

## SPECIAL ECONOMIC ZONES IN POLAND

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**Abstract:** Systemic transformations started in Poland in 1989 changed not only the political, but also the economic aspect of the country. The challenges faced concerned the adjustment of the socio-economic structures to the principles of market economy. The effectiveness of changes was characterized by an important spatial differentiation. Many regions adjusted to new economic conditions without greater difficulties, but in many of the remaining ones a concentration of the negative effects of reforms occurred. Production decline, increasing unemployment, and growing share of unused production resources caused significant deformations of the economic structure of many areas in Poland. The scale of the problems made their solution by the local authorities impossible, so that some assistance from the state turned out necessary, expressed, in particular, through establishment of 17 special economic zones, which offer important tax reliefs to investors who start investing on a given area.

**Key words:** industrial district, scientific and research potential, special economics zones

The special economic zones were established in Poland on the basis of the Law of October 20<sup>th</sup>, 1994, on special economic zones (SEZ)<sup>1</sup>. They constituted an entirely new aspect of the Polish economic reality<sup>2</sup>. According to the law mentioned the state establishes a special economic zone with the purpose of activating economically a given region primarily through involvement of the strategic investors from the outside. The fundamental method for attracting their capital and technology is the preferential tax

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<sup>1</sup> *Dz.U.* (1994) no. 123, item 600, with changes introduced later on.

<sup>2</sup> There are now more than 800 such zones in the world, functioning in 102 countries. Most of them are located in North America (320 in 1996) and Asia (225 in 1996). Several kinds of privileged zones are distinguished: a) the tax/custom free havens, storage facilities, and port-adjacent areas, like in Hamburg or Trieste; b) the tax/custom free trade zones of the so called tax free shops, for instance - at the international airports; c) the free banking zones, such as Bahamas Islands or London; d) the free insurance zones, like London or New York; e) the custom free, export-promoting production zones, so called free export zones, like the Malaysian or Korean ones; f) the special economic zones, existing, for instance, in China or United States (see Durski, 1988, and *World Investment...*, 1998).

policy for the definite domains of economic activity, especially the domains, which would guarantee the optimum conditions for local development. Such a very sweeping formulation hides the fundamental goals of development of such zones in Poland, namely the fight with the strengthening structural unemployment and the wish of making use of the already existing industrial infrastructure.

Different prerequisites, though, were at the foundations of the establishment of the Cracow Technological Park SEZ and of the Masovian SEZ Technopark - Modlin. The cause for their establishment was the wish of making adequate use of the scientific and research potential of the two largest Polish university centres with the aim of formation of modern industrial districts. Development based upon the direct flow of technology from the university centres gives the possibility of establishment of the separate areas having the nature of technology parks.

The zones were initially being established in Poland for the period of 20 years. Within this period, the complete income tax exemption would extend over 10 years, followed by 10 years of 50% relief. An exception is constituted by the technological parks, where the entire period is 12 years, divided into two subperiods of 6 years each.

Yet, all kinds of tax relief are made dependent upon the magnitude of capital invested and/or upon the number of jobs created. The respective thresholds are set separately for each zone (in the by-laws of the Council of Ministers concerning creation of individual zones).

**Table 1** Conditions for income tax exemption in the SEZs

<b>Special Economic Zone</b>	<b>minimum investment (in million EUR)</b>	<b>or minimum number of jobs created</b>
Mielec	2	100
Katowice	2	100
Łódź	2	100
Tarnobrzeg	2	100
Częstochowa	1,5	100
Starachowice	1	100
Tczew	1	100
Żarnowiec	1	100
Kostrzyń-Słubice	1	50
Legnica	0,85	100
Słupsk	0,7	50
Wałbrzych	0,5	40
Kamienna Góra	0,4	40
Varmian-Masurian	0,35	50
Suwałki	0,35	40
Cracovian	2	No condition
Masovian	2	No condition

Source: Ministry of Economy

These requirements set preference for the larger economic agents. The remaining, smaller enterprises, which do not satisfy the conditions, may take advantage of other kinds of preferential treatment, like classification of investment outlays in terms of running cost, exemptions from local taxation, etc.

Besides this, there are significant simplifications in the zones with respect to the issue of construction licenses (respective decisions being taken by the person managing the zone rather than by the appropriate officer of local administration), as well as fast line procedures for purchase of estate by foreigners.

The first Polish special economic zone was established in September 1995 in Mielec ("Euro-Park Mielec")<sup>3</sup>. The subsequent one was the Katowice SEZ, established a couple of months later. The consecutive zones were created in 1996 in Suwałki, Legnica, Łódź and Wałbrzych provinces. In autumn of 1997 the Council of Ministers established two technological parks - in Warsaw and Modlin, as well as further nine zones: Kostrzyń - Słubice, Słupsk, Tarnobrzeg, Starachowice, Tczew, Varmian - Masurian, Częstochowa, Żarnowiec, and Kamienna Góra.

The zones established can be classified into three groups with respect to the objectives, which were set for them, namely:

- ♦ to constitute an instrument for a milder restructuring of the old industrial regions - Katowice and Wałbrzych SEZs (restructuring of the coal mining industry), Legnica SEZ (restructuring of the copper mining industry), Łódź SEZ (restructuring of the light industry), Tarnobrzeg SEZ (overcoming of the sulphur industry monoculture), Euro-Park Mielec (restructuring of the Transport Equipment Factory PZL - Mielec);
- ♦ to constitute the instrument for activation of the economically lagging regions - Suwałki and Varmian-Masurian SEZs;
- ♦ to constitute a form of development of the research and scientific potential - Cracow Technological Park and Technopark Modlin.

The popularity of the fiscally privileged zones in Poland surprised even the initiators of the idea (though, on the other hand, out of the 17 established zones only 13 are now operating in practice). After five years of functioning of the law on special economic zones, more than 150 licenses have been issued for starting of the economic activity, the investors having declared the wish of investing more than 1.5 billion USD and of creation of more than 25 thousand new jobs.

Yet, this great popularity of the Polish special economic zones, inciting the enthusiasm of the Polish authorities, encountered the opposition from the experts of the European Union, who put to doubt the future of these zones, seeing in their functioning the threat to equal competition conditions. The Union started openly to demand the change in the Law on functioning of the Polish zones, putting this as a condition for accepting Poland in the structures of the Union. Polish government, though, defended consistently the right of the investors to continue their economic activity in the zones,

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<sup>3</sup> The "Euro-Park Mielec" SEZ constituted an attempt of copying the very first special economic zone in Europe - the Irish Shannon Free Zone, established in 1959. It is one of the first zones in the world having processing-and-export character, with priority for storage and processing of goods meant for export.

thereby guarding its own credibility, especially with respect to foreign investors. An agreement was reached in the middle of June 1999. It was decided that at the end of the year 2000 the issuing of licenses to new investors will be slowed down, with the exception constituted by the communes in which unemployment rates will exceed by half the national average (i.e. currently more than 18%), where investors can count on getting a licence for yet another year. It was also decided that the zones not be extended as to their area, and that the Modlin and Częstochowa zones, which until now have not attracted the interest of any investor, be possibly liquidated. The final solution to the issue will find its expression in the amendments to the Law on SEZs, now being prepared. Still, the essential fact here is that Polish government managed to avoid paying multimillion compensations to the withdrawing investors.

**Table 2** Zones according to their magnitude (data as of the end of 1998)

No.	Zone	Investment value (million Polish zloty)	Employment	Number of licenses
1	Katowice SEZ	2802,7	9193	31
2	EURO-PARK Mielec	1054,9	3782	36
3	Legnica SEZ	1006,4	3114	5
4	Wałbrzych SEZ	243,2	2655	15
5	Łódź SEZ	213,5	829	9
6	Suwałki SEZ	204,9	3793	43
7	Tczew SEZ	96	250	1
8	Tarnobrzeg SEZ	82,2	824	9
9	"Starachowice" SEZ	52,7	530	6
10	Kostrzyń-Słubice SEZ	34,6	100	1
11	Kamienna Góra SEZ	17,5	360	2
12	Varmian-Masurian SEZ	5,7	72	4
13	Słupsk SEZ	1,1	60	2
	<b>Total</b>	<b>5815,4</b>	<b>25,59</b>	<b>164</b>

Source: Ministry of Economy

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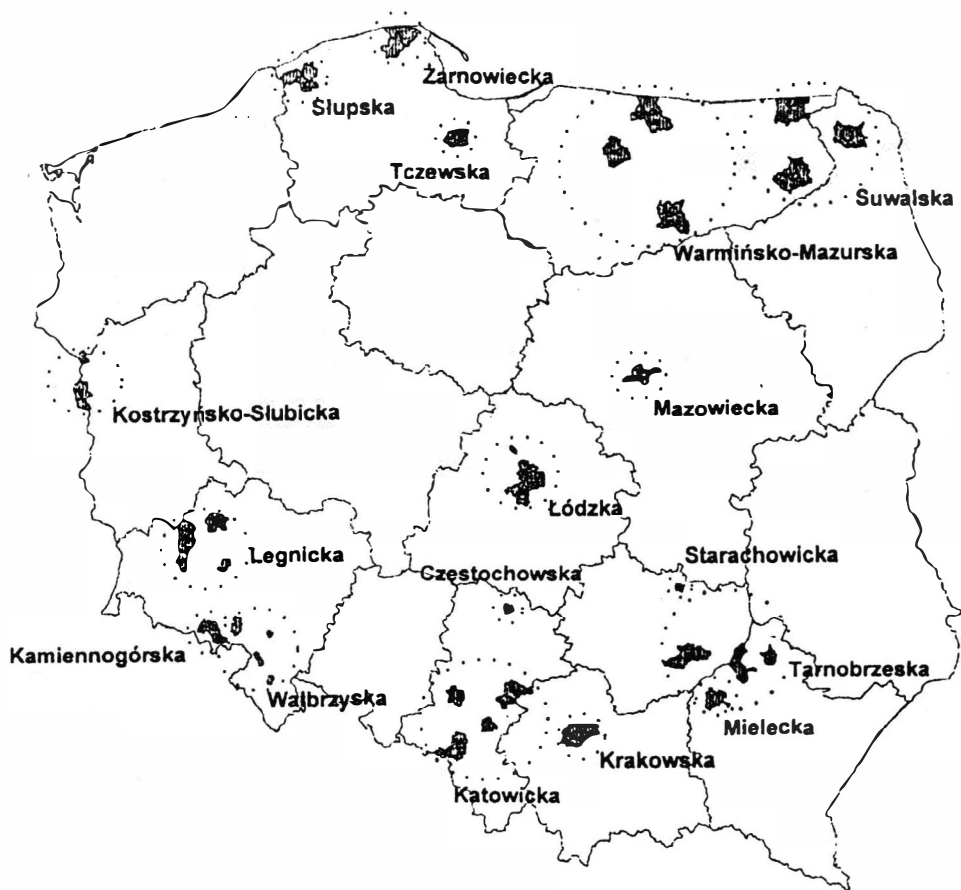


Fig. 1 Localization of Polish special economic zones

## Resume

### Specjalne strefy economiczne w Polsce

Wprowadzenie zasad polityki rynkowej ujawniło niedopasowania do nowych warunków wielu regionów Polski. Podstawowym problemem stało się wzrastające strukturalne bezrobocie, z tendencją do znacznej koncentracji. Pomoc tym regionom ze strony państwa okazała się niezbędna i przybrała formę tworzenia, powszechnie znanych na świecie, specjalnych stref ekonomicznych. Obecnie działa w Polsce 17 stref, w których w zamian za deklaracje rozpoczęcia działalności na ich obszarze oferuje się inwestorom znaczne ulgi podatkowe. Ta prosta zasada funkcjonowania stref ma dwa podstawowe cele:

- ♦ walkę z głębokim strukturalnym bezrobociem wraz z próbą zagospodarowania istniejącego majątku przemysłowego (narzędzie łagodniejszej restrukturyzacji starych okręgów przemysłowych)
- ♦ aktywizację regionów zapóźnionych gospodarczo

Inny typ stref, obecny w Polsce to technoparki tj.: Krakowski Park Technologiczny i Technopark Modlin, mające na celu zagospodarowanie zaplecza naukowo - badawczego Krakowa i Warszawy.

Polskie specjalne strefy ekonomiczne mają wielu zwolenników i przeciwników. Jednak należy wspomnieć, że pomimo wielu zastrzeżeń wzbudzenie zainteresowania ponad 150 inwestorów (inwestycje wielkości ponad 1,5 mld USD), w tym wielu dużych zagranicznych koncernów m.in. General Motors, Isuzu (Katowicka SSE), Motorola (Krakowski Park Technologiczny) itp. to efekt działania stref, głównie poprzez preferencyjną politykę podatkową.