

## THE HISTORY OF “OFFSET” IN POLAND

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The word “*offset*” appeared in Polish industrial circles in the early 1980s for the first time. The Polish Airlines LOT undertook their fleet modernisation in the late 1980s, starting with the purchase of ATR-72 airplanes which were to replace old An-24. The next step was the purchasing of Boeing 767 airplanes. In both cases, the participation of so-called compensating deliveries, or *offset*, was included in commercial negotiations due to pressure from both government and industry.

For the ATR-72, it was direct offset in the form of the centre section of a wing from WSK-PZL-Świdnik. Minimising foreign currency costs constituted the main concern in this case.

In the second example, that of Boeing, the pressure came from the breakdown in aviation deliveries to the USSR after 1990 and the lack of a reconstruction programme, especially of WSK-PZL-Mielec. The government exerted influence on LOT and Boeing to support the Polish aviation industry to at least a minimal degree and to create at least some work for Mielec which was being shaken by successive employment reductions and related strikes. This brought fruit in the form of an indirect offset by which WSK-Mielec produced the doors for B-757s while WSK-Rzeszów delivers parts to CFMI (SNECMA, Hispano-Suiza). It is to be stressed that until mid-1993, the offset issue had not been treated as a part of state policy, but more like a tactical activity to realise current goals.

### **Finances of Poland versus MOD Orders Problem**

The major determinants in the economic development of Poland are:

- supporting economic development;
- increasing employment;
- counteracting inflation;
- improving the trade balance;
- reducing the budget deficit.

Achieving all of the above-mentioned guidelines cannot of course be achieved in every project, including military ones. It seems that although the first two points act to the benefit of military programmes, the next two decrease the

chances of a significant increase in MOD orders and the last point additionally restricts interest in military purchases. However, this is only the case when we do not use the possibility of increasing both income and exports thanks to offset. Offset gives the unique possibility of proving the assumption that military purchases are not just politically necessary costs, but that they also stimulate economic growth and an increase in budget income. This situation is shown in Table 1 below:

**Table 1**

		Without Offset	With Offset
ECONOMIC GOAL	POLITICAL GOALS	+	+
	MILITARY GOALS	+	+
	Economic growth	?(0)	+
	Employment	?(-)	+
	Inflation impulse	?(-)	?(0)
	International turn-overs balance	-	?(0)
	Budget deficit	?(-)	?(0)

It can easily be seen that transition from the model “without offset” to the model “with offset” enables the Ministry of Finance (MF) to be convinced about the beneficial economic effects connected with deliveries for the MOD. This becomes even more evident if we suppose that purchases exceed the current limits of the MOD budget. Without demonstrating some of these economic benefits, it should be assumed that the MF will **NEVER** allow any changes to state budget allocations.

## **Polish Offset Police**

In both government and industrial environments the benefits resulting from the above offset programmes have brought awareness of their value as an important tool of economic policy. Especially concerning military deliveries not subject to WTO rules, there is a possibility of setting an offset as one of the major evaluation criteria of a tender. In 1994, the Ministry of Industry & Trade (MIT) undertook a number of negotiations with Ministry of Defence (MOD) representatives. It soon became clear that both Ministries were unanimous in respect of requiring offset cooperation when dealing with potential foreign tenders of products and technology. The main idea was as follows: "To the Polish military market through or together with Polish defence and aviation industry".

## **And Finally Some Comments**

- The chances of entering the Polish MOD market without Polish industry participation are minimal now that the rule "to the market through or with the Polish industry" is in force.
- An early start to negotiations with industry is essential (even before the tender opening) because - according to our experience - there is always a lack of time later.
- Preferences for offset programmes concern:
  - direct offset with Polish defence and aviation industries (PD&AI) participation (31 companies);
  - export of goods produced in Poland, both civil and military;
  - investment to create new companies or joint ventures with PD&AI.