

Why business is flying high in Poland's Aviation Valley

There are few, if any, aircrafts operating today that don't contain a component that is manufactured in Poland. With more than 120 aerospace and aerospace-related companies located here, it's where influential players such as Pratt & Whitney, Safran, Sikorsky and Goodrich Aerospace, alongside many small to medium sized enterprises (SMEs), meet the requirements of the big aviation giants, including Airbus, Boeing, Dassault and AgustaWestland.

The vast majority of operations are situated in the Podkarpackie region of Poland's south-eastern corridor known as Aviation Valley, which is an area rich in aerospace history dating back over 100 years. The current strength of the sector is based on a strong scientific, academic, training and technical focus, together with manufacturing capabilities developed during the interwar years. After a period of decline in the 1990s as the country transitioned to a market economy, the industry is now enjoying a growth phase. The sector employs more than 24,000 people¹ providing a diverse cross section of Aerospace and Defence (A&D) products and services worth \$2bn in global exports².

Today, Poland's A&D strategy has evolved into a major aviation hub for manufacturing projects that is built on a number of crucial pillars providing the necessary elements to support and nurture companies looking to set up or expand in the region.

Cluster advantage

A key pillar of Poland's success in the A&D sector has been the creation of one of the largest aviation clusters in Europe. Most members of the aviation cluster are located in the cities of Rzeszów, Mielec, Sędziszów Małopolski, Krosno, as well as

neighbouring areas. The valley's location along the Slovakian and Ukraine borders also offers a good infrastructure network which includes the A4 highway and the Rzeszów-Jasionka airport. Having a high concentration of companies in the aviation ecosystem that are located in a relatively small geographical area with good transport infrastructure means easier access to information, goods and services that help to improve and increase productivity. In addition, the speed of innovation is also improved through more opportunities to collaborate at both industry and government levels. Strong connections with the academic world open up partnership opportunities to cooperate on research, as well as providing a link to a qualified and specialised workforce that has a practical understanding of industry needs both at vocational and university level. It's an approach that gives clusters the ability to respond to market changes more efficiently than industries operating across a



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wider geographically spread as well as providing a dynamic environment for companies looking to take advantage of investment opportunities.

Economic incentives

Incentives to invest in Polish industry have been a government strategy for some time and the A&D sector is no exception. However, the current system of giving tax incentives to companies choosing to locate in Special Economic Zones (SEZs) to improve employment prospects of the region is being extended to give income tax exemptions of between 10-15 years available to companies anywhere in Poland. To qualify, however, exemptions will be based on a wider set of criteria that not only include the size of the project and workforce employed, but also structural, scientific and sustainable development plans. Economic support from the European Union (EU) has also been a further factor in helping the industry grow. The EU's 2014-2020 Eastern Development Programme has earmarked EUR 2.1bn³ to increase the competitiveness of the Podkarpackie Region where Aviation Valley is located. Funds will be available for projects that support employment and social capital development through innovation, scientific R&D, technology and energy efficiency. In addition, it is expected that the aviation industry is set to benefit from the European Union's EUR 8.6bn Smart Growth Programme aimed at enhancing company innovation and competitiveness. There is also the EUR 115m² INNOLOT (the National Centre for Research and Development) programme which helps smaller companies finance R&D costs by as much as 80%.

High tech and supply chain focus

The advanced level of processes and focus on high tech operations used in the Polish aviation sector

supported by a comprehensive supply chain is very much another pillar of growth. Whether it is the production of the world-renowned Sikorsky Black Hawk military helicopter or the development of innovative engines, companies such as MTU Aero Engines and MP Aerospace have recognised Poland's potential by growing existing operations and increasing their investments in the region. Similarly, Rolls-Royce and Safran celebrated the opening of new aerospace plant which will produce accessory drive trains (ADT) for all of Rolls-Royce's future civil aircraft engines and employ 200 people. It is this ability to provide high tech services to both military and civil aviation sectors that gives Aviation Valley its competitive edge. In fact, Poland is one of only five NATO countries to spend 2% of GDP on defence and has pledged to increase this to 2.5% of GDP by 2030⁴. Such a strong commitment to both civil and defence aviation is one that existing and new players in the aviation sector and wider supply chain can benefit from.



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Responding to market needs through next generation skills

Poland's longstanding expertise in aviation has allowed them to not only provide a skilled workforce that is cost effective, but one that can adapt quickly and consistently to market needs. Alongside strong scientific and engineering skills, academic development has been key. A high level of collaboration between the country's aviation sector and educational institutions has seen the creation of programmes such as Aviation Management at Rzeszów School of Information Technology & Management as well as Air Transport Infrastructure at Cracow University of Technology. As a result, there are approximately 11,000⁵ engineers graduating from Polish universities who are able to meet the growing demand for their skills in the A&D sector. The country's high priority on R&D also plays its part as highlighted by the EUR 27m⁶ research project being conducted by Rzeszów University of Technology and partners from the Centre of Advanced Technologies (CAT) to increase the effectiveness of aerospace research and development. Having the right mix of skills to support the pillars of growth is essential. Poland's emphasis on developing skills in line with market needs ensures companies working in the aviation sector will continue to have access to the best qualified staff.

Having a strong strategic pillars underpinning the aviation sector has been key to Poland's success in attracted new investment, while at the same time

ensuring existing aviation-related companies are well supported. Ease of doing business is a priority, helped by a familiar culture and widespread use of English alongside a continued commitment to improving transport links to and from the region, which includes the recent addition of a direct route from Rzeszów to New York by the national airline, LOT.

It is expected that such initiatives will continue to stimulate growth in Poland's aviation sector, opening up a number of investment opportunities for companies. Mergers and acquisitions (M&A) potential remains strong, coupled with the ability to benefit from project finance support. To ensure any transaction is beneficial, knowledge of the laws and regulations governing different types of cross-border transactions, what taxes and government fees apply, as well as a thorough understanding of the regulatory framework governing labour and employee benefits is essential.

Whatever the chosen investment route, having a partner that has a deep knowledge of the aviation sector as well having both home and target country expertise is vital. Alongside this, gaining a clear understanding of due diligence challenges and expected obligations by all parties will be key to ensuring any transaction runs smoothly. ●

1. <http://www.dolinalotnicza.pl/en/about-us/>

2. <https://www.ft.com/content/ff4b32ce-90a9-11e6-a72e-b428cb934b78>

3. <https://www.poir.gov.pl/en/site/programme-websites/>

4. <http://thenews.pl/1/9/Artykul/331690,Polish-president-signs-defence-spending-boost-into-law>

5. <https://www.paih.gov.pl/sectors/aerospace>

6. http://ec.europa.eu/regional_policy/en/projects/poland/r-d-in-the-aerospace-sector-to-make-polands-economy-more-competitive

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