



Australian Government

Australian Trade and Investment Commission

Polish Defence Expenditure

The impact of the Russian invasion of Ukraine

Market Brief

1 June 2022



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Executive Summary

- The Polish government is **investing A\$ 180¹ billion until 2035 to modernise Poland's defence capability.**
- Poland is modernizing all domains, however there is a particular focus on building the capabilities of the Army and land forces to meet any territorial threat, with significant spending also in the cyber domain.
- The Polish defence budget reached a high of A\$21.5 billion in 2022 and it is set to **jump by 47.1% to A\$31.6 billion** in 2023. This will equate to 3% of Poland's GDP².
- The invasion of Poland's neighbour Ukraine by Russia has heightened security concerns across the European region and is a likely catalyst for Poland's dramatic increase in defence expenditure.
- Almost **one third of the Ministry of Defence budget is spent on technology and equipment.** Poland has an urgent need to modernise and implement technologically advanced solutions.
- While other European nations are also increasing their defence spending, Poland offers a more welcoming market because **Poland cannot develop and manufacture its requirements itself.** The majority of new equipment and technology needs to be sourced externally, which creates opportunities for Australian companies working in collaboration with local partners – Polish or international.
- The majority of defence companies in Poland are state owned and consolidated under the umbrella of the PGZ holding company. This creates a centralised point for building customer networks.

Military strategy and budget

The Defence Concept of the Republic of Poland³ sets out the military strategy of the Armed Forces as well as examining key security threats and important security alliances. In order to counteract the primary threat, the Polish Armed Forces are heavily modernizing and expanding. All domains are being modernised however there is a particular focus on building the capabilities of the Army and Land forces to meet any territorial threat.

The Russian threat seems to be the primary driver of the further increase in defence expenditure in Poland. The geographic proximity of Poland to the ongoing conflict in Ukraine has demonstrated the importance of creating a strong and capable military.

Poland is a key contributor to NATO, with significant allied bases stationed in Poland after Russia's invasion of Crimea in 2014. Polish defence expenditure is driven by the need to ensure the capabilities of the Armed Forces are aligned with Poland's international allies.

Poland is now aiming to grow its national defence and conventional deterrence potential and restore industrial capabilities in some key technological areas. This will be achieved through the transfer of technology from global prime contractors, the consolidation of the defence industry under a single holding (PGZ Polish Armament Group), and national R&D projects. The biggest impact in this sector is on the country's Technical Modernisation Program.⁴

¹ <https://www.gov.pl/web/obrona-narodowa/524-miliardy-zlotych-na-modernizacje-wojska-polskiego-do-2035-roku>

² Global Data Report – Poland Defence Market 2022-2027

³ <https://www.gov.pl/web/national-defence/security-environment-of-poland-today-and-in-15-years>

⁴ <https://defence24.com/armed-forces/poland-to-spend-133-billion-on-modernization-of-the-armed-forces-new-f-16-to-be-ordered>

The Polish Defence Minister announced a revised Technical Modernisation Plan 2021-2035⁵ under which the country is planning to spend around A\$180 billion (PLN 524 billion) on acquiring new weapons and military equipment by 2035.

The acquisition budget is forecast to grow to A\$12.5 billion in 2023, an increase of 58.6%. This trend will continue with A\$15 billion expected to be committed to acquisition spending by 2027. **Poland allocates roughly 30% of funds to acquisitions**⁶. This proportion is necessary to procure the technology necessary to fulfill Poland's strategic goals and maintain a conventional deterrent force.

In March 2022 Poland passed the new Law on the Defence of the Fatherland which allows for the establishment of the Armed Forces Support Fund. This fund will **additionally boost MoD expenditure**, as it is not part of the MoD budget, it has not been included in total defence spending figures. It is financed by treasury bonds, State Development Bank bonds, the state budget, and profits from the central bank.⁷

Areas of opportunity

Poland is seeking new technologies to enhance its deterrence capability and to advance the local defence industry. **Poland's defence procurement program is comprehensive and covers air, land, and sea force modernisation.**⁸

Poland intends to strengthen local industry capability while spending significant budget on defence procurement. However, as a result of the conflict in Ukraine and the need for quick deliveries, **procurement of off-the-shelf products will increase** significantly in the short to mid-term.

There is a particular focus on building the capabilities of the **Army and Land Forces** and a heightened importance of maintaining a ready and capable fighting force. Poland is procuring new and next generation armoured vehicles including Abrams, Main Battle Tanks (MBTs) and Infantry Fighting Vehicles (IFVs).

Modernisation within the **Air Force** will revolve around the enhancement and augmentation of stealth and strike capabilities. The acquisition of 32 F-35 jets is one of the priority procurements with the first deliveries expected in 2024.

The growing incidence of hybrid threats, by both state and non-state actors, and military and non-military threats, drive defence spending in the **cyber domain**. It may include cyber defence and cyber security as well as other new dynamic technologies such as remotely controlled weapon systems.

The US is Poland's major defence trading partner. Recent large ticket items include acquiring the Patriot missile system long-range air defence system (A\$6.7 billion), HIMARS mobile rocket system (A\$585 million), 32 F-35A Lightning II fighter jets (A\$7 billion), PAC-3 MSE missile or 250 M1A2 Abrams SEPv3 main battle tanks (A\$8 billion).

Driven by the Technical Modernisation Plan, Australian suppliers should note opportunities within the focus areas:

- ensuring a well-protected airspace (anti-missile defence systems),
- improving air combat and air strike capability, including the F-35A Lightning II Joint Strike Fighter, purchase of utility and attack helicopters,
- systems and equipment supporting land forces,
- electronic warfare and cyber security,
- investment in the navy (including acquisition of submarines),

⁵ <https://defence24.com/armed-forces/poland-to-spend-133-billion-on-modernization-of-the-armed-forces-new-f-16-to-be-ordered>

⁶ Global Data Report – Poland Defence Market 2022-2027

⁷ <https://pulaski.pl/en/pulaski-commentary-pl-defence-act-michal-oleksiejuk/>

⁸ <https://www.globalsecurity.org/military/world/europe/pl-budget-tmp.htm>

- comprehensive development of satellite and imagery reconnaissance,
- acquiring unmanned systems,
- build-up of the territorial defence and
- enhancement of the command system and structure.

Procurement policy

Poland's defence industry is one of the most developed in Central Europe, with domestic firms capable of manufacturing radar, command and control and air defence systems. The country meets a significant percentage of its armament requirements through domestic sourcing. However, Poland continues to import technologically advanced defence equipment including missile defence systems and fighter aircraft from foreign Original Equipment Manufacturers (OEMs).

The Polish Ministry of National Defence is the key agency responsible for procuring all defence equipment and armaments. The procurement of defence and security articles in Poland is based on the Polish Public Procurement Law.

As of 1st January 2022, the Armament Agency has been established⁹ as an element of a broader reform that would apply to the military procurement scheme. The new Agency takes over the responsibilities associated with the process from several institutions, consolidating it and making it more efficient.

The Polish Government is required by law to hold tenders for major procurements, though there is a national security exception. Financial value, project complexity, international cooperation, and political sensitivity determine the project category.

Price is the single most important factor that receives consideration at the time of awarding defence contracts and only after the price is satisfactory, other factors such as availability of service, quality, technical assistance for deployment and training may be considered. Maximising Polish content in defence contracts is usually a requirement.

Offset commitments need to accompany major military programs deemed as of essential interest to Poland's security. Offset conditions need to be agreed with the Ministry of Defence.

Market entry strategies

The majority of defence companies in Poland are state owned and consolidated under the umbrella of the PGZ holding company. **Polish Armament Group (PGZ S.A.) was established in 2015 to become the Polish defence industrial champion** and took under its umbrella over 60 state owned enterprises. The group has equity capital of PLN 5.3 billion (A\$1.8 billion) and 17,500 employees. PGZ is viewed as strategic partner of the Ministry of Defence and as such cooperation with PGZ companies is advantageous.

Maximising Polish content in major defence contracts is a requirement. Australian firms seeking to tender defence work need to consider either the formation of strategic alliances or joint ventures with a domestic company, or the acquisition of a domestic defence company and R&D collaboration. The government also encourages this form of market entry as it involves the transfer of technology, which increases the capabilities of its domestic defence industry.

All major defence Primes have a presence in Poland, either an office or manufacturing facility. Australian companies seeking participation in large defence projects may consider working as a subcontractor for the Polish branch of the international supplier.

⁹ <https://defence24.com/defence-policy/polish-mod-to-launch-the-armament-agency-as-of-next-year>

For example, the aeronautics branch of the industry underwent a privatisation process between 2007 and 2010. Lockheed Martin's largest manufacturing site outside of the US, PZL Mielec, is located in Poland. Black Hawk S70i helicopters are produced there, with every 10th Black Hawk cabin being manufactured in Poland. [PZL Mielec](#) is also known for its STOL aircraft M-28 Skytruck, which is available in the Australian market. Leonardo also operates a Polish site to manufacture helicopters at [PZL Swidnik](#), as does [Pratt&Whitney](#) manufacturing engine components, including F135. Rolls Royce also manufactures accessory drive trains for the newest aircraft engines, Safran, MTU, Airbus Group, General Electric and more. Almost every airplane in the world (civil or defence) has at least one component made in Poland¹⁰.

It is recommended to work with a Polish local partner/agent who is better positioned to identify upcoming projects and respond to a tender. Tender documents are only published in Polish.

MSPO 2022 – get involved

The largest annual event for the defence industry in Central Europe is [MSPO](#)¹¹ in Kielce, southeast Poland, held on 6-9 September 2022. Last pre-Covid event featured most of the leading defence companies – over 600 exhibitors from 31 countries and attracted over 30,000 visitors from 58 countries. The Team Defence Australia pavilion at MSPO 2019 hosted 20 Australian exhibitors. Austrade can provide information on market opportunities and identify local partners to assist Australian companies to enter the Polish market.

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Australian Defence Export Office

The Australian Defence Export Office (ADEO) coordinates Australian Government support for defence exporters. This includes supporting businesses to attend international trade shows through Team Defence Australia; assisting them in Australian military government-government sales; gifting and transfers; and providing advocacy via the Australian Defence Export Advocate.

Email: aust.deo@defence.gov.au

Website: www.defence.gov.au/business-industry/export/australian-defence-export-office

Defence Export Controls

Defence Export Controls (DEC) within the Department of Defence is Australia's military and dual-use goods and technology export regulator. Exporters require a permit from DEC to export, supply, publish or broker-controlled goods, software or technology.

Telephone: 1800 66 10 66

Email: exportcontrols@defence.gov.au

Website: www.defence.gov.au/business-industry/export/controls

¹⁰ <https://www.paih.gov.pl/sectors/aerospace>

¹¹ <https://www.targikielce.pl/en/mspo>

Links, industry contacts and sources

Armament Agency

Ministry of National Defence Republic of Poland

Polish Armament Group

Polish Chamber of Defense Industry

Polish Ministry of Defence <https://www.gov.pl/web/national-defence>

Armament Agency: <https://www.wojsko-polskie.pl/au/>

Polish Armament Group PGZ S.A. <http://en.pgzsa.pl/>

Defence24 Internet Portal <https://www.defence24.com/>

MSPO Defence Show <https://www.targikielce.pl/en/mspo>

Global Data Reports – Poland Defence Market 2022-2027

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