would have a significant influence on improvement of the condition of the industry in Poland?

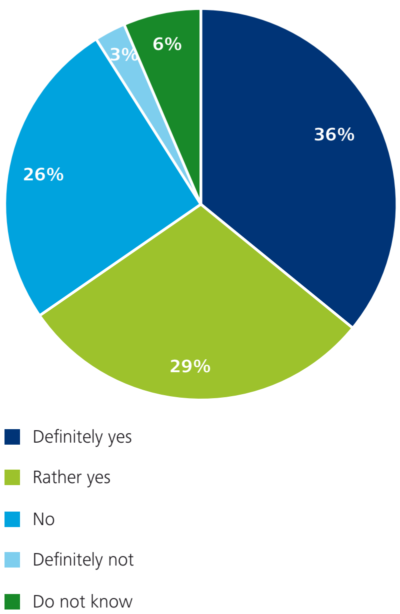
a) Definitely yes

b) Rather yes

c) No

d) Definitely not

e) Do not know



Based both on observation and the responses obtained we can see that incentives related to the purchase of new cars by final user have not existed in Poland so far and enterprises do not expect them to occur in the nearest future.

At the same time, 65% of respondents think that decisions stimulating demand for new cars would be beneficial for the automotive sector in Poland. Interestingly, the opinion had fewer supporters than in the previous year (the ratio dropped by 11%). A question may be asked whether the change is of purely statistical nature or the significant gap between the number of second-hand and new cars purchased in Poland makes respondents more pessimistic.

From the business perspective, demand stimulating measures not always mean a drop in proceeds to the state budget. Just the opposite: it could mean employment increase in the long term, thus generating a growth in tax proceeds.

Apart from positive business effects, incentives promoting purchase of new cars and decommissioning of the old ones would provide more benefits in the form of reduced emissions and improved traffic security. The average age of Polish cars ranges from 12 to 15 years (according to variety of sources) and is among the highest in the EU countries. Unfortunately, statistics regarding traffic accidents and casualties are similar. Thus, it may be stated that the age of a car and technology (security systems, etc.) used in newer models are important factors.

65% of respondents share the view that the existing tax system (including operational fees) is not good or does not confirm that the state has any policy and therefore is of purely fiscal nature. It negatively impacts sales of new cars and limits market development opportunities.

Most of those approving the excise tax on cars introduced on Polish market think that the engine capacity should not be the sole criterion determining the tax amount. At present, the differences are quite significant, since for cars with engine capacity up to 2,000 ccm the excise rate is 3.1%, while larger engines are taxed with 18.6% rate. What reason lies behind the difference? At present, it is hard to say, especially that there have been significant differences among prices of cars offered by certain manufacturers, equipped with engines with excellent parameters but capacity of 2,200 or 2,400 ccm (including the cost of a larger engine and over 15% of the total value of the car).

Regardless of the above, most respondents do not like the existing system of charges imposed on the final user and support the quality criterion. The concept of replacing the excise tax e.g. with an ecology-based charge was supported by as many as 65% of respondents. At the same time, the ecological criterion (promoting of cars whose engines meet the new combustion standards: EURO1 – EURO5) is related to a series of security factors. A question may be asked of crucial importance for the current initiative to counteract the budget deficit: what to do with the existing fiscal proceeds? As mentioned before, the related change would not necessarily mean a reduction in these proceeds.

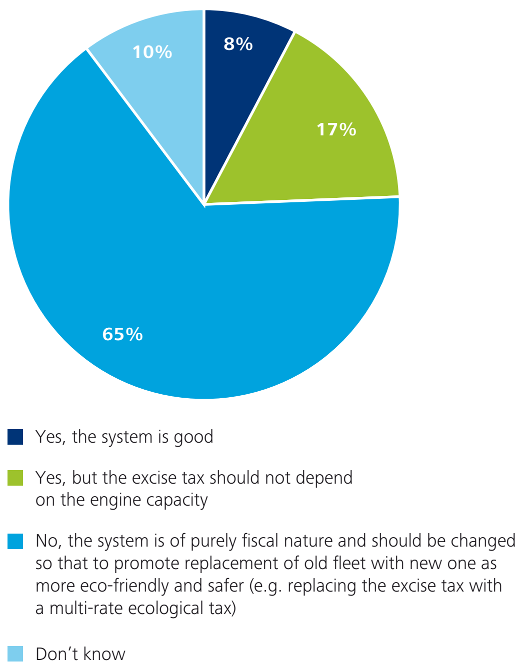
10. Do you think the existing tax system that impacts the car price levels (excise tax) or maintenance costs (maintenance costs being independent from ecological standards and age of a car) should be continued?

a) Yes, the system is good

b) Yes, but the excise tax should not depend on the engine capacity

c) No, the system is of purely fiscal nature and should be changed so that to promote replacement of old fleet with new one as more eco-friendly and safer (e.g. replacing the excise tax with a multi-rate ecological tax)

d) Don’t know



11. Will the global market (mainly the automotive one) recovering after the recent crisis force ownership changes in the automotive industry?

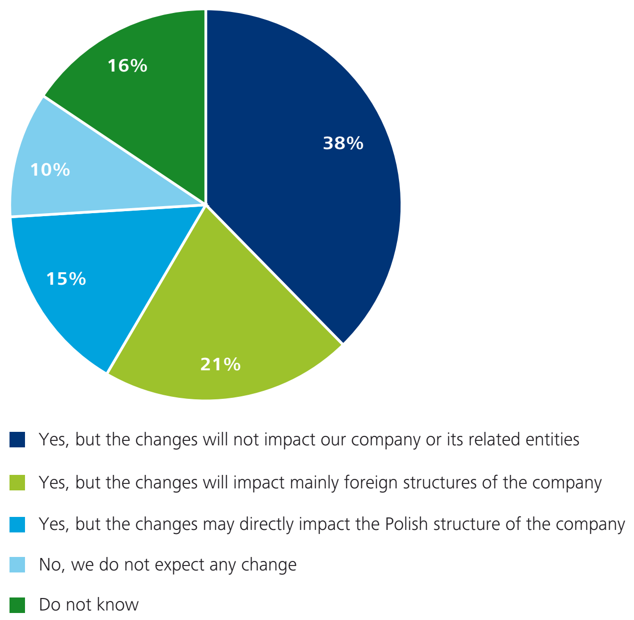
a) Yes, but the changes will not impact our company or its related entities

b) Yes, but the changes will impact mainly foreign structures of the company

c) Yes, but the changes may directly impact the Polish structure of the company

d) No, we do not expect any change

e) Do not know



The last question asked in the survey regarded opinions on changes in the global nature of the automotive market. The question of consolidation has been discussed for years. Business practitioners have confirmed that only reaching a defined global sales volume would allow surviving in the automotive market, to say nothing about deciding on development perspectives of the automotive industry.

As many as 74% of respondents predict broadly defined ownership changes in the automotive industry, out of which nearly one-third see the changes either in the cross-border structure of concerns they have been working for, or even in their Polish structures.

Companies wanting to be global players must flexibly respond to market conditions, which in turn may necessitate increased market concentration.

Direction of these changes is of importance as well, since recent transactions involving acquisition or merger of entire companies have not been limited to the largest global concerns. Selling of popular makes to other entities from the automotive industry was considered little probable just a few years ago. Now, however, we have seen similar expansion of Chinese and Indian investors who are already holders of Jaguar or Volvo makes and have expressed interest in further acquisitions. Moreover, a similar trend, although less discussed by media, has been reflected in the ownership structure of OEM.

Summary

Since the previous edition of the report summarizing our survey of the automotive sector raised significant interest, we have decided to continue the initiative in 2012.

Analysis of the survey outcome has resulted in the following conclusions:

- In the previous edition of the survey, entrepreneurs predicted recovery of the automotive market in 2011. Over 50% of respondents projected an increase in broadly defined business, while other 35% forecast stabilization. As proven by this edition, as many as 89% of respondents saw the stabilization.
- Over 50% of respondents predict new investments in 2012, with nearly 40% forecasting further headcount growth, which clearly confirms the positive mindset prevailing in the industry. One-ninth of respondents have confirmed employment reduction plans.
- Entrepreneurs do not expect any investment incentives dedicated directly to the automotive sector or stimulating local demand for new cars to be introduced. Almost 80% of respondents confirmed the pessimistic view. At the same time, nearly as many participants do not like the existing taxation system for cars introduced on a local market, including as many as 65% thinking that the excise based system should be replaced by another one, linked to ecological parameters.
- As many as 74% of respondents predict ownership changes on the global automotive market, while 15% see the possibility of changes in Polish structures of their companies.

On the one hand, results the survey confirm the previous year's predictions. On the other hand, they provide positive view on the operations of the automotive sector in 2012 expressed as maintained or increased employment, new investments and sales growth. All these factors plus those indicated earlier in the survey reflect a positive trend which will be hopefully turned into practice.

Survey partner comments

Demand for new passenger cars in Poland: market, trends, perspectives for 2012

The automotive industry in Poland is divided into two sectors: manufacturing of cars, spare parts and sub-assemblies and sales.

Car manufacturers opening plants in Poland pay special attention to the domestic market, where in 2011 the number of registered passenger cars dropped by 12% to 277,430. Vans up to 3.5 t of weight are slightly better off, with a 10% growth to approx. 43 thousand. Vans above 3.5 t saw the largest growth, by 60% from approx. 10,500 to over 17,100. Observing the surprising growth, though, we need to compare it to the very poor 2010 performance, and then the result is not as extraordinary.

If Europe continues to face the current financial problems, the current year may be even worse than 2011. Although Poland seems to successfully handle the effects of the recent slowdown, which allows hoping for sales performance not worse than last year, but any serious political or economic fluctuation may translate into an actual decrease in the number of newly registered cars, which the industry is quite afraid of.

Of course, internal market would benefit from appropriate legislative solutions, such as liquidation of the excise tax or introduction of full VAT deduction for cars purchased for business purposes, which would visibly increase demand for new vehicles. Please note that most survey participants support the idea to liquidate the excise tax.

In the nearest future, the market should significantly change following introduction of alternative propulsion, including electric vehicles. These vehicles will surely increase in importance on the automotive market, but the process will not be rapid.

The year 2012 seems not to bring radical changes to car manufacturers. During the crisis in the years 2008-2009, the companies carried out significant restructuring programs, which makes them well-prepared to possible market fluctuations.

Sales of passenger cars in Europe in 2012 may be slightly lower than in 2011, i.e. will reach up to 13 million, while sales of vans will mostly depend on general economic conditions, since transport is the first sector to reflect both economic growth and recession.

Jakub Faryś
President
Polish Automotive Industry Association

The year 2011 was the first one when demand for new cars in the EU countries depended on financial resources of clients, not on subsidies. For a number of months, sales markets grew despite bad messages sent by finance sectors of individual countries.

Germany, the largest automotive market in Europe and the key partner for the supply sector in Poland, was the engine of growth. German plants produced a record number of cars, mostly to be exported to North America and China. At the same time, domestic market of new cars increased. Unfortunately, this was the only growth seen among the key EU countries.

The stability of the German automotive industry, consuming nearly 40% of spare parts and components exported from Poland, positively influenced the condition of the industry in Poland. Despite the car production level being lower than the year before, the foreign clients made most Polish automotive companies increase their capacity and hire new employees. The employment level is still lower, though, than in the peak moment of 2008.

On the other hand, manufacturers learned their lesson three years ago and prudently invest in new machines or buildings – only as much as necessary to deliver new contracts. These trends are visible in some responses provided during our survey.

Last year was obviously better than 2010 in terms of foreign investments in Poland, but the country is still lacking large ones. At the same time, acquisitions of suppliers accelerated resulting in further consolidation of the sector, which included also plants operating in Poland. In a few cases, Polish capital companies act as acquirers attempting to become global suppliers.

Rafał Orłowski
AutomotiveSuppliers.pl

Industry as seen by its representatives

Interview with representatives of leading automotive companies

Both in the previous and current survey, we have raised the bar very high. Apart from collecting the survey data, indicating specific trends and reflecting the current standing of the industry, we want to provide readers with a broader view not covered by results of the survey. Below please find interviews with managers, automotive business practitioners and their views on the variety of issues and challenges faced by the industry in 2012.

We believe that this approach will add attractiveness to the presented material.

Automotive business in the eyes of practitioners: conclusions of interviews held with representatives of Fiat Auto Poland, General Motors Poland and Pilkington Automotive Poland

New investments in Poland

According to Czesław Świstak, Director, Fiat Auto Poland, our country is not a good place for investors. "*Please note that for a number of years, no new car production facilities have been built in Poland, except from some improvement initiatives. Worse still, the legal and tax systems do not promote an increase in the market of new cars*", he said. With thirty-eight million population, demand for new cars remaining below 300,000 per year is clearly below manufacturers' expectations. Ryszard Jania, CEO of Pilkington Automotive Poland, indicated another aspect: "If Poland is perceived as a good place for automotive investments, it is for its political and economic stability and a good location. Further, he noticed that his company had considered other locations, but finally chose Poland due to quality, sales markets and raw materials. Given the company profile, these factors prevailed. We asked CEO of General Motors Poland whether Poland is a good place for automotive investments. As his colleague from Pilkington Automotive Poland, he pointed out a series of factors that add value to investments located in Poland and include low cost compared to quality, qualified staff, suppliers and relatively favorable location. He stressed, though, that since 1998 no major manufacturers have opened new plants in Poland, while neighboring countries attracted a number of serious investors. "*We believe that this unfavorable trend lies in growing competition on the labor market, more efficient support systems for foreign investments and better infrastructure offered by other countries, as well as a relatively poor shape of the automotive market in Poland*", he stated.

Our neighbors have better infrastructure and a more efficient system ensuring support for direct foreign investments.

Inflexible public systems aid decrease competitiveness

Czesław Świstak supports the view, and points out that the sparse public aid available only on condition that the existing headcount is maintained, which, given the sensitivity of the automotive industry to market fluctuations, poses a significant risk. Little flexibility of the Polish state is an additional barrier. "*The example of MAN, which had to reduce employment due to the crisis, is not optimistic*", he stated. Public aid offered without the condition that the employment will be maintained or increased would be of key importance, with the investment amount being the only criterion justifying the aid amount.

The CEO of GM Poland also indicated poor competitiveness of Poland caused by inflexible labor law, and suggested specific solutions to be considered by Polish government, including temporary reduction of payroll charges on manufacturers during downtime to 50% or a package allowing more flexibility of the Labor Code, among others extension of the settlement period to 12 months. Cost competitiveness of Poland, which has been decreasing year on year due to growing labor costs is another frequently raised issue. "*This discourages investments with a 5 to 6 year return horizon, since salaries and wages to be paid during that period may be substantially higher than estimated in the original investment budget*", said Czesław Świstak.

Rapidly growing labor costs discourage investments with a 5 to 6 year return horizon.

Apart from the above factors, CEO of General Motors Poland indicated complex construction law regulations, bureaucracy and unclear taxation system, as well as the manner of granting public aid. "*Verification of the public aid granting principles for investments of importance for economy seems necessary so that investors that meet the conditions may obtain actual and efficient support*", he said and pointed out that extension of tax exemption periods applicable to SEZ investments at least to 2020 would be advisable as well.

Global crisis vs. the automotive sector

When analyzing effects of the latest crisis, all executives agree that it made companies launch savings programs, reduce organizational structures of concerns and adjust their employment and capacity to the current market level. Ryszard Jania stated that entrepreneurs were overly conservative in their plans, in particular in economies that have not suffered too much from the crisis. The interviewees pointed out that the Polish government had no long-term plan to support domestic automotive industry. "*At present, we cannot see any governmental initiatives aimed at elimination of crisis effects in the automotive sector*", said Andrzej Korpak.

Impact of political decisions on the standing of the automotive sector in Poland

In its report for 2011, Polish Automotive Industry Association states that only 277,430 new cars were registered in Poland. This means a drop of 12.2% compared to 2010. Commenting these results, CEO of General Motors Poland said he expected some changes to improve the standing of the domestic automotive market. For example, the existing one-off excise tax on passenger cars could be replaced with a periodic tax dependent on ecological parameters of each vehicle. Such a solution would contribute to an increase in the sales of new cars and limit the number of second-hand cars that are potentially harmful for the environment. Please note that 65% of respondents indicated that the existing system is of purely fiscal nature and should be changed so that to promote replacement of old fleet with new one as more eco-friendly and safer (e.g. replacing the excise tax with a multi-rate ecological tax).

The existing one-off excise tax on passenger cars could be replaced with a periodic tax dependent on ecological parameters of each vehicle.

Czesław Świstak stated that apart from measures that would limit import of second-hand cars, a change in the mindset of Poles was necessary. Further, he pointed out that such initiatives as an eco-tax or tougher regulations regarding technical tests would positively impact the ageing Polish fleet. According to Andrzej Korpak, replacing of the existing tax with an eco-tax is a good solution, "*provided that the tax will be socially responsible and will not promote any specific technical solution or manufacturer*". In his opinion, an annual tax payable based on carbon emissions and calculated on the linear basis, would be the most effective.

When asked about the free trade agreement signed between the EU and Korea, effective from 1 July 2011, CEO of Pilkington Automotive Poland said that from the viewpoint of states planning attraction of new investments "*buying cars produced in Korea will be beneficial enough to outweigh investment risk and costs related to new investments located in Central Europe*".

Non-European car manufacturers or investors will grow increasingly important.

Macroeconomic standing of the automotive industry
According to Andrzej Korpak, the nearest future will see concentration in the automotive industry aimed at utilization of benefits of scale, also with regard to R&D expenses. Further, he stated that "*Eurocentrism should be given up since non-European car manufacturers or investors will play an increasing role on the market*".

Czesław Świstak pointed out the role of economic multipliers in the automotive industry. One job with a car producer results in offering of four jobs by domestic suppliers, "*therefore, possible curtailment of production in Poland poses such a substantial threat to the national employment level*". Importantly, growth in sales is accompanied with growth in employment in automotive-related service sectors (such as car wash, fuel stations, etc.).

The best solutions to be provided by the legal system is flexibility of the labor code and access to investment grants on condition that the employment level is maintained or increased.

According to the interviewees, the best solutions to be provided by the legal system is flexibility of the labor code and access to investment grants on condition that the employment level is maintained or increased. "*I request the Government to provide conditions competitive enough to make the potential investors allocate their resources to Poland on the best choice basis*", said CEO of General Motors Poland.

Future of the automotive industry lies in low fuel consumption.

Future of the automotive industry
When considering perspectives for the industry, the CEO's we interviewed pointed out the necessity to reduce fuel consumption. "*Everybody who thinks that new technologies, such as EV's or fuel cell vehicles will soon replace those propelled with combustion engines will be disappointed*", said Andrzej Korpak. On the one hand, clients do not want to pay high prices for groundbreaking technologies and on the other, there are still certain technical and organizational barriers. Interestingly, 53% of the respondents indicated that the increasingly popular trends regarding construction of electric vehicles will not impact models produced in their plants.

The number of challenges is big, but the number of threats is even bigger.

"*Reduce expenses in order to survive*", is what Czesław Świstak said summarizing challenges to be faced in 2012. "*The number of challenges is big, but the number of threats is even bigger*", added CEO of General Motors Poland. CEO of Pilkington Automotive Poland stated that moderate conservatism was still necessary. "*We cannot expect a strong rebound and therefore, our plans need appropriate adjustments*", he stressed. Nevertheless, Pilkington has made investments: in the nearest future, capacity of the Polish plant will be the largest in the entire concern. "*We not only want to be efficient; we also want to become a development center and offer this value to our clients*", summarized Ryszard Jania. Andrzej Korpak, CEO of General Motors Poland expressed a similar view: "*We hope to be perceived as an opportunity, with our large employment, export of technical thought, corporate social responsibility and the role in European economy*", he pointed out.

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