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Reforming and Privatizing Poland's Road Freight Industry

Esra Bennathan
Jeffrey Gutman
and
Louis Thompson

Options for restructuring and privatizing PKS, Poland's main state-owned enterprise for road transport of passengers and general freight.

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This paper -- a product of the Transport Division, Infrastructure and Urban Development Department -- is part of a larger effort in PRE to develop improved approaches to enterprise reform in transport. Copies are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Barbara Gregory, room S10-045, extension 33744 (41 pages, with figures and tables).

The Polish economy uses four to six times as much freight transport per dollar of GDP as the European market economies. The trucking share of this transport, however, appears far too low. Bennathan, Gutman, and Thompson focus on options important to the privatization of road haulage in Poland. They recommend that in restructuring Poland's road haulage industry the following options be considered in connection with privatization, regulation, financing, and taxation:

- The business of passenger transport (buses) should be completely separated from the business of freight haulage (trucks). Combining freight haulage with subsidized passenger transport in one enterprise, the common practice now, creates the possibility that passenger atrocities could subsidize freight (or vice versa). And combining activities with such different markets, operating techniques, and management style is inefficient.

- Road haulage is a large enough industry and occupation in Poland to justify a separate privatization program -- but one that covers the entire industry.

- Poland's program of small- and medium-scale privatization has earmarked a number of road haulage enterprises for privatization. To these, the road haulage sector privatization program should add at least 10 (or 8 percent of all) state-owned haulage entities for assisted privatization in the first year of the program. Assistance should be in the form of guidance on accounting, auditing, valuation, and legal steps toward commercialization.

- To guard against the dissipation of state assets and to rationalize and reform accounting and information management systems industrywide, all enterprises should be commercialized under central guidance and with expert

assistance, according to a preannounced timetable.

- To encourage the infusion of new resources from outside, uncertainty about the ownership, assets, liabilities, and cash flow of enterprises should be reduced -- partly by creating new, self-contained subsidiaries (daughter companies) of state-owned enterprises. This typically creates incentives for improved management and staff efficiency and productivity. To limit potential abuse, strict rules and mechanisms for inspection should be set up.

- Small-scale haulage enterprises should be encouraged, as trucking firms do not benefit significantly from economies of scale, middle-class entrepreneurship is socially desirable, and, through subcontracting, large-scale firms can vary their capacity without committing capital.

- The trend should be toward economic deregulation. Regulations should set quality standards (issuing operator licenses on the basis of personal and technical competence, for example) rather than restricting quantity (limiting entry of new haulage enterprises). No organization should be given preference in the distribution of international permits, which might be issued by auction or by spot basis to applicants upon proof of a genuine order for transport.

- Private liquidity in Poland is low and commercial banks cannot yet grant credit widely. There is a case for exploring sources of technical assistance and leasing finance from West European leasing associations and European banks.

- Enterprise taxation and taxation of road use need reform. Road user taxes should be based on the relative cost of damage to roads by different equipment -- with heavy vehicles paying a higher tax than light vehicles, for example -- and on the cost of congestion.

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ABSTRACT

Object and Scope of the Study

(i) This study explores options for the restructuring and the privatization of PKS, Poland's main state-owned enterprise for road transport of passengers and general freight.

(ii) In the discussion of privatization, the focus of the study is on the road freight haulage operations of PKS and not on its passenger operations by bus. Privatization of road haulage, in conformity with the stated purposes of Poland's program of systemic reform, is intended to raise the productivity of resources employed in transport and to assist thereby in the recovery of the economy and of employment. The key to this outcome is the creation of a competitive environment and, equally, the introduction of management by, or under the control of, owners with a clear right to the net income from the business. The process of privatization must therefore allow wide scope for the development of commercially alert and market-oriented management.

(iii) If privatization of road haulage is to serve those ends and also conform to Poland's new laws, it will have to be carried out with due regard to the market position of the candidate enterprises -- the demands that they are likely to meet, and the competing sources of present and prospective supply. The scope and form of feasible privatization depend also on how road haulage will be regulated and on financing possibilities for private buyers, investors or tenants. The study therefore analyzes also the general organization of Poland's road haulage, the operations of its different segments, and discusses transport regulation, financing and taxation.

Poland's Freight Transport

(iv) The Polish economy has been remarkably transport-intensive and still uses 4 to 6 times as many tonne-kms of freight transport per dollar of GDP as the European market economies. Improvements in the efficiency of transport, such as privatization is intended to yield, should therefore produce relatively significant benefits to the economy. But transport intensity is declining so that the total market for freight services will narrow for some years. Road haulage, however, is protected against this trend because Poland's railway (PKP) still carries an inordinately high proportion of total freight (76 percent of tonne-kms in 1989) and its share will continue to decline. On balance, the demand for road haulage should grow. While excess capacity is high during the present recession it should be absorbed by even a modest growth in the economy. The total stock of trucks is modest by comparison with countries of similar population size, allowing for differences in population density. A substantial renewal of the fleet will nevertheless be needed when the economy revives, not because the fleet is markedly over-

aged by Western European standards but because much of it is technologically obsolete and adapted to a pattern of demand (such as very large volumes of construction) that is unlikely to persist.

Organization and Operating Profile of Road Haulage

(v) The socialist organization of road transport created large enterprises, integrated across the entire area of the country and with a range of activities far more diverse than found in road haulage enterprises of the market economies. Different segments of the industry were sponsored ("founded") by different ministries. Socialized professional haulage is made up of Public Road Transport within which PKS is the main enterprise (17.3 percent of Poland's total tonne-kms by road in 1988), and several Special Road Transport enterprises, each originally attached to individual branches of the economy (together supplying 25.3 percent of tonne-kms in 1988). The distinction between general trucking firms and others that specialize in haulage for individual industries with special technical requirements is normal in road haulage industries, but the relatively large size of the Special, industry-specific, sector in Poland is unusual.

(vi) Outside socialized professional haulage, socialized enterprises perform their own-account operations (36 percent of tonne-kms), and alongside public sector road transport there has, during the past decade, grown up a significant amount of truly private haulage (17.4 percent of tonne-kms in 1988).

(vii) Taking PKS as a whole, its haulage operations are distinguished from those of Special, own-account or private trucking by their relatively long hauls and high rates of vehicle performance. The long hauls, using relatively large trucks pulling trailers, have withstood best the encroachments of competition and economic stagnation during the 1980s and now the sharp downturn of the economy which has left PKS with much unemployed capacity. But it is those types of operation which most resemble the working patterns of trucking enterprise in Europe's private market economies.

(viii) Poland's industrial own-account haulage does not appear abnormally extended when measured in terms of its share of tonnes lifted or tonnes moved. On the other hand, the group of large Special haulage enterprises, taken as a whole, seem to have undergone the least adaptation to changing market conditions, and they appear as the main victims of socialist methods of industrial organization and compartmentalization when applied to freight transport. Judged by lengths of haul, vehicle utilization rates and the development of performance over time, the Special enterprises appear to overlap in their operations to an abnormal extent with Poland's own-account haulage. It is in the Special haulage segment of the industry that dispersal, reorientation and some failures are to be expected, as well as increasing efforts to compete with those PKS operations that are not specialized in longer-distance work with suitably heavy vehicles.

PKS: Reorganization and Consequences

(ix) Before its recent reorganization, PKS, together with 3 related enterprises, provided passenger and road freight transport across the entire country. It employed some 110,000 persons and operated 22,000 buses and 21,000 trucks. Individual local depots were (and remain) managed by directors with the participation of Workers' Councils. They were subject to control by regional directorates and, at the top, a PKS directorate, all under the supervision of the founding body, Poland's Ministry of Transport, Maritime Economy and Communications.

(x) In 1990, PKS was split up into its constituent, operating units. The resulting 227 entities were instructed to operate as self-contained, independent firms from July 1. Of these, 31 performed only road haulage and were transferred to the sponsorship of local authorities. The 140 units that combine freight with (subsidized) passenger transport, and account for some 65 percent of PKS tonne-kms of haulage, remain under the sponsorship of the Ministry of Transport. These combined units have, so far, retained their public utility status that confers on them fiscal and financial advantages not available to the rest of road haulage.

(xi) Among the separated PKS units, those specialized in haulage are large (average of 240 trucks per unit) by the standards of trucking firms in market economies. The haulage fleets of the "mixed" units, while smaller, are still sizeable by those standards -- an average of 113 vehicles per unit, and none with fewer than 47. Individual units vary greatly in the share of longer-distance work in their haulage operations. The smaller units have the longer hauls, and also generate higher freight revenue per truck. They also appear to have fared better in the recent recession than larger units. In general, the smaller units have the better outlook.

(xii) Also, pure freight operations achieve better exploitation of their fleets than "mixed" units, supporting the conclusion that a combination of passenger with freight transport in the same entity is inherently inefficient.

(xiii) The characteristic of high integration of socialist enterprise reaches down to the individual cells of PKS, now turned loose to independent, commercial existence. The physical plant of individual units includes substantial, and sometimes very substantial, workshops for maintenance, repair and rebuilding of vehicles and even the production of components, as well as loading machinery, warehouses and extensive administrative, agency and amenity structures.

Options for Restructuring: Separation of Passengers from Freight

(xiv) The case against combining freight haulage with subsidized passenger transport in one and the same enterprise goes well beyond the significant fiscal risk of a drain of subsidy from passengers to freight. Cross-subsidization in the inverse direction, such as was common and accepted before the slump in the freight market, is equally incompatible with an efficient use of resources and the development of a competitive haulage industry. While the two activities

remain integrated, in the 140 "mixed" PKS entities, cross-subsidization is not realistically avoidable. Attempts to control it will further delay the development of market-oriented, flexible management of commercial haulage. The absence of this kind of combined service operation in the transport entities of market economies, whether they subsidize passengers or not, in transport entities, points to the economic inefficiency of combining activities that differ so much in their markets, operating techniques and management style.

(xv) Separation of passenger business from haulage enterprise appears thus as a basic prior step in restructuring road haulage and preparing it for privatization. Since cross-subsidization within one enterprise cannot be suppressed, and also because subsidized activities require some form of public control, a mere separation of the accounts of the two disparate activities, while they remain under the same managerial roof, is unlikely to produce self-reliant, commercially viable haulage enterprise, nor will it attract good entrepreneurial and managerial talent. Those results can only be achieved by a total separation of establishments -- legally separate, separately managed and controlled, with separate financial resources and physical assets. Common facilities (such as workshops) will have to be divided up or, if really large and multi-purpose, will have to be separated out as independent establishments and made ready for privatization.

(xvi) Poland's Act on the Privatization of State-Owned Enterprises and the procedures developed under it permit Founding Bodies to initiate the commercialization of state-owned enterprises by separating their divisions in preparation for privatization. Freight units emerging from the present 140 "mixed" units could then be converted into business organizations under Poland's Commercial Code. Alternatively, Executive Directors and employees of "mixed" entities could be offered incentives, positive as well as negative (such as withdrawal of public utility status from units while they remain "mixed"), to detach the freight operation from the enterprise and form it into a self-contained subsidiary. Assets and liabilities would have to be valued and divided between parent and daughter enterprise, under rules and guidance to be provided by the Ministry of Transport and the Minister of Ownership Change. Under prevailing law, the founding organ is then entitled, for purposes of privatization, to dispose separately over the freight subsidiaries emerging under this option, if necessary in the process of formal "liquidation".

A Program for Privatization

(xvii) While many of the problems and requirements of privatization are common to different sectors of the economy, road haulage in Poland is sufficiently large as an industry and an occupation to justify a separate program of privatization. It should constitute an agreed statement of the tasks falling to the authorities and policy-makers in assisting privatization and, being made public, should lessen uncertainty among operators and those interested in entering the industry. Such a program implies administrative and specialist tasks which may be difficult to accommodate in the established work programs of the Ministry of Transport or the Office of the Minister of Ownership Change. It would then be convenient for these authorities to

establish, for the duration of the transition period, a separate office for the privatization of state-owned road haulage that would contract with private sector specialists for their services and would form the natural focus for outside technical assistance.

(xviii) The program would contain targets for both the preparatory steps and the actual privatization of enterprises. It would therefore have to specify the forms envisaged for privatization, the measures to be taken for the commercialization of yet unprivatized haulage enterprise, and the principles (if not already the full detail) of the intended regulatory regime for road haulage.

(xix) This study focusses on the privatization of PKS. A privatization program for road haulage should, however, cover the entire industry, irrespective of the prevailing jurisdictional dispersion of state-owned haulage enterprise. Elements of the program would be as follows:

(a) A Target for Assisted Privatization

(1) Poland's program of small-scale and medium privatization has earmarked a number of road haulage enterprises for privatization. To these, the road haulage sector privatization program would add a target number of state-owned haulage entities -- perhaps no fewer than 10, and representing no less than 8 percent of the total 1990 tonne-km of road haulage by state-owned haulage enterprises -- for assisted privatization in the first one-year phase of the program.

(2) Assistance would be in the form of guidance on accounting, auditing, valuation and the legal steps to commercialization. It would consist of advice on such restructuring of the enterprise as appears suitable in the light of experience and with expert advice. Finally, assistance would be given, in conformity with existing procedures, in the disposal of the enterprise through the offer of parts or shares or in the form of leasing of assets.

(3) Under Poland's law, privatization of enterprises is to be preceded by corporatization, chiefly at the instance of management and employees, or by "winding up" leading to a new disposition or disposal of assets and the option of letting units and assets to a company formed of the employees, chiefly at the instance of the Founding Body. Active privatization, at the initiative of the government, may therefore require the offer of inducements to the staff of the target enterprise, possibly beyond those provided by law. Such additional inducements should be easiest to offer in the case of the more successful and promising enterprises. Official assistance should indeed focus on promising enterprises, presumably to be found, in the first round, among the smaller entities that operate longer hauls and achieve high output per truck. Enterprises that have to be "wound up" (or "liquidated") because of their failure to service debt (including the 38 percent "dividend" on founder's capital) will have to be added to the privatization target but should not normally make up the entire target. Institutional resources and expert assistance should be reserved on a scale appropriate to the minimum target, with a contingency allowance for service to the year's prospective invalid enterprises.

(b) Commercialization in the Intermediate Stage

(1) Since privatization, in one form or another, will proceed in stages, provisions have to be made for the status of enterprises yet retained in unreconstructed state-ownership.

(2) It might be thought right to leave such enterprises to their own devices, subject only to existing financial obligations and disciplines, and national rules on accounting. Administrative and expert resources might be economized by this method, only to be put to work when the turn of such enterprises comes to be commercialized and privatized according to the program targets. That method, however, will not guard against a dissipation of state assets, and it sacrifices the opportunity to rationalize the structure and resource use in enterprises on the basis of reformed accounting and the information generated by an audit, in advance of the more thorough surveys required for privatization or "liquidation". The preferred option would therefore be to pursue the commercialization of all enterprises, under central guidance and with some expert assistance, according to a timetable announced in the program.

(c) Subsidiary Commercialization

(1) Uncertainty about the ownership, assets and liabilities and, indeed, the cash flow of an enterprise hinders the infusion of new resources from the outside. A partial remedy would be the creation of new, self-contained subsidiaries of state-owned enterprises, starting with a new opening balance and leaving questions of the ultimate ownership (of the parent enterprise) at a remove from the subsidiary. This route has already been taken by enterprises of the reforming socialist economies, including Poland. Enterprises have set up daughter companies owned by the parent, often in partnership with managerial and other staff of parent and daughter. Whatever incentives motivated these developments, the usual effect has been an improvement in the efficiency and productivity of management and staff within the new entity, responding to the prospect of acquiring and increasing their property.

(2) Unless controlled by strict rules, such "spontaneous privatization" is open to abuses that may easily outweigh its merits. To gain the benefits while limiting the room for abuse, guidance and rules have to be provided and compliance has to be monitored. A privatization program should therefore be accompanied by the issue of such rules and the establishment of a mechanism for inspection.

(3) Suitable candidates for subsidiary commercialization are units and activities that appear viable on their own, as going concerns -- workshops, vehicle leasing departments of PKS enterprises, storage units or specialized haulage services, including long-distance and international haulage sections.

(d) Small Scale Privatization

(1) Private truck ownership grew rapidly in the 1980s, based largely on the acquisition of vehicles sold from the fleets of state haulage or own-account hauling enterprises. By 1990, the private stock of goods vehicles accounted for perhaps two-thirds of the national total. On a rough estimate, one-half of these vehicles were active in haulage for hire or reward, chiefly in local or short-distance work.

(2) Basic trucking is not subject to significant economies of scale (of the firm). Small-scale haulage business is therefore present in all market economies, in large numbers. By promoting middle class entrepreneurship, it is generally judged to be socially desirable. It is also advantageous to organized, large scale haulage firms since it allows them to vary their own capacity by subcontracting without committing capital. The privatization program should therefore encourage the progress of small-scale haulage enterprise. Active assistance will be required in the form of guidance on the valuation of second-hand trucks, and by the formulation of standard forms of contract for subcontracting and vehicle leasing. Private, small scale hauliers must be allowed equal access with other haulage enterprise to foreign exchange, imported vehicles and spares and parts. Another essential condition for the viability of small-scale haulage business is a liberal system of transport regulation, such as exists at present in Poland.

(e) Regulation of Road Haulage

(1) Entry into road haulage for hire or reward is at present practically free in Poland. There are no legally imposed tariffs. International haulage is restricted, first by the number of foreign permits obtained in bilateral negotiations with countries of destination or transit and, second, by the method employed by the state in distributing such permits among Poland's hauliers.

(2) In present circumstances of economic recession there is bound to be a temptation to protect existing enterprise by introducing restrictions on entry into haulage and even into its several markets. The government's wish to privatize state-owned road haulage only reinforces that temptation. It is easier to sell a particular enterprise if its value can be enhanced by some form of market reservation.

(3) The adverse economic consequences of quantity restrictions on entry into haulage, complemented of necessity by forms of tariff control, have now been recognized in most market economies. The clear and general trend in Western Europe and North America is therefore towards deregulation of road haulage. In Poland, moreover, given that there are some 150,000 persons privately engaged in haulage for hire or reward, restrictive regulations that limit the activity of truck owners (aside from ensuring their ability to meet reasonable tests of personal and technical competence) seem decidedly undesirable on social grounds. Lastly, the present excess capacity on the roads is strictly a phenomenon of the current recession. When that

passes, the country's trucking capacity will not be in excess of demand. At that time, enterprises with good prospects in the market will be able to renew their fleets. Regulatory systems, however, are not easy to reform once they have been imposed. Poland should thus have good reasons for retaining its relatively liberal system of regulation -- for quality restrictions (as in the basic system of operator licensing) instead of quantity restrictions on entry into haulage of different kinds.

(4) Uncertainty about an impending system of regulation is bound to inhibit privatization. There is a strong case for the government to commit itself as soon as possible to the principles of the intended regulatory system, and soon thereafter to the detail.

(5) The requirements to be satisfied for entry into international haulage are typically more demanding than for domestic operations. Poland may reasonably move towards the standards prevailing, and being developed, in the European Community. But the allocation of permits among national hauliers who meet those standards, remains under the control of the authorities. Auctioning is the optimal method. A second best method would reserve part of the available permits for spot allocation to applicants upon proof of a genuine order for transport. Freight forwarders, representing the users of transport, should not be excluded from the distribution of permits. And, at no stage of the distribution of permits, should preference be given to enterprises on grounds of their organizational status.

Financing

(xx) The current low liquidity of the population limits the possibilities of the outright sale of entities or assets selected for privatization. Poland's new commercial banks are not as yet capable of assisting with credit on a wide front.

(xxi) In market economies, financing or operating leases are major sources of finance for road transport. Leasing is also practiced in Poland and has its place among the techniques provided by the present civil law. The standard forms of leasing are capable of development to suit Poland's problems, possibly on the model of agricultural tenancy which offers a great variety of terms and ways of distributing risks among the parties. Leasing institutions should be able to facilitate the process of road haulage privatization by taking over equipment and installations on commission from the founding organ, for letting back to private lessees. Financial backing, where required, may be sought for the institutions from Poland's banks and from foreign sources, including truck manufacturers.

(xxii) There is then a case for exploring, with the participation of Poland's banks and existing leasing companies, sources of technical assistance and leasing finance from the national leasing associations of West European countries and European banks.

Taxation

(xxiii) Privatization entails a fundamental change in the financial or fiscal link between state and enterprises. This change should be reflected also in the taxation of road haulage.

(xxiv) The expected reform of taxation of enterprises (and of sales) will cover road haulage companies and sales of the service and remove some features that seem anomalous. Road user taxation, however, stands in a separate class inasmuch as such taxes represent prices of road use. They should be cost-based prices, corresponding to the cost that road use by one technique or the other (heavy or light vehicle) causes either to the road authority or to other road users through the congesting effect of road use. Unless such charges are properly related to the cost of the damage caused to the road (or to other users), and unless they are levied fairly, road users will not make decisions based on the true cost of their activity. In reviewing the adequacy of taxes on vehicles and other inputs into road haulage, and the available tax instruments, Poland may call on substantial experience and technical advice from other countries and international institutions.

I. Object of the Report

1. The central purpose of this report is to identify options for the reorganization and restructuring of PKS¹. PKS is the main enterprise in Poland's "public" road transport sector (and is a component of the country's overall professional road haulage activity) and also the predominant member of the passenger transport industry by road. The report focuses mainly on the road freight haulage component of PKS.

2. PKS has already undergone one radical reorganization which occurred in the course of Poland's major economic and systemic reforms of 1990, and entailed the dismembering of the initially unitary, state-owned enterprise. The unitary PKS was broken down into its original 197 local operating units, each to be constituted as an independent firm in the socialized sector of the economy but ultimately available for some form of commercialization and, preferably, privatization. The reorganization had important jurisdictional implications because certain of the entities, specifically those engaged solely in the carriage of freight, were transferred to the administrative supervision of the voyvodes, while others (all of those units having passenger transport activities) were retained under the sponsorship of the Ministry of Transport.

3. Restructuring, however, in the sense of the formation of enterprises that are viable under market forces, is not yet much advanced. The interventions and the policy setting that will be conducive to structural change and the emergence of viable enterprises, consistent with the economic and social needs of Poland in the near future, define the questions for this report.

4. The merit of any option for reorganization of Poland's road haulage depends on its expected results. That, in turn, depends on the revival and development of the transport market, on the development of other groups of operators, and on public policy. The report will, therefore, also discuss the issues of privatization, regulation, taxation and finance which surround the more limited problem of restructuring PKS enterprises.

II. Features of Poland's Freight Transport

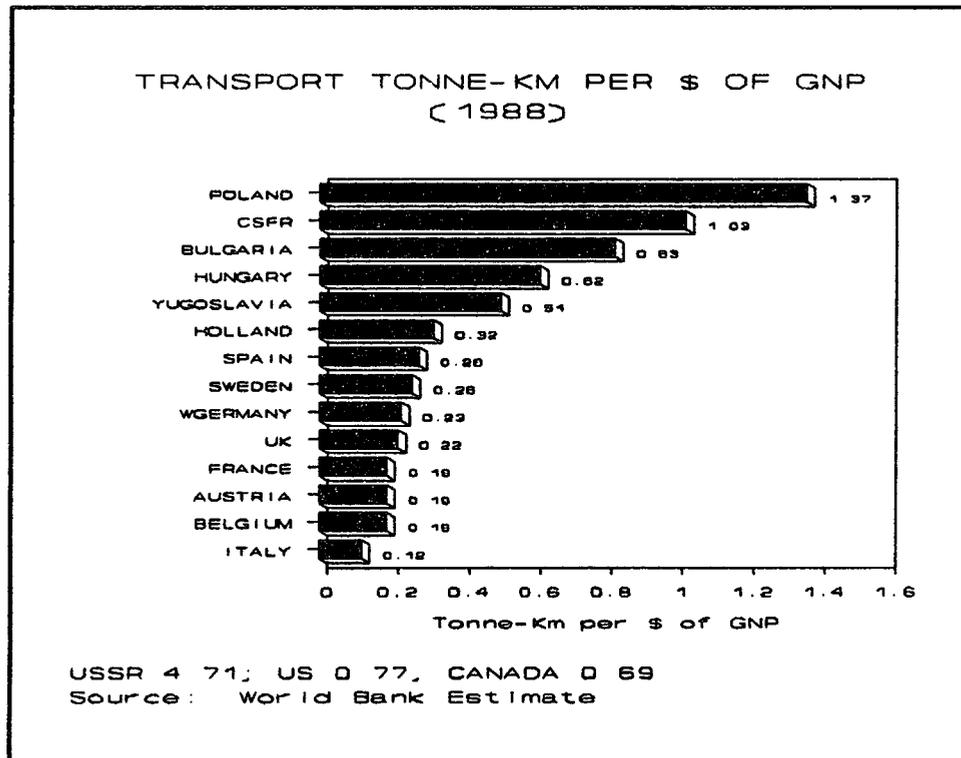
Transport Intensity

5. In common with the other socialist economies, Poland's economy is relatively transport intensive. Comparing tonne-kms of freight service per dollar of GNP (a comparison that can only be approximate because of the different methods of national accounting and the difficulty of currency conversions) Poland exceeds the European market economies by a factor of between

¹ Państwowej Komunikacji Samochodowej

four and six (Figure 1). The explanations that suggest themselves for this contrast are the large share of heavy industry in Poland's economy and the large proportion of inter-industry sales in output (well above the 40% common in West Europe's market economies), as well as the large share of construction (9%-10% of GDP at producer prices, while the Western European norm lies between 6% and 7.6%). Agricultural production is widely dispersed. The combination of a pricing policy which administered cost-based prices uniformly for many products, but also individually for specific enterprises, with high levels of industrial concentration and the absence of a pervasive profit motive in industrial decisions also generated a relatively heavy use of freight transport.

Figure 1



6. Price controls have largely disappeared or are being dismantled and the ongoing economic reforms should lead to a gradual adjustment of the structure of production, towards the model of Western European industrial countries. The freight transport intensity of the economy will therefore decline, or rather continue declining. Net Material Output increased at around 3.7% annually between 1970 and 1986, while tonne-kilometers of transport increased by only 2% annually. But, inasmuch as transport intensity is still relatively high, any increase in the productivity of resources in Poland's freight transport should yield a correspondingly

substantial benefit to the economy.² It also follows that, as freight transport intensity declines secularly, the market for freight transport should not grow as fast as national output, and may even shrink in the years of transition.

7. Road haulage, however, will be shielded from the full impact of the relative decline in freight transport demand because it benefits from the countervailing secular shift in the modal distribution of freight transport. Polish State Railways (PKP) carry about 76% of the total rail and highway traffic in Poland, an extraordinarily high share when compared with the levels in Western European countries (Sweden at 43%, Germany and France at 33%) (Figure 2). The modal shift has already begun in Poland. Since 1970, the share of trucking in Polish rail and road tonne-km has roughly doubled, though it remained nearly constant between 1980 and the present (Figure 3). The rate at which the future change will take place is difficult to predict. But one may safely assume that the shift from rail to road will resume and continue, in response to the changes in the structure of the economy and its modernization. It may indeed proceed at a faster rate than is currently observed in Western Europe where the full scope of the shift to trucking has apparently not yet been exploited.

Figure 2

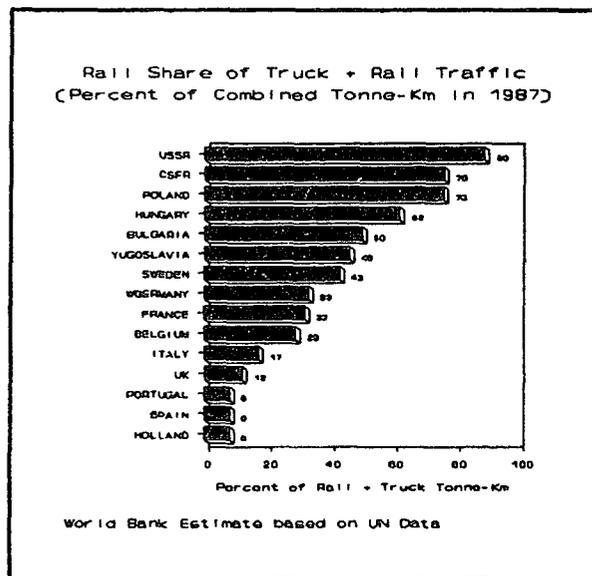
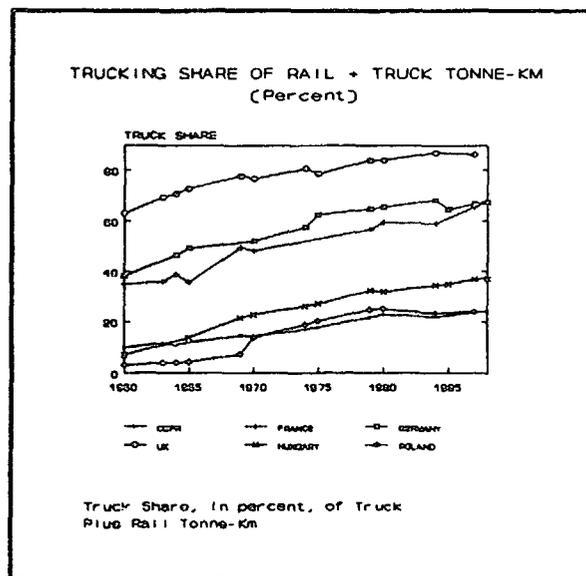


Figure 3



² The impression of a relatively high transport intensity of Poland's economy is based primarily on physical indicators: t-kms of freight transport and railway passenger-kms per capita (1,278 in 1987, and thus about 20% above France, and twice the level in Germany, Netherlands, the United Kingdom and other Western European countries). Poland's available National Accounts, however, do not indicate an unusually high share of transport. The physical indicators appear to have the higher credibility, but the conflict with national accounts' estimates remains: it is unlikely to have its explanation in a relatively low factor cost of Value Added by Poland's transport.

The Stock of Goods Vehicles

8. According to official estimates which contain little information on vehicle sizes, the total Polish fleet of trucks has been growing steadily. The total fleet (including privately owned trucks) grew between 1980 and 1988 by about 37% in terms of vehicles, which is significantly faster than an estimated 5% growth in total trucking tonne-kilometers over the same period. But the growth in the stock was entirely in the private sector of trucking which may be assumed to employ relatively small vehicle sizes. A faster growth of aggregate truck numbers than of ton-kilometers is therefore not evidence of declining utilization or of excess capacity. It may just be evidence of increasing motorization of the economy. By comparison with the trucking fleet of other countries, allowing for different population sizes and densities, Poland's stock of vehicles is still of relatively modest size (Table 1). At around 900,000 lorries, the Polish fleet is small when compared with the Spanish fleet of 1.9 million lorries. Much the same conclusion would be reached when comparing Poland with France, the UK and Austria if allowance is made for differences in the way in which "vans" are included in the term "lorry". But for the effects of the present recession of the economy, there appears to be no reason to conclude that there is a significant amount of excess trucking capacity.

9. There is only limited information on the relative age of the Polish trucking fleet. Analysis of a sample of PKS unit fleets suggests that the Polish fleet may be somewhat older than the European norm (Figure 4). It is also likely that the technology employed in the current fleet is somewhat out of date compared with modern market economies, as well as in terms of fuel efficiency and pollutant emissions.

Figure 4

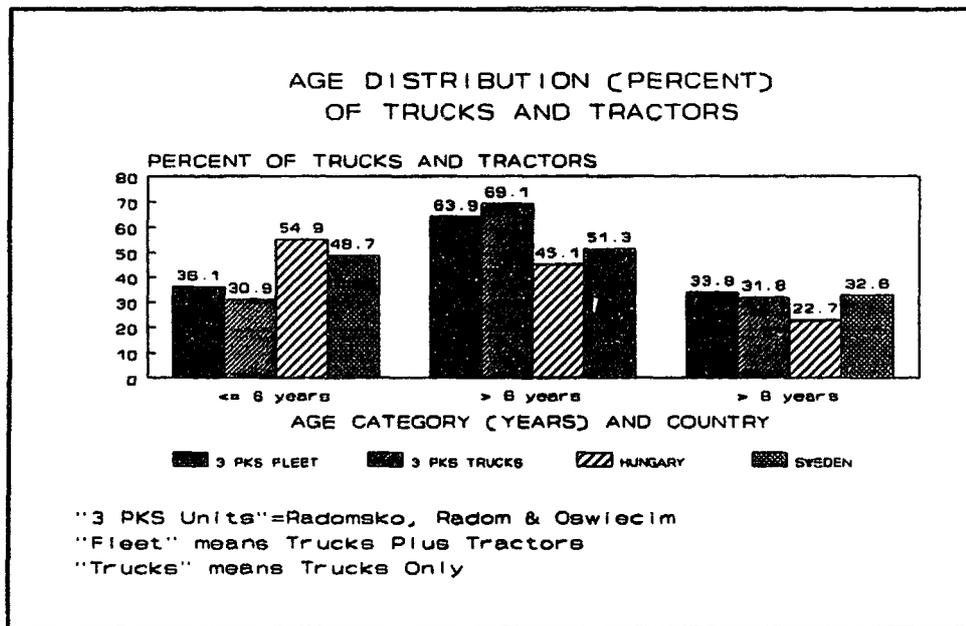


TABLE 1
Comparative Transport Data in 1988

	Area (Km ²)	Population (31 Dec) (000)	Population Density (pop/Km ²)	Lorries: Total Fleet						Total Lorries
				By Capacity, In Kilograms						
				1500 to <1500	5000 to 4999	7000 to 6999	10000 to 9999	14999 to >15000		
Austria	83,850	7,600	90.6	158,402	35,353	13,113	20,700	7,001	42	234,611
Belgium	30,513	9,920	325.1	152,489	66,514	15,165	17,898	14,777	3,058	269,901
France	547,026	55,870	102.1	2,757,731	398,219	45,714	62,010	51,393	6,818	3,321,885
Germany (FRG)	248,577	61,200	246.2	672,638	401,624	57,564	118,435	66,731	4,832	1,321,824
Great Britain	229,989	55,502	241.3	1,643,000	168,400	27,400	78,200	48,900	38,100	2,004,000
Hungary	93,030	10,600	113.9							179,203
Netherlands	40,844	14,760	361.4	351,703	54,689	14,503	25,265	16,245	5,361	467,766
Poland	312,677	37,860	121.1							919,321
Spain	504,782	39,850	78.9	1,622,023	169,246	32,470	45,993	106,085		1,975,817
Sweden	449,964	8,440	18.8	182,205	30,223	7,593	17,885	25,435	3,940	267,281
Yugoslavia	255,804	23,560	92.1							260,988
Portugal (1987)	88,944	10,290	115.7	237,278	75,202	19,556	24,293	9,766		366,095

Source: United Nations, Annual Bulletin of Transport Statistics, 1990.

III. Road Haulage

General Organization of Road Haulage in Poland

10. The formal organization of Poland's road haulage under socialism corresponds to that of other socialist countries. In the socialized sector, it distinguished between Public (or general) transport, Special transport attached to various branches of the economy, and the own-account transport of socialized enterprises. Jurisdictionally, public transport was sponsored by the Minister of Transport, the Special transport enterprises by the respective branch ministries, and own-account transport, indirectly, by the corresponding branch authorities. Private transport was outside the socialized sector. In functional terms, Public transport is general freight transport. The Special haulage enterprises, originally attached exclusively to individual branches of the economy (mining, forestry, construction, the meat industry or domestic trade), are the counterpart of special haulage enterprises in market economies where they serve trades that require special equipment (such as tankers for bulk liquids). The professional haulage industry consisted therefore of Public and Special transport, in the socialized sector, and of private transport in so far as it is offered for hire or reward.

Division of the Market

11. The relative sizes and shares of these different groups in 1988 can be described in terms of vehicle stocks and, less comprehensively, in their shares of tonnes lifted and tonnes moved (Tables 2 and 3).

TABLE 2
The Polish Truck Fleet
(end of year)

	1970	1980	1988	1989
Public	28,142	34,122	27,316	25,034
(of which PKS)	25,532	29,672	22,550	20,669
Special	52,963	93,891	70,671	58,502
Own-Account	161,973	325,937	339,903	343,740
Total "Socialized"	243,078	453,950	437,890	427,276
Private	27,000	154,000	394,000	452,000
Total Fleet	244,546	578,278	809,340	858,607
Trailers:				
Public	8,862	15,075	14,034	13,645
(of which PKS)	7,876	13,787	12,886	12,546
Branch	9,931	27,091	20,160	18,279
Own-Account	134,584	178,487	183,986	188,318
Total "Socialized"	153,377	220,653	218,180	220,242

Source: Statistical Yearbook (Rocznik Statystyczny), 1990 and 1985, Tables "Tabor Uspolicznionego Transportu Samochodowego" and "Pojazdy Samochodowe I Ciagniki".

TABLE 3
Tonnes Lifted and Tonne-Km Performed, Percentage Distribution
by Working Organization

Organization	Tonnes (%)		Tonne-Km (%)	
	1987	1988	1987	1988
Public	6.0	5.8	22.0	21.3
(of which PKS)	5.7	5.4	18.0	17.3
Special	29.3	29.7	25.3	25.3
Own Account	44.5	43.1	36.5	35.9
Private	20.2	21.3	16.4	17.4
"Professional"	35.3	35.5	47.3	46.6
(Public + Branch)				

Source: Statistical Yearbook 1990, Table 6(544), and Ministry of Transport

12. In numbers of goods vehicles of all kinds (trucks and tractors), tonnes lifted and tonne-kilometers of haulage, the own-account fleets dominate each of the other organizational classes. But this dominance is greatest in vehicle numbers, less in tonnes lifted and least in tonnes moved (Table 4).

TABLE 4
Truck Numbers, Tonnes Lifted and Tonnes Moved,
1988, by Sectors,
Relative to Own-Account Fleets and Operations

	Trucks	Tonnes Lifted	Tonnes Moved
Public Haulage	.06	.13	.59
-- PKS	.05	.12	.48
Special Haulages	.19	.69	.70
Own-Account	1.00	1.00	1.00
Private	.84	.49	.48

13. The private sector (for which the estimates are most speculative) exceeds the others in vehicle numbers but not in tonnes lifted, and even less so in tonne-kilometers. Special haulage dominates Public haulage, most markedly in tonnes lifted but much less so in tonne-kilometers. With not quite 4 times as many trucks, the Special haulers lifted 5-1/2 times as many tonnes as PKS, but only performed 45% more in tonne-kilometers.

14. These contrasts between sectors are summed up in the average performance of goods vehicles, in tonne-kilometers per vehicle-year (Table 5). The relatively high output rates of PKS trucks are consistent with the relatively long hauls in PKS operations (Figure 5).

TABLE 5
Trucking Output per Equipment in 1988
(per truck, and per truck and trailer)

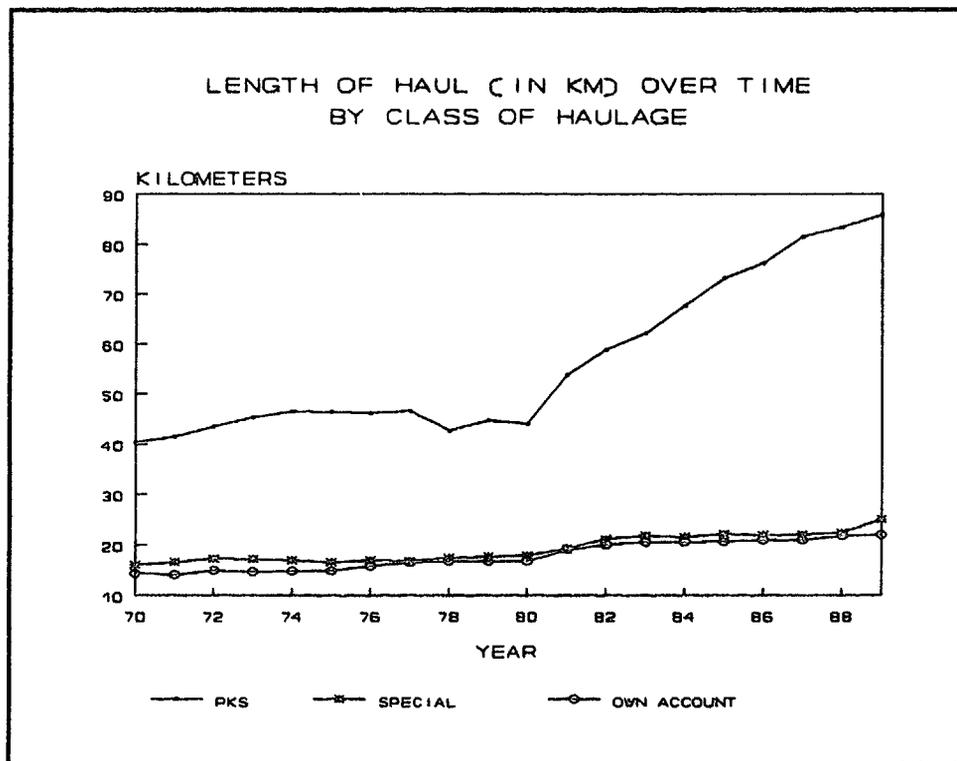
	Number of Vehicles	Tonne-Km Per Vehicle (000)
Output per Truck Only:		
Public Freight Transport	27,316	370.6
Special Transport	70,671	168.7
Output per Truck and Trailer:		
Public	41,350	244.8
(of which PKS)	35,436	231.7
Special	90,831	132.7
Own-Account, Socialized	523,799	32.6
"Private"	394,000	21.1

Sources: Statistical Yearbook gives number of trucks, Ministry of Transport estimates "private" tonne-km freight transport, without clearly defining "Private".

15. Average truck sizes in the different segments of Poland's road haulage are further evidence of differentiation in operations. The economics of trucking, if not constrained by regulations, gives an advantage to professional haulage on the longer hauls, and assigns the larger trucks to the longer haul. PKS appears to have an average capacity close to 8 tons; 1988 additions to the fleet averaged 8.2 tons. Poland's Public road haulage shares with those of other

socialist countries the technical peculiarity of large stocks of trailers which are used to enhance the carrying capacity of (typically) rigid trucks. The trailer-enhanced payload of PKS trucks thus reaches 14 - 24 tons. Average capacity of trucks in the Special haulage fleets, on the other hand, appears to lie around 6 tons, except for the much heavier vehicles in the fleets of the former Special transport for construction and forestry. Average truck capacity in the own-account fleets of socialized enterprises appears to be still lower, in the range of 3 - 6 tons.

Figure 5



16. By such general operational characteristics, PKS very roughly approximates the profile of general freight haulage enterprises as they have developed in market economies. Judging by average lengths of haul and annual performance of trucks, the Special haulage enterprises, own-account fleets and private trucks engage primarily in short-distance and local haulage.

17. The division of Poland's haulage market at the end of the 1980s still preserves the basic features of the organization and the market assignment ordained by socialist policy over a decade ago. But the evolution of the industry and its markets since the economic crisis of 1980-81 and the subsequent measures of liberalization have greatly sharpened the differentiation in ways that seem relevant to what the future may hold.

18. Private haulage has grown rapidly (Table 2). In 1988, it is estimated to have lifted over one-fifth of total road tonnage and, according to a more tentative official estimate, to have provided 17% of all ton-kilometers of road freight transport. Not all of this private operation competes directly with professional haulage. The number of goods vehicles in private hands is estimated at 450,000 in 1989, but only 150,000 private persons declared for purposes of taxation that they are engaged in public haulage. At a guess, no more than half the stock of private trucks and tractors is employed in that way, the rest being used within private enterprises or in conjunction with private trading.

19. The shares of own-account haulage, in the stock of trucks, in tonnes and in tonne-kilometers, generally rose throughout the decade. By comparison with road haulage in Europe's market economies, however, the own-account share does not appear abnormal. It is larger than the shares of own-account transport in the lightly regulated (or, simply, deregulated) road transport sectors of Sweden or the United Kingdom, but somewhat lower than the corresponding shares in countries that regulate road haulage and regulate entry into professional haulage (Table 6). Nor do the average lengths of haul of own-account haulage, relative to Public haulage, suggest an inefficient overlap in operations of these two sectors (Table 7).

TABLE 6
Transport of Goods by Road: Percentage
Distribution by Mode of Working

Column No.	Country	Year	(tonnes)			(tonne-km)		
			Own-Account (%)	Professional Haulage (%)	Private Haulage (%)	Own-Account (%)	Professional Haulage (%)	Private Haulage (%)
			(1)	(2)	(3)	(4)	(5)	(6)
	Poland	1988	43	36	21	36	47	17
		1987	45	35	20	37	47	16
	Sweden	1987	23	76	in (2)	16	84	in (5)
	U.K. ^{1/}	1987	41	59	in (2)	29	71	in (5)
		1983	48	52	in (2)	36	64	in (5)
	France ^{2/}	1983	64	36	in (2)	38	62	in (5)
	Belgium ^{3/}	1988	55	45	in (2)	51	49	in (5)

^{1/} Excluding trucks below 3 tonnes gross vehicle weight.

^{2/} Excluding trucks below 3 tonnes payload.

^{3/} Internal transport.

TABLE 7
Average Lengths of Haul in Road Haulage

	Professional Haulage (km)	Own-Account Haulage (km)	Ratio of Professional to Own-Account
Poland, 1988			
PKS	84	22	3.82
PKS plus Special	47	22	2.14
Sweden, 1989	74	44	1.69
U.K., 1987	91 ^{1/}	53 ^{1/}	1.72
1983	88	54	1.63
France, 1983	123	42 ^{2/}	2.93
Belgium, 1989	45 ^{3/}	40 ^{3/}	1.13

^{1/} Vehicles above 3 tonnes gross vehicle weight.

^{2/} Vehicles above 3 tonne payload.

^{3/} Domestic haulage.

20. Throughout the decade, Public haulage and PKS within it, and special haulage, generally lost market shares (Figure 6). Their fleets, in terms of units, have decreased. But while PKS lost traffic, the average length of haul of this lost traffic (1986-89) was less than one-third of the average length of retained traffic (24 kms against averages of 76 kms in 1986 or 86 kms in 1989). PKS thus appears to have specialized increasingly in longer-distance trucking: the average lengths of haul in its operations doubled between 1980 and 1989 (Figure 5).

21. The Special haulers, similarly, lost traffic and increased their lengths of haul: average distance of haul on traffic lost between 1986 and 1989 was 8.5 kms while the average on retained traffic increased from 22 to 25 kms. Nevertheless, the market position of this large block of haulage capacity, and the direction of its adaptation to competition and changing demands, remain difficult to define. The market position of the Special haulage enterprises changed in consequence of the reforms of 1982 which deprived them of monopoly rights to the transport business of socialized enterprise in their respective branches. Special haulage freight

tariffs were decontrolled in 1984 while Public haulage tariffs remained under control until November 1989. Some sections of the Special group established themselves in the 1980s as general transport enterprises, in open competition with PKS. Pressures on the Special haulage sector increased greatly following the economic downturn of the early 1980s. It is normal experience in the haulage industries of most countries that professional haulage takes the brunt of any recession in the market while industrial own-account fleets remain more fully utilized. An inverse movement of the shares and also the absolute volumes of activity of professional and own-account haulage in an economic downturn is therefore not unusual. What is, however, remarkable is the intensity of this inverse movement of Poland's own-account and special haulage activity after 1980 (Figures 6 and 7). The degree of substitutability between these two sectors of haulage suggests an inefficient division of labor which will not withstand market forces in a competitive and lightly regulated industry. While the recession lasts, competition within road haulage will remain lively. In the process, and assuming that no regulatory barrier to a market-responsive reorientation of enterprises is erected, the share of own-account haulage is likely to decline somewhat. The main changes are, however, to be expected in the operations of Special haulage enterprises. While originally attached to specific branches of industry and equipped to serve technical distinctive needs, they appear also to have engaged in a wider variety of haulage work than experience in market economies shows to be profitable for one enterprise. One may therefore have to expect a good deal of disintegration of these enterprises, and a search for structural change that deserves expert guidance, no less than the newly independent PKS enterprises.

Figure 6

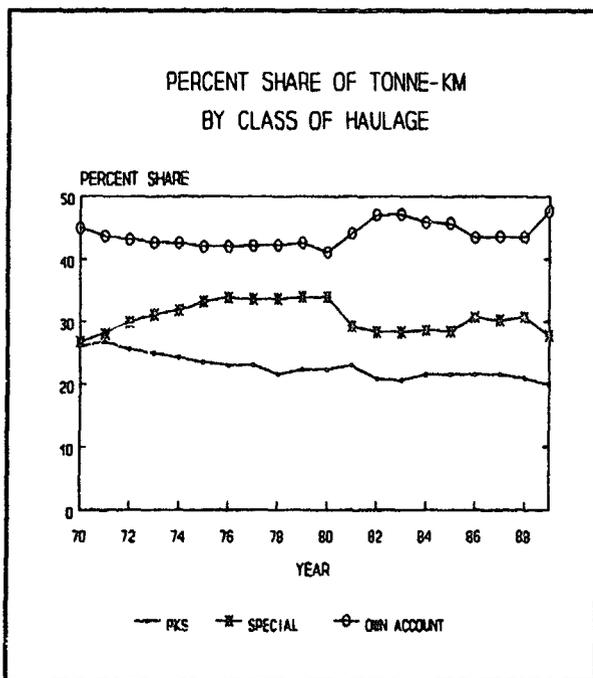
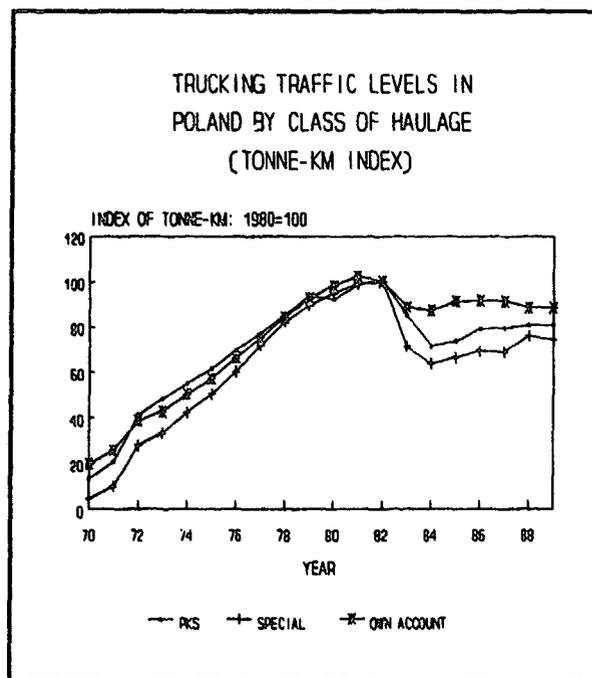


Figure 7



IV. The PKS Enterprises³

22. The PKS enterprise (or the present group of PKS successor enterprises) forms the original main component of Poland's public road transport sector, for both passengers and freight. Its branches or divisions are distributed over the entire country. Before the reorganization of 1990, the enterprise employed about 110,000 persons. It operated 22,000 buses, almost the entire stock of the country, and produced annually over 1,500 passenger-kms per inhabitant. Its trucks and trailers represented 23% and 38% respectively of the combined stocks of Poland's professional haulage in the socialized sector (Public and Special transport).

23. In its internal organization, PKS (prior to separation) was a creation of the early 1980s. It consisted essentially of 4 enterprises: the massive State Motor Transport, KPKS, comprising 193 divisions grouped under 14 regional directorates and covering 40 voyvodships, and a further 3 enterprises, PKPS, which together operated 41 local divisions and covered the remaining 9 provinces of Poland. The enterprises and their individual divisions were managed by directors appointed by the founding organ, the Ministry of Transport, Maritime Economy and Communications, and by their Workers' Councils. (Complete integration of the PKS enterprises had in fact been blocked by the Workers' Councils of the 3 separate -- PKPS -- organizations.)

24. The managerial function in the individual units was limited in important respects. Individual units accounted to their supervisory bodies but were not involved in investment decisions or in contacts with sources of finance, credit or subsidy. Managers of the subordinate divisions made their requests for equipment and other capital items. But the decision on how much to expend from the resources of the enterprise and state grants, how much and what to acquire and how to distribute it among the subordinate units, was reserved for the supervising body. Transactions with the budget and the bank -- the National Bank of Poland until 1989, and then the State Credit Bank of Warsaw which looks after infrastructure -- were conducted by the supreme management of PKS. Neither the individual divisions nor the various directorates were thus "firms" as understood in market economies or, indeed, by any of the criteria formulated in Poland's 1981 reform program (the Directions of the Economic Reform).

The Reorganization of 1990

25. Early in the process of Poland's economic reforms of 1990, professional haulage in the socialized sector underwent a major reorganization. PKS was divided up into its constituent operating entities which were ordered to operate as independent firms from July 1, 1990. The intermediate supervising bodies were to be disbanded. There emerged 227 separate enterprises or firms: 27 specialized in passenger transport, 31 specialized in road haulage, and 140 "mixed" units engaged in both passenger and freight transport. Twelve workshops and repair entities

³ In this note, PKS refers to the two constitutionally separate parts of the entire enterprise before separation, KPKS and PPKS.

were constituted as independent enterprises; so were 13 supply units, 3 specialized in building work, and one that coordinates and makes time tables for cross-country passenger services. Eighteen units, the former supervisory bodies, were abolished.

26. For purposes of administrative supervision and tutelage, the Ministry of Transport retains those of the entities that transport passengers, including therefore 140 "mixed" units. Units specialized in road haulage, on the other hand, were assigned to the supervision of the voyvodes. The enterprises retained under the wings of the Ministry of Transport operate 68% of the total PKS fleet of trucks: 15,906 goods vehicles as well as 17,396 buses. Their output in tonne-kilometers of haulage is about 65% of total PKS performance, or some 27% of the combined tonne-kilometers of "socialized" professional haulage (PKS plus Special transport) in 1989.

27. The policy of dismantling the large, nation-wide road transport enterprises, and the establishment of their former constituent branches as independent, state-owned enterprises, was applied to the Special transport enterprises as well as to PKS. The divisions of the Special transport enterprises, mainly engaged in road haulage, have been assigned to the supervision and control, as founding organs, of the local authorities. The newly independent entities, PKS as well as former Special transport, are each under an obligation to pay to the Treasury the monthly "dividend" on that part of their capital (according to balance sheets revalued for inflation but not otherwise audited) that was defined in 1989 as Founder's Capital. The current standard rate of the dividend is 32% per annum.

28. Reorganization has, however, introduced a significant new differentiation of status among enterprises engaged in road haulage. All enterprises engaged in passenger transport -- hence also the 140 "mixed" PKS enterprises, but not the remainder in Poland's road haulage industry -- retain the status of public utilities. As such they are protected against bankruptcy proceedings. Their liability to payment of the dividend on founder's capital is reduced to one-third of the standard rate. They are further exempt from a variety of taxes, and receive subsidies, negotiated between the Ministries of Transport and Finance, specifically for the support of passenger transport. There results a significant discrimination in favor of one sector of road haulage against all the rest.

29. By virtue of his status as the head of the founding body, the Minister of Transport appoints managers for the entities that remain under his sponsorship. New appointments have to be made in all the units, based on open competition for the posts.

30. Founding organs may also take the initiative in winding up enterprises in their domain.⁴ A sufficient reason for intervention, followed alternatively by rehabilitation, transformation or true liquidation and sale or other disposal of assets, would be the entity's failure to pay the

⁴ The conditions under which the founding organ may take the initiative in the liquidation of an enterprise--meaning, essentially, in intervening an enterprise--are formulated in the 1990 Act on the Privatization of State-Owned Enterprises, Art. 37.

dividend due on founder's capital. Minor liquidations took place early in 1990, but not of enterprises with the status of public utilities. Since several of the newly independent enterprises have not yet ascertained from the supervising directorates (to be abolished in due course) the amount of founder's capital, of enterprise own capital and of enterprise debt that is allocable to them, the institution of the intended regime is bound to take time.

The Separated Units

31. The newly independent PKS enterprises differ greatly in size. Pure road haulage enterprises, assigned to the local authorities, have an average fleet size of 240 trucks; the largest has 574 trucks and none have fewer than 137. By the standards of haulage enterprises shaped by competitive market forces, these are large or, indeed, very large firms (Figures 8 and 9). The haulage establishment of the individual 140 "mixed" units is smaller, but the average number of trucks, 113 units, also far exceeds the sizes of the average professional haulage firm in Western Europe. Only 60 of the mixed entities operate fewer than 100 trucks, the smallest consisting of 47 vehicles.

Figure 8

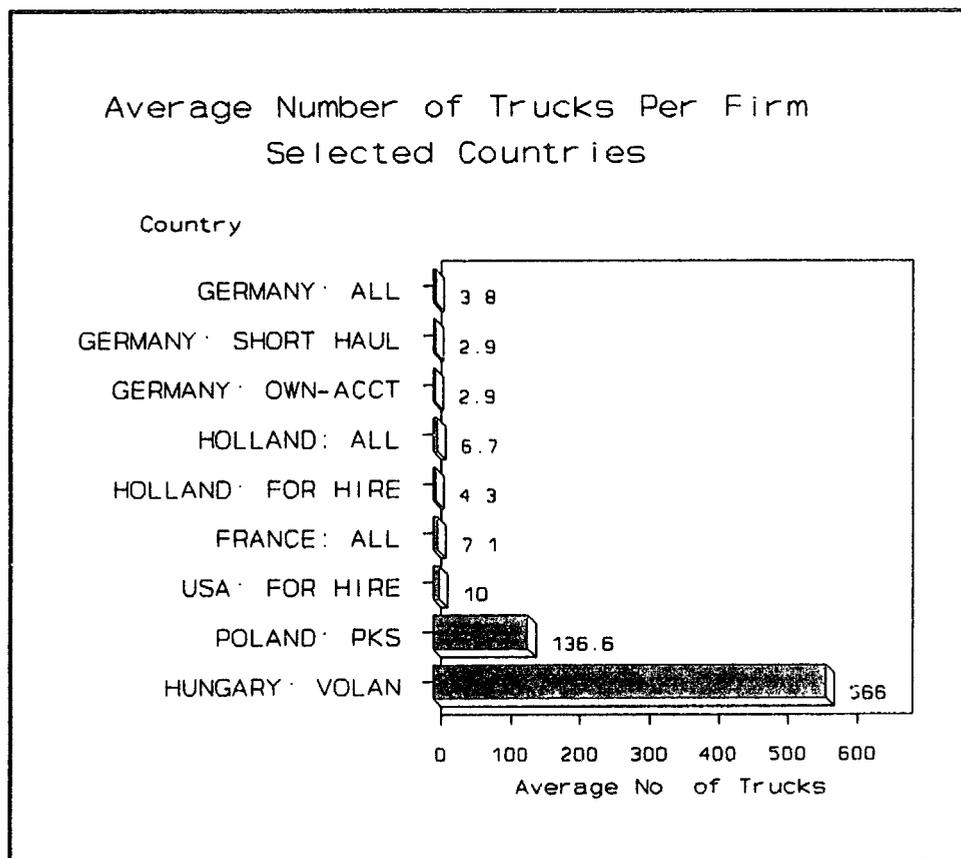
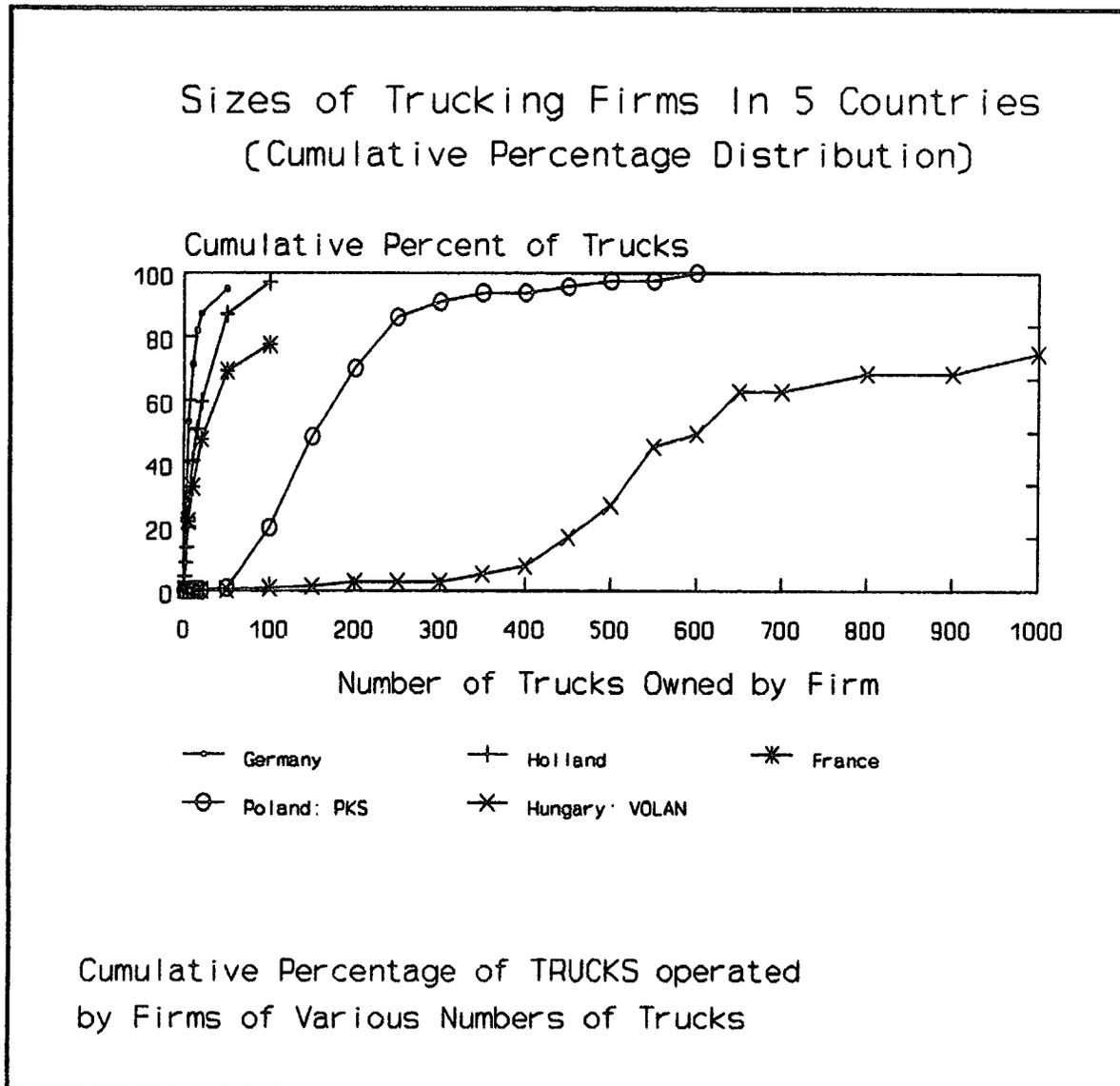


Figure 9



32. Workshops, repair and maintenance stations, and storage buildings, form parts of the estates of the individual units, and the labor force contains large proportions of mechanics -- 1 to every 2 or 3 drivers -- and also substantial numbers of labor, presumably for loading and unloading work. Administrative and management personnel in the newly independent units form some 20% of the entire staff, about twice the proportion that one expects to find in professional haulage firms in market economies.

33. In the "mixed" units, the relative importance of freight and passenger transport can only be measured in terms of revenues earned in 1989 at controlled freight rates and fares, and in 1990 at free freight rates and at fares that were raised steeply to reflect inflation, but are still controlled and subsidized. On that basis, freight revenues in the "mixed" units in 1989 exceeded revenues from passengers in about four-fifths of the enterprises. The average excess was only 3%, but the unweighted average for the units that earned more from freight, was 34%. Passenger transport, however, was heavily subsidized.⁵ Passenger revenue after subsidy exceeded freight revenue by perhaps two-thirds, but even after subsidy, one-quarter of PKS "mixed" units earned revenues from freight that were equal to, or greater than, passenger revenues. In 1990 it is expected that the relation is strongly inverted and that passenger revenues, even before subsidy (at a reduced rate) but after a doubling of fares, will exceed freight revenue by 90%. Only one in ten of the "mixed" units are expected to earn from freight more than from subsidized passenger transport.

34. While the trend toward longer-distance haulage is evident in the aggregate performance data of the entire group there remains a substantial diversity in the spread of operations of different PKS enterprises. While individual PKS units, after reorganization, earn the greater part, or even most, of their freight revenue from long-distance (over 50 kms) haulage, there is still on average a substantial amount of short-distance work, in the haulage of construction materials, agricultural products and various types of less than truckload (LTL) haulage. But it appears from the investigation of a sample of "mixed" units that length of haul is negatively related to the size of the haulage establishment, represented by numbers of trucks in the enterprise (Figure 10).⁶ The smaller haulage operations have the largest tonne-kilometers per truck, while the largest fleets have the lowest performance (Figure 11). On the hypothesis, derived from experience in Western countries, that the market will lead Poland's general freight enterprise towards longer-distance work, away from the short distance, local haulage jobs, it is the relatively small units (small by Polish standards) that are moving fastest in the direction of viability under competition.

⁵ In 1990, the rate of subsidy prevailing until April was Z1.0.72 per Z1.100 of income from passenger fares. Fares were raised by 100% in March, and the subsidy was then to be reduced to 15% of income from sales of tickets. We assume that the rate paid in the early months of 1990 applied throughout 1989 even though the real subsidy in that year, before the collapse of haulage freight rates, may have been lower.

⁶ The scatter diagrams in Figures 10 and 11 are based on 4 different samples of PKS units. The Original Sample of 29 "mixed" units is stratified by size of fleet. Weakest Seventeen and Next Weakest Twenty consist of "mixed" units with poor performance in 1990, as selected by the Ministry of Transport. Freight Only consists of 8 PKS units that specialize in freight. Observations from each sample are entered with separate marks.

Figure 10

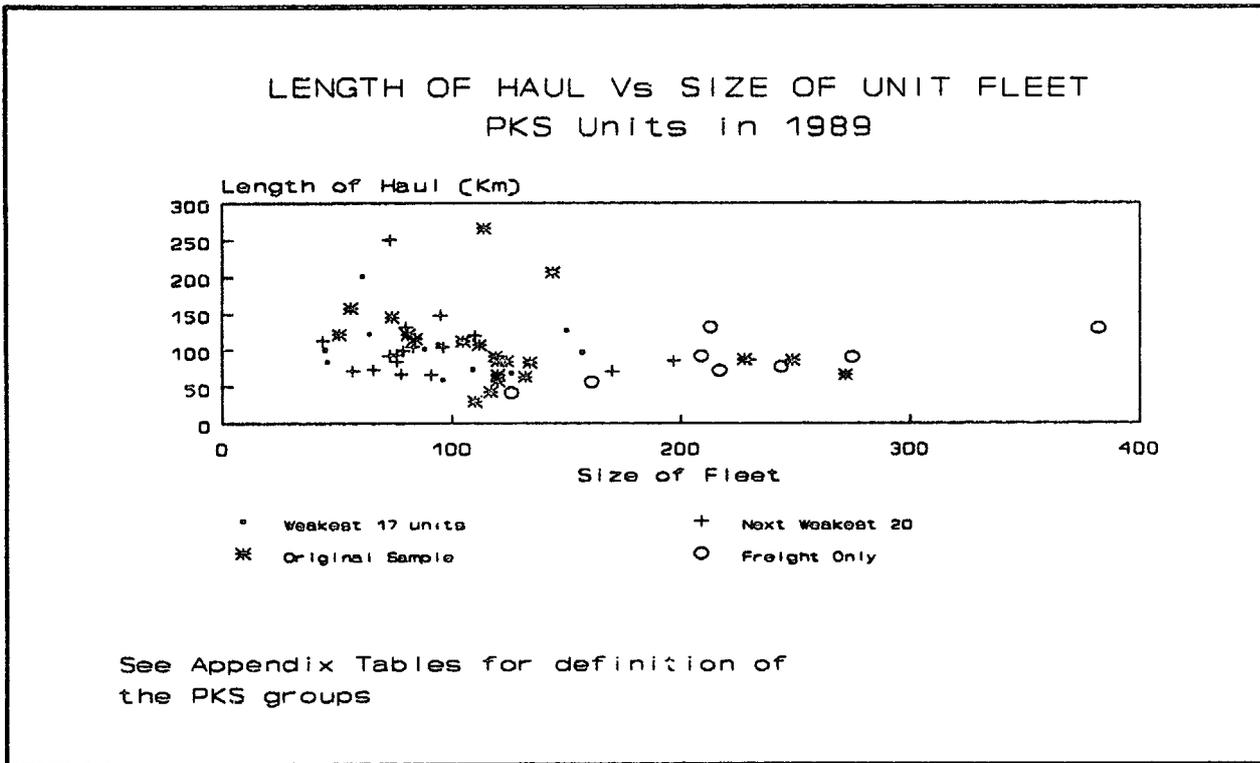
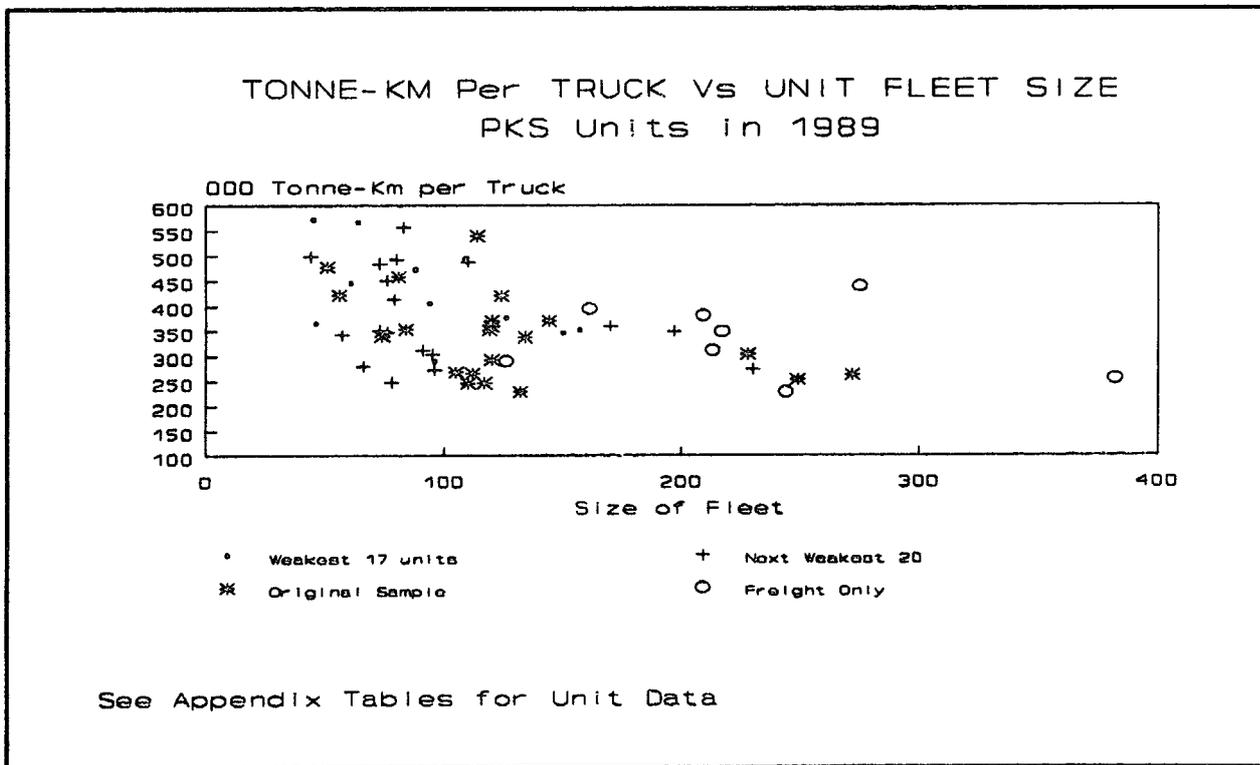


Figure 11



V. Recession and the Move to Transformation and Privatization

Effects of Recession

35. As a sequel to the drastic measures of stabilization taken at the beginning of the year, national output during the first 4 months of 1990 declined by 30%, and fell further thereafter. Demand for the services of state-owned transport is reported to have fallen by 58% during the first 5 months, and that for private transport, by 7%.

36. Demand for transport had already been declining in 1989 when GDP fell by over 2%. The response of transport demand in that year reflects the unequal impact of recession on different industries, but also signifies a further structural shift in the entire freight transport sector (Table 8). No information is available on the development of private haulage. Special haulage was particularly affected by recession in the construction industry and in coal mining, and that would account for the steep drop in tonnes lifted. But for the combined tonne-kilometers of Special and own-account haulage, the decline from 1988 to 1989 was a mere 1%; further evidence of the close substitutability between these two modes of working which contains the suggestion of an inefficiency in the division of labor, and therefore relatively high cost of professional branch haulage. Professional road haulage generally substituted longer hauls for fewer tonnes, assisted by the continuing increase in road-carried international trade. In the operations of the Special haulage, short-distance work fared much worse than the longer distances, the former more competitive with own-account and private hauliers, and the latter with PKS.

TABLE 8
Socialized Transport of Goods

	Percentage Change 1988-89	
	Tonnes (%)	T-Kms (%)
All modes	-6	-7
Railway	-9	-9
Road Haulage	-5	-2
- PKS	-9	-7
- Special Transport	-21	-12
- Own-Account Haulage	+7	+7

37. At mid-1990, utilization of PKS freight capacity was reported to have declined to 40% on average. Individual entities experienced shrinkage in demand for short-distance work, and new industrial clients for the traditional long-term haulage contracts are difficult to find. Competition from private hauliers and from the former Special haulage enterprises was mounting, specifically from the construction industry Special transport which operates heavy vehicles and lost much business in its traditional sector.

Commercialization and Privatization

38. Poland's reform programs of 1990 aim at the transformation of state enterprise by commercialization and, ultimately, by privatization. Privatization of road haulage, as such, is already proceeding through the growth of the private truck fleet, based largely on purchases from each of the socialized sectors of road transport and from own-account operators. Outright privatization of socialized road haulage enterprise has not occurred on any scale even though some 100 public sector transport enterprises, chiefly units of the former Special haulage organizations, are earmarked for "small" or "medium" privatization, essentially by sale as going concerns.

39. For the time being, the private economy has also entered the domain of state-owned haulage by less direct routes, as subcontractors and as lessees. PKS and Special haulage enterprises are subcontracting with private drivers, and are letting their vehicles for work assigned by the enterprise and charged to customers at its rates. The incentive in these cases is the higher productivity of the private subcontractor, both in performing haulage work and in marketing the service. Vehicles are also being let to outsiders (including in some cases, former managers of the lessor enterprise) on the basis of regular leases with option to purchase. Special haulage enterprises have let out entire units on such terms. The lessees manage their business without the participation of Workers' Councils and pay wages at rates above those of the lessor enterprise. No such comprehensive forms of leasing are reported from PKS "mixed" road transport entities.

40. From the point of view of management (though not necessarily of individual managers who may lose their jobs in the process), transformation of enterprises, short of privatization or in preparation for it, promises greater freedom of action. Workers' Councils would be transformed into workers' representation on a supervisory council⁷, and the present dividend on founder's capital -- in essence, a senior debt -- would be transformed into equity. It would facilitate entry into joint ventures with foreign firms. Some managements of both (former) Special haulage enterprises and (former) PKS pure freight enterprises accordingly argue for

⁷ Corresponding to the Aufsichtsrat of the German joint-stock company or the larger Limited Liability Company; and to the similar French conseil de surveillance.

transformation into Public Limited (joint stock) Companies, in state ownership, which is the most widely understood model.

41. Industrial enterprises with own-account haulage operations have for some time been transforming internally. Transport departments of such enterprises have been turned into self-contained subsidiaries, owned jointly by the mother enterprise, its workers, and the workers and management employed in the subsidiary. The subsidiary is a lessee of the mother enterprise, with options to purchase the leased equipment and facilities. The incentives for such decentralization are partly fiscal, but productivity in haulage also improves and the financial discipline on the enterprises' use of road transport is strengthened. This model, which is familiar from developments in other transitional socialist economies in Europe, has not so far been followed in the PKS group of enterprises. Unless carefully controlled in the valuation of assets transferred from mother enterprise to subsidiary, and in the pricing of the subsidiary's services to the mother, it is clearly open to abuse. Nor has it solved the ultimate question of ownership; in fact, by establishing a network of new rights it may actually have made the solution marginally more complicated. The advantages, however, consist in allowing a more effective system of incentives to be introduced, in raising productivity, and in establishing a new opening balance for the haulage firm as is essential if third parties are to contribute new capital.

VI. Options in Restructuring Road Haulage: General Criteria

42. Options for the restructuring of Poland's road haulage must conform to Poland's policy of commercializing and privatizing state-owned enterprises, and they must also contribute to the ultimate objectives of that policy. Options should be judged on their potential to raise the productivity of resources employed in Poland's freight transport, and to open the way for the creation of new jobs. They should contribute to the preservation of employment, though not necessarily employment in each of the individual enterprises.

43. Wide scope should be allowed for the development of entrepreneurial activity, on a small scale as well as in larger ventures. Experience in many countries, including Poland, has shown that productivity is raised, and the entrepreneurial potential is activated, by competition. The policy regime should therefore allow freight haulage to undergo structural change and modernization, in conditions of a competitive market.

44. Success of reorganization of road haulage in providing Poland with an efficient transport system and in assisting in the economy's transition is conditional on the policy setting for transport and on the quality of management. Many managers in Poland's professional transport enterprises have shown qualities of resilience and determination in adverse circumstances. There is no lack of technical competence. What has to be developed further is commercial skill for which no basis of experience and no incentives for learning were available under the rules of the past. Reorganization has to assure scope and incentives for the development of commercially oriented and independently minded management.

45. While it is an object of policy, and indeed a condition of success, that ownership of assets and firms, with the right of control vested in the residual owner, should be clearly and securely established (as it fails to be under socialism), and that privatization should therefore be strenuously pursued, the transfer to owners should not lead to an avoidable dissipation or unintended diversion of state or social property.

VII. Restructuring Freight Haulage: Separating Freight from Passengers

The Case for Separation

46. The combination of freight haulage with passenger transport in one and the same enterprise, and in a large number of enterprises performing together a large proportion of road transport of passengers and a significant proportion of total haulage, is as uncommon in market-oriented countries as it is common in socialist economies. The managerial requirements of the two activities, at the commercial as well as the technical level, are very different. Most passenger transport is local and tied to a local market: 60% of passenger road transport in Poland is local in the narrow sense of one locality, another 30% is travel within the voyvodship and only 10% goes further afield. Freight transport in the "mixed" PKS units, however, where freight is combined with passengers, tends increasingly to longer hauls, and to work in a wider market.

47. Passenger transport is subsidized in Poland as elsewhere. In the past, freight is likely to have subsidized passengers. While the decline in freight revenues expected for the near future may well reverse the direction of the flow, neither direction of cross-subsidization is conducive to the development of a cost-conscious and service-oriented commercial management. Nor are the established routines of management in the mixed units (and in units specialized in passenger transport) a promising base for the growth of managers with a competitive orientation. National, cross-country road passenger services were in the past planned by the carriers in mutual consultation and then sanctioned by the Minister. Once sanctioned, the arrangement protected every carrier on its assigned routes. Translated into the terms of a market economy, the system amounted to a legally backed cartel, apparently controlled by government imposed freight tariffs but in fact buoyed up by subsidies which covered the gap between the fare and the costs as declared by the carrier, plus an allowed percentage for profit.

48. Mixed freight-and-passenger enterprises, unlike specialized freight haulage enterprises, still enjoy public utility status which confers immunity against bankruptcy and provides a variety of fiscal and financial benefits. Such discrimination between enterprises in the same business is incompatible with the rules of a market economy. While it persists, the process of transformation of haulage enterprises of either kind -- those privileged by public utility status as well as those denied the privilege -- will be impeded and complicated because the values of assets and market prospects are distorted by the unequal distribution of rights.

49. Separating passenger from freight transport in individual enterprises appears as an essential ingredient of any scheme of reorganization of road haulage in Poland. In considering options, two objects may be kept in mind; to assure, as best one may, the efficiency and viability of road haulage enterprise in Poland, and to lay the foundations for the transfer of state-owned enterprise to private control and ownership, at a fair value.

The Option of Internal Separation

50. One class of options would attempt to secure the financial and operational separation of the two disparate activities by an internal decentralization of operations and accounting, within the same business organization. After audit and valuation of assets, and an allocation of separable or jointly used assets and facilities to one or the other department, a rule of separate accounting would be imposed with a view to preventing cross-subsidization and especially the diversion of public subsidies intended for passenger transport to freight haulage activities. Some, but obviously not all, of the privileges associated with public utility status would be withdrawn from the freight activity, notably the concessionary rate of dividend on its share in the founder's capital.

51. Enterprises thus compartmentalized could then be offered for sale, or on lease or for management under contract, to private parties. But the lack of many examples from market economies of freight haulage integrated with passenger transport suggests that this combination is not found profitable. Whatever economies of scope may exist in the production of the two types of service -- due to the common technical requirements for workshop and maintenance services, stores or parking areas -- appear to be outweighed by the commercial distinction between serving freight and serving passengers. If the balance between these considerations looks different in Poland at the present time, that is the result of the high degree of integration of production of goods or services and the associated relative lack of competitive supplies of technical services and components in joint demand by haulage and passenger transport. But facilities such as workshops should be relatively easy to privatize and will spring up anyway in the private sector, as will stocking activities and trade in spares and parts. It should therefore prove easier, as well as more conducive to the emergence of an efficient road transport industry, to find private buyers or lessees for separate road haulage entities. By the same argument, it should be easier to attract efficient and innovative commercial management to separate haulage enterprise than to the haulage department of a mixed business.

52. While any scheme of separation will require assets and liabilities to be valued and distributed between the parts, the separate accounting which this option requires would be difficult to police and would be likely to replicate and continue into the future the arbitrariness and the compromises that are difficult to avoid in the valuation and separation of assets. Cross-subsidization in various forms within an enterprise, especially in an enterprise receiving public subsidy, may prove not just difficult to avoid but also difficult to contain.

The Option of Establishment Separation

53. The alternative option aims at the splitting, as completely as possible, of freight haulage from passenger transport and the formation of separate establishments. Separation, preceded by audit, valuation and division of assets, including depots and stations specific to either form of transport, should affect the financial, managerial, commercial and operational aspects of business. Management would be separate at all levels, and locational separation should be at the discretion of the two managements.

54. Under this option, the separation of establishments should occur as soon as possible. It should therefore be applied to all those parts of the enterprise that are capable of being separated in the near future, including assets and liabilities, management, procurement and agencies. It should not have to wait on the commercialization or separate establishment of present common facilities (like workshops) or until separate premises can be secured. What the option aims at is the creation of independent haulage firms, seeking their markets and deploying their resources as freely as possible. Adjustment to the new conditions of the economy and the transport market should not be delayed.

Methods

55. Options also exist in the methods by which a separation of establishments might be accomplished. Under the present law and procedures for the privatization of medium and small size enterprises, it lies within the powers of the founding bodies -- the Ministry of Transport for PKS "mixed" enterprises and the local authorities, for PKS specialist haulage enterprises or former Special transport -- to initiate a process of commercialization by dividing multi-division enterprises into their components in preparation for privatization. Passenger divisions may then be left as independent enterprises or combined under the supervisory authority of provincial, regional or national passenger road passenger transport boards. The freight units, however, could be readied for privatization by converting them into business organizations under Poland's commercial code, preferably (as is argued under paragraph 71 below) into Limited Liability Companies, in state ownership until disposal to private parties. Alternatively, the management and workers of "mixed" enterprises may be given inducements to detach haulage from the rest of the business by establishing self-contained subsidiary haulage companies. Workers and other staff employed on haulage, and all equipment and other assets specific to trucking and trucks would be transferred to the subsidiary. Founder's capital as well as Enterprise capital and Enterprise liabilities would be distributed between the mother enterprise and the subsidiary in proportion to the separate work forces. Haulage subsidiaries should in principle be assimilated to the status of other haulage enterprise in Poland and therefore lose their status as public utilities. They would account separately and would be taxed separately. The process of separation will need to be guided and supervised, at least by the issue of rules and guidelines, just as other forms of "spontaneous privatization" need to be supervised to prevent the dissipation of social property. Contracts between mother and daughter enterprise will require control, following rules and guidelines to be produced in consultation with the Ministry of

Finance as fiscal authority, to prevent distortions through transfer pricing in transactions between mother and daughter, specifically in the pricing of, and accounting for, the supply of services from undivided facilities. Subsidiary haulage companies might be organized as Limited Liability Companies.

56. While the formation of self-contained and self-sustaining subsidiaries of state-owned enterprises is here discussed as a possible technique for separating freight from passenger transport in PKS "mixed" entities, it has also wider advantages which will be discussed later. For the purpose at hand, however, it is relevant that Poland's law on the privatization of state-owned enterprises empowers the founding body (the Ministry of Transport) to dispose separately over the freight subsidiaries emerging under this option. Even if this requires in all cases a formal "liquidation" procedure the passenger transport part of the enterprise can emerge intact and continue in its previous status. (See paragraphs 55 above and 58 below.)

57. It may be thought right to offer inducements, both positive and negative, to the managers and workers in the "mixed" enterprises so as to secure their consent to the removal of public utility status from the haulage component of the enterprise. Public utility status may thus be withdrawn from a "mixed" enterprise while it remains undivided. Staff and workforce of separated haulage entities, on the other hand, may be compensated by the offer of shares in the profits of the self-contained haulage subsidiary before it is turned into a standard business organization, and, afterwards, by shares in the new haulage company. Workers' shares should be tradeable so as to allow a private party bidding for the enterprise to acquire also shares issued to its workers.

VIII. Privatization of Road Haulage

The Framework for Ownership Change

58. Ownership Change, in the terminology of Poland's program, describes the process of turning state-owned enterprises, in their entirety or in their parts, from being indivisible "social" property to being divisible "personal" property capable of being owned and controlled by natural or "legal" ("juridical") persons. Poland's law on privatization lays down two main avenues for this process. One of them is the transformation of state-owned enterprises into companies governed by the commercial code, initially in the ownership of the Treasury and ultimately, if so desired, for sale to third parties ("corporatization"). While transformation may be preceded by some restructuring of the candidate enterprise, it is essentially a method for changing the ownership status of an enterprise in its existing entirety. The alternative avenue is liquidation (or winding-up), which refers to more far-reaching rearrangements of the assets and components of an enterprise. Single assets or units of an enterprise may be sold or merged with other assets to form new companies which may initially be held in the sole ownership of the Treasury. Alternatively, the whole or parts may be let to a new lessee company formed for the purpose

by the employees of the "liquidated" state-owned enterprise.⁸ These two avenues differ, among other things, in the location of the initiative either to "transform" or "liquidate".

59. Realistic options for the change of ownership of Poland's state-owned haulage enterprise must be compatible with these provisions and have to fit into the wider legal framework of the Law on Privatization of State Owned Enterprises, Poland's Commercial Code and her Law on State-Owned Enterprises.

Program for Privatization

60. Many of the problems of implementing commercialization and privatization are common to broad sectors of Poland's economy. Practical solutions, however, depend on particular industry characteristics which, in the case of Poland's road haulage, are the technical and technological characteristics of haulage enterprises, the prevailing organizational boundaries within the sector and the size and working pattern of many of the enterprises which are unlikely to prove viable in private enterprises operating in a competitive market economy. These distinguishing characteristics of what is to be privatized, as well as the large size of the haulage industry in Poland justify the institution of a separate privatization program.

61. This study focusses on the privatization of PKS. But the need to economize in the use of specialist services and of technical assistance argues for a program covering all of state-owned professional haulage. The responsibilities of the Ministry of Transport and of the Minister of Ownership Change reach beyond PKS and a privatization program should therefore provide for the entire industry, with due account being taken of the dispersion of the industry's various segments under different jurisdictions.

62. The program should contain targets for the privatization or the offer of enterprises for sale or leasing, and for the steps required in preparation. It should also state in detail the assistance that will be offered for the achievement of those goals.

63. Ownership change is bound to take time. A program would therefore also have to specify measures that may be taken in the interim, that do not presuppose a completed process of transformation or liquidation but yet tend in the general direction of the policy objectives.

64. Any option depends for its feasibility on the nature of the regulatory regime for road haulage that Poland may adopt. The value of an asset, whether a truck or a workshop or a going concern in the haulage industry, depends on the future use that the owners will be allowed to make of it, given the expectation of demand for the services. The choice among conceivable options or approaches is therefore also a choice among alternative systems of regulating road

⁸ Note that "liquidating" is not synonymous with "shutting down".

haulage. The program would therefore also contain, or be accompanied by, a statement of the principles and the main elements of the intended system of road haulage regulation.

Implementation: A Privatization Office for Road Haulage

65. The restructuring and privatization of Poland's road haulage will require active assistance by government authorities in guiding, monitoring and controlling the process which is likely to stretch over several years. The proposed program would therefore constitute an agreed schedule of the required tasks and of the administrative and specialist resources necessary for implementation. These tasks, including the management of outside specialist resources, may not fit easily into the work program of the various divisions of the Ministry of Transport or the Office of the Minister of Ownership Changes. If so, it would be useful to establish, for the transition period, a separate office for restructuring and privatizing state-owned road haulage. The office would: prepare guidelines on valuation of assets and on accounting and the legal requirements of commercialization; organize management consulting and other assistance at the level of enterprises that are to be privatized; organize the search for buyers or tenants of the units; act as guardian (or "holding") of enterprises not yet privatized and of assets let out, and seek also to promote new methods of financing ownership change. It would contract with private sector specialists for their services and utilize such external technical assistance as may become available for a road haulage privatization program.

IX. A Privatization Program

i. Assisted Privatization

Targets

66. Several road haulage enterprises have already been earmarked for privatization under Poland's program of "medium" and "small" privatization. To these, a privatization program would add a further target number of enterprises for assisted privatization within the first year. A possible target would be 10 entities and no less than 8 percent of 1990 tonne-km of trucking performance, for privatization in the first round. At least one-half of the target number for assisted privatization would be enterprises that appear viable and suitable for privatization as going concerns with only minor restructuring and reorganization. Enterprises that have to be "liquidated" by the founding body because of their failure to service debt (including the 38 percent "dividend" on founder's capital) should therefore not account for more than about one-half of the program target of enterprises. Should the expected number of failures exceed that half, the target would be raised accordingly. The administrative and specialist resources for the fulfillment of the objective would have to be adjusted so as to allow for the contingent failures of state-owned enterprises.

Selection

67. Poland's economy continues in a state of recession, and so does the road haulage industry. Moreover, there is a lack of realistic accounting in state-owned road transport enterprises. The standard criteria by which one would attempt to identify viable enterprises in the road haulage of market economies are therefore difficult to apply. Such general criteria as one can state are guided by the broad experience of road haulage firms in Western Europe and North America. In those industries, general freight haulage and also special haulage are performed by firms that are, on the whole, smaller than the typical enterprise (or road haulage component of enterprises) in Poland's socialized transport sector. Further, there is a distinction between local or near-distance haulage, mainly in the hands of small competitive enterprises, including many owner-operators, and the longer hauls which form the main business of general freight haulage. High integration of haulage activity with heavy workshops, or of general freight haulage with special haulage (of liquids, refrigerated cargo, building and construction materials or solid fuels) is highly unusual. Accepting these characteristics as norms of viability under competitive market conditions, one may attempt to translate them into terms of Poland's road haulage. An analysis of samples⁹ of PKS enterprises, including both "mixed" and pure freight haulage operations yields several conclusions:

- (i) freight revenue per truck (in 1989) tends to decline as the size of the firm (measured by the number of trucks in the fleet) increases: smaller firms (fleets) have better utilization of their equipment;
- (ii) freight revenue per truck (in 1989), given the size of the unit's fleet, is higher for the pure freight enterprises than for "mixed" enterprises: pure freight operations achieve better exploitation of their equipment than "mixed" units;
- (iii) *average lengths of haul (in 1989) decline as the size of firms (in terms of truck numbers) increases (Figure 10): if one associates viability of general freight operations with concentration on longer-distance, non-local business, the smaller enterprises (by Polish standards) appear to tend most towards that norm;
- (iv) *the percentage decline in tonne-kilometers, 1989 to 1990, and thus under the impact of recession, was greater for the larger fleets (or firm sizes): the smaller entities seem to have been better able to adapt to adverse circumstances.

68. Experienced bidders for transport assets, from Poland and abroad, will be able to form much more reliable judgements than can be derived from such broad indicators. But the

⁹ See Appendix Tables for the data on which these conclusions are based. The four conclusions reported in this paragraph were obtained by Ordinary Least Squares (OLS) regression analysis. Those marked with an asterisk are of low significance by the standard test for small samples (t ratios).

indicators point to the smaller units, specifically those that have withdrawn from heavy involvement in local haulage and managed to build up business on the longer hauls, as being the more viable and thus good targets for commercialization in the first round.

69. The initiative for transforming a state-owned enterprise, or for liquidating it with the intention of letting the business to a company formed by the workforce, lies primarily with the workers or their delegates. But conversion from the present status of state-owned enterprise entails the disappearance of the Workers' Council and its replacement by limited workforce participation in the supervisory council of the emerging company. The control now exercised by workers, through their delegates, over managers and, with some veto powers, over the distribution of profits, investments, employment and (in limits) wages and over major operational issues will be greatly weakened. Compensation is provided by the privatization law in that up to 20% of the shares or parts in the new company are to be offered to the employees at half the normal offer price.¹⁰ It is possible to add to this incentive in appropriate cases by making loans to the workers to enable them to take up their reserved share of the equity, at a discount, and, if desired, more than that at the ruling price.¹¹ A precedent for such an arrangement already exists in Poland. Compensation to both managers and workers should be the easier to provide, the more viable is the enterprise that is put forward for privatization.

Institutional Tasks and Forms of Organization

70. At the level of individual enterprises, the program would provide assistance with minor reconstruction, with the reform of accounts and accounting, with the preparation of prospectuses and opening balances, with the disposal of redundant or unsuitable equipment and other assets, and with the search for investors, partners or buyers. Procedures adopted in rendering this assistance, and the results, would be published for the guidance of others. General guidance would be provided on the valuation of assets, leasing techniques and model contracts.

71. The great majority of haulage undertakings in market economies are controlled directly by their owners. The organizational form chosen in Western Europe is therefore typically the Limited Liability Company (LLC). Joint-stock companies exist in the industry but usually they are umbrella organizations which contract for services with smaller haulage companies organized

¹⁰ Article 9, relating to transformed enterprises, and Article 24 read in conjunction with Article 42.

¹¹ A possible method would consist of loans from the Entrepreneurship Fund and from banks, secured on the assets of the company, and repayable in negotiated proportions out of profits, and wages. The parts or shares in the company, corresponding to the value of the loan, would be held by the banks on behalf of the workers, pro rata for each worker who would be entitled to a corresponding share of profits after loan service, and who would be free to sell his share.

as Limited Liability Companies or various forms of partnerships.¹² For purposes of privatization, therefore, the LLC seems the most appropriate form of organization for transport companies of a size typical for trucking. It has proved its superior viability in other countries where the market is structured in the form which Poland aims to adopt. As the analysis of PKS statistics suggests, the LLC form is also best suited for the smaller, more flexible PKS units which appear, from a statistical analysis, to have the best prospects for success in a market-based transport system. The LLC appears also as the appropriate form of organization of free-standing facilities like workshops, presently still integrated in haulage enterprises.

72. Commercialization implies that the enterprise is given a particular form of commercial organization; it is then removed from the register of state-owned enterprises and inscribed in the commercial register. The Minister of Ownership Change, presumably in consultation with the Minister of Transport, will have to consent to the conversion and should therefore also be able to steer the emerging company into the most appropriate form of organization.¹³ What is appropriate should then depend on what is most readily privatized; here experience points to forms other than that of joint stock companies, which is not merely contingent on a higher starting capital (Z1. 250 million instead of just Z1 10 million) but also imposes greater organizational and administrative requirements on the firm.

ii. Intermediate Commercialization

73. Genuine privatization, in the sense of a transfer of ownership or control to private parties, will take time. In the interim, some of Poland's road haulage enterprises will necessarily remain as state property of one kind or another. Such enterprises might be left in their present state, assigned to the supervision of various jurisdictions and subject only to their obligation to service their debt and pay their taxes. The merit of this option would be to economize in the use of available administrative, expert and financial resources.

74. Alternatively, these enterprises could be led through the preparatory stages of privatization. The program would provide for an obligatory reform of accounting; assistance in internal restructuring by drawing on expert services and, where necessary, promote departmentalization and subsidiary privatization (see below) with the object of creating units with

¹² A form of association common in Germany is the AG & Co., a limited partnership between a joint stock company and other business organized differently, with the joint-stock company acting as the fully liable partner. Under Polish law, this form of limited partnership (Kommanditgesellschaft or société en commandite) ceased to exist as a legitimate form of business organization in 1964.

¹³ It is assumed that the right of managers and workers of state-owned enterprises to request "transformation" is independent of the form of organization selected for the new company -- whether it is to be a joint-stock or a Limited Liability company. Article 3 of the Act on the Privatization of State-Owned Enterprises is not perhaps completely clear on that point. But if the right is independent in that sense, the Minister has also the right to accede or refuse, and can therefore steer the request in the direction of the preferred organizational form.

a prospect of viable trading in a competitive market for different kinds of haulage. The program would contain targets for the completion of such intermediate commercialization. These audits and the economic and operating analysis will help enterprises to distinguish between profitable or promising parts of their activities and others that are likely to remain weak. Without such an overview it will be difficult to counter arguments from management and workers in favor of keeping the whole together, and the resulting cross-subsidization from viable to ailing activities. A further major advantage of this option should be the clarification of ownership conditions, and of the possible claims and rights that encumber the property.

75. Enterprises that are likely to benefit from intermediate commercialization on these lines are the pure freight enterprises in the PKS group which are still committed to a substantial amount of local or near-distance working where they are bound to come under increasingly strong competition from small-scale and Special haulage enterprises. Similarly, the Special haulage enterprises will benefit from a rationalization of their activities and equipment, possibly by being divided into true special (industry-dedicated) haulage, with specialized equipment, and general haulage firms, shedding some of their remaining strictly local work or, at least, not planning for its expansion.

76. The program should further provide for the establishment of a comprehensive register of haulage entities remaining unreconstructed in state ownership, to form the basis on which further stages of the privatization program would be pursued. The register should contain a preliminary valuation of assets, physical and other, and of liabilities, of their structure (departments or subsidiaries), accounts and balance sheets of subsidiaries, statements of sources of revenue and objects of expenditure, and employment.

iii. Subsidiary Commercialization

77. Uncertainty surrounding the ownership of an enterprise acts as a strong barrier against the infusion of new resources, from outside, whether in the form of Polish or foreign capital or physical assets. Uncertainty about the assets and liabilities of the enterprise, essentially its balance sheet, reinforces that barrier. Both types of uncertainty affect many of Poland's state-owned haulage enterprises that have not yet undergone transformation or liquidation and reconstruction. It affects them irrespective of their commercial prospects in the near or medium term. One is therefore led to consider intermediate remedies, by way of the establishment of self-contained subsidiaries of those state-owned enterprises, capable of being endowed with a commercial status according to Poland's commercial code.

78. The creation of subsidiaries, organized as Limited Liability Companies, has already been discussed as a possible technique for the separation of freight from passenger business in the PKS "mixed" enterprises. For the larger state-owned road haulage enterprises of PKS, including the specialist road haulage entities (and also former Special transport enterprises) it may be considered as an intermediate step towards full commercialization.

79. The device of subsidiary formation is already familiar in Poland (see paragraph 41 above). Its advantages, as well as the risks, are further demonstrated by developments in other European countries in transition from socialism.¹⁴ The advantage consists, above all, in placing questions of the ultimate ownership of the parent enterprise and its balance sheet at one remove from the new subsidiary. Whether the subsidiary is initially wholly owned by the parent enterprise, or owned in partnership with its workers and manager or the workers in the subsidiary, there is a new opening balance, and thus a new basis for contracting with outsiders and for receiving new resources. The management of the subsidiary is freed from bureaucratic controls usual in the larger enterprises, and from the routine participation of a Workers' Council in management decisions. There is a clearer overview over the commercial results of operations, more freedom in setting wages and in offering incentives to managers and workforce.

80. Subsidiary commercialization as described should in no way prejudice the ultimate settlement of ownership and status, under Poland's Act on Privatization of State-Owned Enterprises, whether it takes the form of enterprise transformation or "liquidation". Specifically in the case of liquidation at the initiative of the founding body, component parts of enterprises may be separated from the rest, sold off, merged to form a new company with ownership vested in the Treasury or let to a company formed by employees. In either case, transformation or liquidation, the position of creditors of the subsidiary is safeguarded.¹⁵

81. Suitable candidates for separation in self-contained subsidiaries are essentially units or activities that appear viable on their own, as a going concern. They may be road haulage units equipped for and experienced in longer haul work, or single workshops or groups of workshops, or storage units capable of undertaking general warehousing. The international haulage activity of an enterprise may be separated out in this way. Beyond such characteristics (to be discussed further below), an immediate case for the creation of a subsidiary arises where third parties show an interest in entering into a joint venture or partnership with any of the activities of the enterprise. Vehicle leasing which is already practiced by state-owned haulage enterprises, and freight forwarding, seem equally suitable activities for separating out as self-contained commercial undertakings.

82. While subsidiary commercialization (related to the "spontaneous privatization" in recent Hungarian experience) has manifest advantages in clearing the decks for new beginnings and is seen in this way by industrial managers and workers in Poland, there are dangers of abuse to be guarded against. Prevention of abuse requires the formulation and enforcement of rules on valuation of assets invested in the subsidiary, accounting and pricing of services. These rules and guidelines are essentially similar to those required in connection with the transformation or

¹⁴ e.g., in the German Democratic Republic before union with the Federal Republic where investment by West German industries in East German state-owned enterprises (Volkseigene Betriebe) was conditional on the establishment of subsidiaries; also, but more controversial to public opinion, in Hungary.

¹⁵ Article 37 and Article 42 in conjunction with Article 22.

the winding up of state-owned enterprise, but would have to be tailored to the specific technical and commercial circumstances of the road haulage industry and the various side activities which that industry acquired in the course of its history under the socialist regime. Compliance with the rules and guidelines would have to be monitored by, or on behalf of, the proposed Privatization Office.

iv. Small-Scale Privatization

83. Road haulage has shown itself everywhere to be peculiarly suitable for small scale enterprise. In market economies, firms engaged in standard, truckload haulage work are not subject to significant economies of scale and the activity has thus served as a major gateway for small-scale entry into independent economic activity. By that token, relatively free entry into the profession should be socially desirable inasmuch as it promotes the growth of middle-class entrepreneurship, proprietorship and employment in Poland.

84. Trucks in private ownership have grown rapidly in numbers over the 1980s (Table 2). It is reported that some 150,000 persons are independently engaged in professional haulage. Assuming each of them to have 1.5 trucks on average,¹⁶ a full 71% of trucks for professional haulage are now in private hands. But only a few of these enterprises are firms of some size. The rest, including operators who combine haulage with other occupations, may be assumed to be operating vehicles of modest capacity, and chiefly in short-distance haulage and in contract work for larger enterprises. This is a natural field of activity for small firms. With few overheads, the small-scale trucker is less sensitive than the larger establishment to changes in the market. The larger firms, in turn, benefit from the existence of a large pool of small operators available as subcontractors since this lends flexibility to their enterprise.

85. Private operators have been buying their trucks chiefly from the socialized sector, from PKS entities, from Special transport enterprises and from own-account operators. While part of the transfer was based on outright purchase, not infrequently by former employees of the selling enterprise, another part took the form of leasing with an option to purchase. In both respects there is a need for guidance.

86. PKS entities were, until recently, reluctant to sell to private parties for fear of being accused of selling below the market. Surplus vehicles are therefore likely to have been retained within the PKS system even though there were willing buyers. Broad guidance on valuing vehicles, according to make, type and age is commercially available in every Western country. It could easily be produced, covering also East European makes, and disseminated in Poland under Ministry auspices.

¹⁶ This number is fairly representative of small-scale haulage operators in Western Europe. For example, the relaxation of entry restrictions into Ireland's professional haulage (by the Road Transport Act, 1986) was followed immediately by a 21% increase in the number of licensed haulers, with an average of 1.4 trucks.

87. Leasing appears as a suitable way for PKS enterprises to dispose of equipment that is not fully employed. Since the "mixed" as well as the specialist haulage enterprises operate workshops and employ mechanics, they should be able to offer "operating leases" (under which the lessor maintains the equipment). But leasing needs to have a legal basis. Official guidance on the form and contents of leasing contracts should help in supporting the process of small-scale privatization in trucking.

X. Regulation

Domestic Road Haulage

88. Poland's road haulage is at present free of any restrictive regulations. No special licenses are required for operating as a hauler. Freight rates were decontrolled completely in November 1989, and there is freedom of contracting, any shipper being free to contract with any operator.

89. With the economy and the transport market in deep recession, there are naturally demands for the introduction of measures that would control entry into trucking and its various markets in order to protect at least some of the established enterprises against competition. Moreover, if the state ceases to fund investment expenditures, state-owned enterprises will have to finance replacements and renewals from their own resources or from borrowing. But the relatively few institutional lenders for road haulage are not anxious to lend while the market is in recession. It may therefore be argued that the only way to raise or assure the credit-worthiness of at least some haulage enterprises is to endow them with exclusive rights. The argument extends readily to the sale of state-owned haulage enterprises. Their value is also raised if what is offered is not just the enterprise but also an assured share in the market or the right to operate in a suitably protected market.

90. Uncertainty about what regulations will, in future, govern haulage adds to the risk of entering and investing in the industry, whether in haulage companies or in vehicles or maintenance of vehicles. By the same token, this uncertainty militates against the prospects of privatization in any of its form. Own-account operators may also hold on to surplus vehicles if they expect regulations to be imposed that will limit competition and thereby raise freight rates, and that may be associated with lower efficiency in the services of enterprises protected by licensing. In this way, the rationalization of Poland's road haulage is obstructed. It therefore seems desirable for the authorities to proceed soon to a decision on the regulatory regime for transport of freight. There is a strong case for declaring and committing soon.

91. The regulatory systems of Western European and North American countries differ significantly in the restrictions that they impose on entry into various branches of road haulage. A feature common to practically all is that licensing for operations of any kind is conditional on satisfactory arrangements for the observation of road transport laws, including national rules on vehicle dimensions and axle loads, drivers' working hours and on the maintenance of vehicles.

Beyond that, the liberal system of operator licensing (as practiced in Britain) demands proof of financial capacity and good repute. The rigor of standards required for the award of a license may be somewhat higher for applicants who propose to operate larger vehicles, and for those who propose to operate internationally. Substantially restrictive systems occupy the other end of the spectrum. Those systems tend to distinguish between professional haulage and own-account operations and, within professional haulage, between short distance (50 kms in Germany) and long-distance haulage. Quantity controls (the number of authorizations granted) are typically most restrictive for long distance transport. The different degree of restrictiveness was initially intended to protect the railways but is now dictated by the prevalence of own-account transport that could relatively easily substitute for professional haulage over the short distances. Some systems also limit entry into professional haulage according to the weight of trucks, restricting the heavier classes more tightly. While the acquisition and operation of vehicles on own-account is generally left free, the restrictive regimes tend to prohibit carriage for third parties, even for related enterprises.

92. As a counterpart to entry restriction, tariffs are controlled, to protect the public (or to reinforce the barriers to competition in the restrictive systems), either in the form of mandatory tariffs or as specified maximum and minimum rates. Comparisons between lightly regulated and more strictly regulated road haulage industries in Europe suggest that these restrictions raise costs. Relaxation of restrictions has generally been followed by a decline in the real price of haulage. It is also followed in every instance by a rapid inflow of new operators. Contrary to fears expressed by the advocates of quantity controls on road haulage, the population of the haulage industries in the deregulated markets has been stable; the prediction of a large turnover of operators has not been realized.

93. The current experience of recession may argue for restricting entry into professional haulage and its different markets. Freight rates have been falling and there is substantial underutilization of capacity in the state-owned enterprises. But the size of Poland's trucking fleet is not particularly large by comparison with that of other countries, allowing for differences in sizes of population and density. As the economy revives, haulage capacity will continue to grow in response to demand. Moreover, the effects of recession and the associated growth of competition do not seem to have been distortionary in a major way, in the sense of leading to a division of work between different segments of the industry that one would not expect to continue after revival of demand. Such market forces as were at work during the past decade have already divided the market on what seem economical lines. Professional haulage, notably the PKS group, has moved steadily from local or short-distance work to the longer hauls where the experience of the market economies, quite particularly those that have deregulated road haulage, suggests it has the advantage. Domestic haulage is more sheltered from foreign competition than most other industries. Further protection, by way of suppressing internal competition, makes for inefficiency in the use of resources in transport and usually also in the operation of licensed haulage enterprises themselves.

94. Quantitative (instead of qualitative) restrictions on entry will lower the value of haulage assets owned by those who are restricted in their entry to the market. The more restrictive the regulations, the greater will be this adverse wealth effect. It would therefore be some or all of the 150,000 private truck owners who have declared an activity in public haulage that would suffer partial expropriation. The effect would be the more marked if short-distance haulage were to be subjected to quantity restrictions at levels below the present capacity. The outcome, apart from being socially undesirable, would run counter to the policy objective of privatization. One might seek to limit the distributional effect by introducing restrictions gradually, or by pre-announcing them for a future date sufficiently far removed to allow the average present operator to use his trucks freely to the end of their working lives. But to the extent that the case for restricting entry is based on the effects of the present recession on established haulage enterprises and their access to credit, deferment of the restrictions would defeat the purpose. When the recession passes, however, Poland's stock of trucks is likely to be insufficient. Quantity restrictions on entry to the market would then only be justified if there were reason to believe that Poland's road haulage has a greater tendency to excess capacity than the haulage industries of other lightly regulated countries. For that there are no grounds.

95. Quantity restrictions on the number of operators and vehicles, below the present available level, would raise the credit standing of authorized operators. But it could only do so at the cost of those denied authorization, and at a cost to the competitive stimulus to efficiency, flexible adaption and innovation in services. Some new capital is already being channelled into Polish road haulage through joint ventures with foreign firms. Other sources should open in the banks once they have developed their skills as commercial lenders, and the expertise of their staff. That, however, may take a while. In the meantime, bank lending to haulage, on the basis of chattel mortgages or leases, should be supplemented by an extension of leasing and creating of leasing institutes (see XII. Financing below).

96. While regulations can protect certain groups, the history of regulations, amply researched and documented, shows that its costs to the economy are difficult to control. Most of the standard devices employed to control its negative effects, such as high rates or low efficiency, add further distortions. Regulators appointed to protect the wider interest regularly become captured by the regulated. The experience is nearly universal and explains the many recent instances of regulatory reform and deregulation of road haulage in market economies. The general tendency of regulatory systems in Europe and North America, since the 1960s, has thus been towards greater liberality. The proposals expected from the Commission of the European Community for a unified system of road haulage are also likely to go in that direction.

97. Poland's road haulage has undergone much structural change over the past decade in directions that appear broadly desirable. Commercialization of state-owned enterprises and privatization will give further impetus to rationalization. A restrictive form of regulation would now pre-empt the results of this process of adaption, apart from affording protection to the suppliers of a major input into industrial and agricultural production, at a time when its users are losing protection. The objectives of raising the productivity of Poland's resources and of

privatization of her economy would be far better served by a light form of regulation such as is represented by simple operator licensing, conforming to the European Community's common requirements for entry to the occupation of road transport operator.¹⁷ In that system, the operator, that is the business, is licensed rather than the individual vehicle, and the test applied is intended to protect safety, commercial probity and the observation of road transport laws. As leasing of vehicles is spreading in Poland, licenses should not be conditional on outright ownership of vehicles, but the license of the lessor should cover also the lessee.

International Haulage

98. In international haulage, Poland is restricted by the entry or transit permits issued by foreign countries in regular bilateral negotiations.¹⁸ Permits for different countries of destination (and, in some cases, countries of transit) are distributed to Polish carriers by the Ministry of Transport.

99. International haulage by Polish carriers to the countries of the CMEA as well as to the West, has grown steadily. With the reorientation of Poland's foreign trade, the importance of West European destinations has greatly increased. A specialist company, PKAES, organized as a joint-stock company and operating 2,300 trucks of large size and Western make, is the main public haulage enterprise in international road transport. But many others engaged in public haulage, PKS as well as Special transport enterprises, carry internationally. Several PKS enterprises, notably those specialized in freight transport, have derived a substantial part of their revenues in recent years from international carriage. With the domestic market in recession, many strive to enter international haulage or to enlarge their participation in it. The chief constraint, on enterprises with suitable vehicles at their disposal, is the scarcity of foreign permits. German permits tend recently to be particularly scarce. Poland's export tonnage to Germany is greatly in excess of imports and German haulers have little interest in supporting a demand for an enlarged bilateral quota. An artificial stimulus is therefore given to own-account transport of Polish exports since this generally does not require permits.

100. In Poland, as elsewhere, the distribution of permits is in the hands of the state and, as elsewhere, the allocation of scarce permits among national carriers presents problems familiar from any system of quotas or quantitative restrictions (QRs). In principle, command over the permits (whether absolutely scarce or not) could be used by the Ministry to control competition in the haulage industry. Even if not used with that objective in mind, there remains the problem of how to provide for the entry of newcomers without, at the same time, inconveniencing established enterprises that need to have an assured allocation of permits for their forward planning.

¹⁷ European Commission Directive 74/561.

¹⁸ Since Poland is not a member of the Conference of European Ministers of Transport, she has no access to the multilateral permits issued under the authority of the Conference.

101. Poland intends to introduce licensing of operators for international haulage, as is also done in other countries. The standards exacted for such licenses are typically somewhat higher than for domestic operations. In Poland's case, they should obviously conform to Western European or European Community standards on drivers' hours, vehicle construction and vehicle use and an assurance that safety and environmental controls can and will be observed by the operator and his equipment. But if the licensing system is not to be anti-competitive, it should not be designed nor implemented so as to give preference to enterprises on grounds of their organizational status. State-owned enterprises should not have an advantage over private companies, nor very large over smaller enterprises. A minimum fleet size, perhaps 8 to 10 trucks, may be made a condition for the issue of a license, as it is in other European countries. Beyond such conditions of scale, however, licenses should be available to any operator who satisfies tests of technical competence, financial standing and good repute.

102. The criterion employed by the Ministry in allocating permits has hitherto been the size of the vehicle, preference being given to large vehicles so as to maximize the use of permits in terms of tons or volume. What one would wish to maximize, however, is the value of the transit; that would be the determining factor if permits were auctioned for money. (The fact that such auctioning by the authorities is not practiced anywhere suggests that this method might become a sensitive issue on the occasion of bilateral negotiations.) As the economy revives and as operators obtain easier access to finance and vehicles, the market will determine the most profitable vehicle size to employ for different jobs. The size of vehicles available to an operator should therefore not become a criterion in licensing for international haulage. For the time being, it may continue to serve as a criterion for the distribution of the greater part of permits. Ultimately, it may give way, if not to the superior methods of auctioning, then to the applicant's record of international haulage in terms of countries, commodities and success in securing backhauls.

103. There remains the familiar problem of allowing the entry of newcomers. Tests applied in other countries require applicants to prove that they have made successful attempts to perform international transport by piggybacking on railways, by contracting with permit holders, by haulage to destinations for which permits are not scarce, or by having managed to obtain permits under the various Co-operation Agreements.¹⁹ Poland may wish to consider similar methods. In the meantime, however, it would be advisable to guard against artificial scarcity of permits, and to allocate some permits to users of transport. Artificial scarcity, created by operators who receive more permits than they can use, may be controlled by providing that the right to use a permit should have a life shorter than the validity of the permit. Unused permits might then be returned to a pool for spot allocation to licensed operators. Secondly, the rule that excludes freight forwarders from the distribution of permits might be revoked. Freight forwarders who do not themselves hold an international haulage operator's license and undertake to deal at arm's

¹⁹ Under these agreements, countries will issue additional permits to foreign operators who secure a backload to one of their national haulers.

length with licensed operators, will allocate their permits on commercial considerations, with results that approximate those of an open auction.

XI. Taxation

104. As divestiture proceeds, the financial relation of the state to economic enterprise in Poland changes from that of owner or co-owner to that of fiscal authority. In the course of the planned major reform of taxation, attention should therefore also be given to the taxation of haulage enterprise, of haulage services and of the inputs into haulage operations.

105. The anomaly of treating one part of Poland's road haulage enterprises, for tax purposes, as public utilities was discussed earlier. It might also be right to review the case for the preferential status enjoyed by freight haulage under the present turnover tax, and whether this should be maintained when turnover tax is replaced by VAT. Haulage services are predominantly an input into commodity production and trade. There is no clear reason for exempting this particular input from the standard turnover tax, even at the low rate of tax imposed on services.

106. Taxation of inputs into road haulage deserves special attention because these taxes are vehicles for charging the cost of road use to the user who causes the cost. Road user charges are essentially prices, rather than taxes in the usual sense; but being classified with taxes and raised like taxes, it is normal that they should be discussed, designed and reviewed together with the rest of taxes. But unlike taxes, road user charges have the function of cost-based prices which make the users of roads aware of the cost of the resources that they use up through wear and tear of the road, and by adding to congestion (which raises the cost of road use to all other road users). To determine the level as well as the schedule of the prices appropriate to different types of traffic, one has to determine the road damage relationship of different types of traffic on Poland's roads, and the ("social") cost of congestion. Standard tools are available for each of these computations. Relevant data are available in Poland and more will be generated when the country's infrastructure is renewed.

107. Unless tolls are levied on the roads, the system of economic road user charges has to rely on a limited set of tax instruments none of which fulfill their functions with much precision. Compromises are therefore required. The standard instruments include taxes on fuel, tires, spares and parts, all of which are subject to tax in Poland, and vehicle license fees which Poland does not levy. Vehicle license fees are, however, a particularly flexible instrument of charging for road use (or rather for potential road use) since they can discriminate between vehicles according to type, weight and construction. They are moreover free from some of the undesirable side effects of other forms of road user charges (fuel is also used outside the transport sector, and taxes on tires can make for unsafe driving). The selection of instruments, and the distribution over them of the amount of tax adequate to cover road use cost, forms a

second task in designing a scheme of charges. In this task also, Poland may call on substantial experience and precedent in other countries.

XII. Financing

108. Commercial banking on the lines of market economies is relatively young in Poland but developing steadily. The nine original state-owned "universal" banks are widening their clientele beyond the branches of the economy that had been assigned to them while they were still subsidiaries of the National Bank of Poland. New banks have been established and there is now also a foreign presence. But expert banker familiarity with road haulage is still highly concentrated, mainly in one institution.

109. In Western market economies of Europe and America, bank finance for haulage firms is supplemented, to a large extent, by leasing companies. Leasing of industrial plant and structures is normally in the form of financial leases, with or without the lessee's option to purchase the leased object, but normally for fixed periods during which the lessee pays off the capital cost of the item in his rental payments. In motor vehicle leasing, operating leases are also common. The capital cost is not paid off under any one operating lease contract; the vehicle is let consecutively to different lessees and the lessor may also provide maintenance and insurance. While general equipment leasing is normally provided by specialist financial institutions, sometimes connected with banks, motor vehicle leasing is frequently provided by subsidiaries of vehicle manufacturers.

110. Polish road haulage operators have been leasing with option to purchase from foreign vehicle manufacturers. Enterprises from the PKS group and former Special transport operators are also letting vehicles or entire depots. The Law on Privatization of State-Owned Enterprises provides specifically for the letting of the assets of wound-up enterprises. The concept of leasing is thus widely known. As haulage enterprises are commercialized or reorganized, whether in the course of transformation or winding-up, a wider role for leasing may appear. The technique could be harnessed directly to the process of privatization if leasing institutes were to take over vehicles, depots or workshops not otherwise assigned or transferred, on commission from the founding organ or the office of the Minister of Ownership Change. Assets thus taken over would be let out to private persons or companies, including commercialized state-owned enterprises. Technical expertise in assessing the state of vehicles and equipment should be amply available within Poland's road transport industry. Existing haulage enterprises or independent workshops could indeed be appointed to act as local agencies of leasing institutes.

111. Some assets that leasing institutes would take over under this scheme would have to be acquired against payment rather than on commission from government authorities. Financial backing may therefore be sought from Poland's banks and from foreign sources, including European leasing companies and manufacturers of road haulage equipment. Revenues from

rental payments, supplemented from such additional finance, would then form the basis of leasing finance for new equipment.

112. Leasing in any of its forms, including short-term leases by PKS and Special transport enterprises, requires a legal basis. To the extent that this exists or can now be developed in consultation with leasing experts and banks, detailed technical advice on leasing contracts should be available from the various national associations of leasing companies in Western Europe and from international institutions.

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