Tadeusz Sporek[*]

The Prospect and Role of Katowice Special Economic Zone in Poland. The EU Government Point of View for SEZ

1. The Province of Silesia

The Upper Silesia region, with its area of 12,000 sq. km, ranks as Poland's 14th largest province, with 68 towns (including 22 big towns, featuring such metropolitan facilities as universities, institutes and scholar/scientific establishments). Agricultural arable land accounts for only 2.6% of the region area. Population – at almost 4.9 million – makes it the second most populated province in Poland, which, considering the region's area, makes it the most densely populated province in Poland, with over 398 people per square km (the national average being 123).

The province economy relies on over 323 thousand businesses, employing over 3 million people. The region attracts 13.2% of all economic enterprises in Poland and 21.5% of all employees, so that every fifth Pole works there. Silesians are renowned for their traditional hard-working ethics, which translates into an ample supply of solid and reliable, mostly skilled labour force.

As one of the most industrialised parts of Poland, the Silesia Region contributes to development of economic co-operation country-wide, its investment attractiveness being rated very high in research agencies' rankings. In such rankings, that evaluate local market absorption, structure of labour market, social attitudes towards investment, efficiency of economic transformation, technical infrastructure and prospects for surrounding business, the province is usually considered very attractive one, by far the leader in terms of transport network and infrastructure, accessibility or industrial background.

Foreign investors active in Polish market appreciate its stability, growth and business attractiveness. As evidenced by findings of research agencies' inquiries,

[*] Prof. **Tadeusz Sporek** – University of Economics, Katowice, Head of International Economics Department.

foreign investors in our market reinvest 80% of their profit, thus proving their willingness to stay involved here on a long-term basis.

2. The Regional Contract for the Katowice Region

The process of political transformation, which was started in Poland in June 1989, gave an impulse to consider the future role of Upper Silesia. For nearly 50 years the Upper Silesia had served as industrial backing not only for the country, but in fact for most of the Eastern block. Its "dynamic development", enthusiastically emphasised in propaganda time and time again, was really about expanding heavy industry (especially coal mining, metallurgy and power industry) out of any proportion, at the cost of other fields of economy and civilisation/cultural needs of people. In terms of the vast scale of problems to be solved, the Upper Silesia can only be compared, Europe-wise, with North Rhineland-Westphalia in Germany and Lombardy in Italy. The present "Coal mining restructuring programme up to 2000" provides for privatisation of coal mines and dismissal of their work force (early retirement or re-qualification for other jobs). It is critical that the boom in the region goes in pair with creation of new jobs.[1]

The Katowice industry-restructuring project was prepared as early as the first half of 1990, however, the lack of funds in the State budget prevented its implementation. Therefore, further research was done to attract and secure resources and support the growth of the region's communes. These efforts included preparation and approval, in 1991, of the Regional Economic Policy Programme for Upper Silesia, by a team of experts headed by Andrzej Czarnicki (today the Chairman of the Board of the Upper Silesia Fund).

Persistence and determination in implementation of the programme in consistence with Polish law resulted not only in impressive economic achievements (including, especially, the launch of co-operation among communes and between communes and businesses), but also in increasing interest in those activities, manifested by a number of institutions and economic organisations, also from beyond the region. In July 1994 the government approved the Principles of State Regional Policy, prepared by the Central Planning Office. It is obvious how this document borrower many specific solutions from the Regional Economic Policy Programme for Upper Silesia. Having approved the programme, the government's subsequent step was to start the work under the Regional Contract.

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[1] K.Stackelberg, U.Mahne, *Teorie rozwoju regionalnego* (*Theories of regional development*) in: *Rozwój ekonomiczny regionów. Procesy migracyjne. Polska, Czechy, Niemcy*, (*Economic development of regions. Migration processes. Poland, Czech Republic, Germany*), ed. S.Golinowska, Warsaw 1998, p.19-29.

The idea to write down economic solutions proposed in the form of social contract to be concluded between the government and representatives of local communities was put forth, in parallel, by the Economy Department of the Provincial Office, the Agency for Development and Promotion and the Board of the Silesian Region of Solidarity trade union. As mentioned above, co-operation in and among local communities, involving representatives of regional administration, workers' and employers' organisations and the government, proved the crucial factor in obtaining the final form of the contract. Thus, the Regional Contract gained the status of an official State document. It is a joint undertaking of the key actors of the region business life, negotiated between the government and regional community.

Most peculiar about the pact was that it was really the first time that representatives of government/self-government bodies, entrepreneurs, trade unions and leaders of economic and social institutions sat at one table to talk. Participation of Solidarity and other trade unions at a next stage of the contract negotiation was vital in terms of social (*i.e.* anticipated impact of the process of economy reconstruction upon future life in the community, and in particular upon workers of industry sectors under restructuring) as well as political matters (due to specific composition of the government at that time).

On October 5, 1995 the Regional Contract was signed with due ceremony by its co-signatories, *i.e.* the Board of the Silesian Region of Solidarity trade union, representatives of other trade unions, employers' organisations, the Regional Parliament of Katowice Region, the province governor, Upper Silesian Economic Association, Regional Chamber of Commerce, Upper Silesian Union and the Union of Upper Silesia and North Moravia Communes.

In order to control the growth of bureaucracy, bodies of local government have been the only agencies responsible for the Regional Contract implementation, this principle going to be extended to involve other institutions in the process as well (however, only those operating under the commercial law and, in exceptional cases, foundations would be involved). The schedule of activities planned in the Contract, is divided into several fields, including education, social safety, environment, local governments, economy and finance.

In each field particular activities and measures of their implementation and evaluation are planned. The Regional Consultative Committee (RKP) which represents, through its leaders, the public party of the Contract, supervises performance of particular tasks. Implementation of contractual stipulations has been managed by the Regional Board for the Contract, composed of government representatives (of the province and of relevant ministries and other central bodies). The public party has been represented by local governments (economic matters), trade unions, employers' organisations, social/cultural and other supporting institutions. The Contract has also established and developed its own institutions, the structure being developed, as required, on a regional and local scale.

First economic results became visible after three years, however, it's still too early to assess the project's general outcomes as positive or not, the whole thing being planned for twenty years. So far, some activities have been hindered by legal barriers, deeply rooted conservative habits and beliefs, and a vast scale of sheer troubles, the latter on a scale unparalleled in either Europe or elsewhere in Poland. No project of that size, involving regional parties and central government, can be set in a political vacuum. Any attempt of evaluation of the Contract faring so far has to consider results of the last parliamentary elections and a thorough reform of the State administration with decentralisation of power. All aspects taken into account, effects of Contract are certainly positive. A course held by the Upper Silesian Agency for Development and Promotion (at present, the Upper Silesian Regional Development Agency) was a success. Called the "Training for Business-like Persons", it was meant to train local leaders for the so-called Local Segments. According to Article 20(1-4) of the Contract, Local Segments are an agreement of local communities for creation of a new, inter-commune local government structure, providing the basis for the Contract implementation in the province. They are appointed by relevant local governments, bodies of regional administration, enterprises and other institutions, to support activities addressing "small motherland" problems. In 1996, 11 local segments (2 agricultural and 9 industrial) were established.

In 1997, another local segment was established, subsequent ones being planned. This sort of activities considered important, it was decided to fund further local segments, subject to the Order of the Council of Ministers on methods and conditions for supporting regional restructuring programmes and forming local institutions funded by the State budget. In effect of meetings dedicated to extension of the Segments activities, a new Będzin-Zawiercie Coal Mining Area Local Segment was established, while in the existing 11 ones the following new institutions were formed:

1. Jura Agency for Tourism Development in Ogrodzieniec,
2. Jastrzębie Agency for Development and Promotion in Jastrzębie Zdrój,
3. Business Activity Centre Ltd in Chorzów,
4. ENMAG-EG Energy Saving and Power - Mining Services Agency Ltd in Piekary Śląskie,
5. Local Development Agency Ltd in Gliwice.

These institutions were granted the sum of PLN 3,494,000 (in the form of the State Treasury bonds). An agreement on establishment of local segments network was signed on June 30, 1997 with 15 institutions as the co-signatories and the Upper Silesian Regional Development Agency appointed network co-ordinator. One of pre-conditions of proper implementation of the Regional

Contract for the Province assumes activity (since the end of 1995) of the Upper Silesian Fund as the Contract's key financial institution. The Fund shares allotted thanks to the Minister's of Finance grant in the amount of PLN 40 million from the budget target reserve. That's how creation of the local capital market started. In October 1996, 7 communes of the province signed, with the Upper Silesian Fund, an agreement on co-operation through issuance of municipal bonds, whose advantages are lower interest and easier funds accessibility to investors. The Fund's activity in 1997 focussed on increasing its own capital and, at the same time, on advertisement and marketing. The Fund also supported small investors (for example through a well publicised "From zero to a millionaire" action).

In the same year the Fund was granted a subsequent State Budget lot in the amount of PLN 30 million in the form of the State Treasury bonds).

In June 1997, the Regional Contract Foundation was established to collect funds for performance of Contract tasks. The institution, established by the Regional Consultative Committee to aid small companies, seeks financing sources for the Contract, both domestically and abroad. Also, a pilot Economy Restructuring and Development Programme for the Province of Katowice was launched to support the Contract, as one of four similar programmes in Poland. Thanks to the programme, consistent with the EU standards, it is possible to benefit from the PHARE financial support is allocated to Poland for the period 1997-1999. In September 1997 the programme was approved by the Council of Ministers and in October the Regional Contract Board appointed the Programme Supervising Committee.

As concerns long-term Contract activities, an important strategic document was prepared, entitled "Integrated Development Strategy for the Province of Katowice in the years 1998-2002". The strategy assumes balanced development of economy and other areas, including education, environmental quality, culture, sports and leisure. Another important document is Economy Restructuring and Development Programme for the Province of Katowice in the years 1998-2002. Also noteworthy is the Special Management Study for the province, at present under preparation, intended as a comprehensive vision of special development and infrastructure of Katowice agglomeration (to be presented after new administrative border for the agglomeration are finally determined).

3. Special Economic Zone in Katowice as a result of Regional Contract

The Contract's first real and tangible effect was establishment of the *Special Economic Zone in the Province of Katowice,*[2] by decision of the Council of

[2] Legal decisions affecting the Zone:
(a) the Act of 20 October, 1994 on Special Economic Zones ("The Journal of Law", no. 123/1994, item 600; and "The Journal of Law", no. 106/1996, item 496).

Ministers made on 18 June 1996. The SEZ, having the area of 827 ha, consists of four subzones: Gliwice, Jastrzębie-Żory, Sosnowiec-Dąbrowa and Tychy.

The main objective behind SEZ was to support the restructuring process, especially in metallurgy and mining industries. By giving investors tax privileges for many years couples with other promotional advantages, it stimulates labour market and attracts investments to the region. So far, there are 16 businesses operating therein, with investments for over PLN 1,520 million 5364 new jobs being planned up to 2001. SEZ's negotiation with more than 100 new companies is expected to bring subsequent investments at the level of over ECU 500 million *c*. 10,000 jobs.

4. Activities preferred

In each SEZ strategy certain types of business activity are prioritised in granting permits and tax incentives. In Katowice SEZ the following types are preferred:

- production of electronic, medical, precision and optical equipment, watches and clocks,
- food,
- materials for construction industry (glass, ceramics, cement, concrete and plaster products),
- metal construction elements,
- office equipment and computers,
- electricity distribution and control equipment,
- motor vehicles,
- wooden construction elements and building materials,
- clothing and accessories,
- cultivation of vegetables, selected garden plants and nursery trees.

Other services, while permitted in SEZ, do not benefit from tax incentives:

- maintenance, repair and refurbishing,

b) Ordinance of the Council of Ministers of 18 June 1996 on the Establishment of a Special Economic Zone in the Province of Katowice ("The Journal of Law", no. 88/1996, item 397 and "The Journal of Law", no. 28/1997, item 155).

c) Decree of the Minister of Economy of 6 May 1997 on licensing the Katowice Special Economic Zone Co. to grant permits to undertakings allowing them to carry out business activities within the Katowice Special Economic Zone and to monitor their business activities within the Zone and specifying the range of such monitoring ("Monitor Polski", no. 30/1997, item 285).

d) Decree of the Minister of Economy of 6 May 1997 on procedures for tendering processes and negotiation on principles and conditions thereof, and the criteria for the evaluation of economic undertakings to be pursued by business entities within the Katowice Special Economic Zone ("Monitor Polski", no. 52/1996, item 480).

– building,
– sale and servicing of motor vehicles,
– transport, storage and warehousing services,
– financial, real estate, public administration and health services.

To start a business in either of those activities a company has to undergo a tender procedure.

The following activities are prohibited in SEZ:
– production of alcohol and tobacco goods,
– production of explosives, firearms, nuclear materials and fuel,
– gambling and betting,
– activities exceeding noise or waste emission limits; waste storage and other environmentally-harmful activities,
– production, transport or storage of hazardous waste.

5. Options for benefiting from tax incentives in SEZ

A corporate income tax relief for:
– investments over PLN 2 million, or
– employment of over 100 persons (in both cases: 100% relief for 10 years and 50% until SEZ closure), or
– investments below PLN 2 million (a relief up to the sum of investment expenditures made), or
– employment of less than 100 persons (10% income tax relief for employment of 10 workers each month - up to 100%).

Where a business fails to qualify to these options, it can be entitled to an increase in depreciation rate on tangible assets.

Exemption from real estate tax from the start of business activity in SEZ – until 8 August 2016, however, any business in SEZ may only benefit from one option, having to declare the type of incentive chosen for a given tax year and being allowed to change it only with a new tax year.

6. Advantages of investment in the Zone

Exemptions and other tax incentives for companies operating within the Zone:

Exemption from real estate tax – land, buildings and other structures to be used for business needs are exempt from real estate tax, subject to a permission granted by the board of the Zone for the period of its activity.

Exemption from corporate income tax on investment expenditure. Approved commercial activities qualify for income tax relief up to the sum of investment expenditures made. Where the latter exceed ECU 2 million, the income made qualifies for 100% income tax relief (during the first 10 years of operation in the Zone, but no longer than 15^{th} year of its existence, *i.e.* until 8 August 2011. Following that date an investment will still qualify for a 50% reduction in income tax for income generated in each tax year, until the Zone shuts down).

Corporate income tax relief for job creation is granted for the period's amounts to:

- 10% income tax relief for every 10 new workers employed each month, up to 100% of income taxes due for that month,
- 10% income tax relief for employing less than ten workers during a given month.

Other benefits enjoyed by businesses operating in SEZ include increased depreciation rate on tangible assets directly related to their activities, possibility of reimbursement of ZUS (National Health Insurance) premiums and contributions to the Labour Fund and Guaranteed Labour Services Fund, where a company employs former coal mine workers.

7. Results after 5 years of operation

The Katowice Special Economic Zone ranks best among all special economic zones in Poland. Many companies have invested much more than they had originally intended to, the largest-scale investments being made in automotive industry.[3]

General Motors invested, by the end of 1998, a total of DM 600 million in a motor car factory in Gliwice; by 2000 this will reach almost DM 1 thousand million, leading to creation of *c.* 3,000 jobs and to an inflow of other investments to SEZ: Japanese **Isuzu Motors** planned to invest over PLN 586 million in a production line of new-generation Diesel engines, **Delphi Automotive System** (manufacturer of motor car parts and components) PLN 110 million and **Lear Corporation** (car seats production): PLN 10 million.

V.A.B. Tychy's investment (in a car body components) already exceeded the intended sum of PLN 21.2 million and **Tras** (window profiles) exceeded its originally intended involvement by PLN 25.8 million. In the Tychy Sub-zone **Agora-Poligrafia** spent over PLN 20 million for a new printing house. **Atlas**, Poland's largest cement producer, invested over PLN 18 million.

To support and encourage business, SEZ in Katowice offers additional services, including project-related and customer-related services, mediation in property dealings, consulting and training on doing business in special economic

[3] T.Sporek, *Ugrupowania międzynarodowe kształtujące architekturę jednoczącej się Europy u progu XXI wieku* (*International Groups shaping the Architecture of Unifying Europe at the Outset of 21^{st} Century*), Katowice 2004, p.294-295.

zones. These services are provided by the Data Bank (Bank Informacji) in Katowice SEZ Co.

After five years of SEZ experience all the region's strengths (in the investors' opinion they are tax-related benefits, skilled labour force, large market and good situation/accessibility[4]) are put to good use. Local authorities with their local market knowledge, assist investors in solving their problems and attempt to attract new business partners.[5]

Another SEZ's objective was to help control local unemployment. The problem is the licences issued are vague in that they specify minimum requirements as regards employment, but without prioritising who should be employed. All the four sub-zones the SEZ is divided into[6] are situated in the area threatened with structural unemployment caused by mining industry restructuring. There are about 40 coalmines in the region, employing, on the average *c*. 4000 workers each. Implementation of the restructuring plan (*i.e*. closure of most coal mines) will send *c*. 20 thousand workers redundant. Between 1997-2000 SEZ created 13,357 new jobs in its sub-zones,[7] the number exceeding the planned level nearly threefold. This adds new aspects to its achievements, such as:

- economic revival of the surrounding zones (contractors, suppliers, *etc.*),
- technical and social infrastructure development (new roads, sewage systems and waterworks under construction, financial aid for community centres),
- general region promotion.

Comparing SEZ in Katowice to the other special economic zones it is clear that the former is leading in terms of investment levels and jobs created. Investors choose it attracted by fair infrastructure, skilled personnel and friendly attitude of local authorities. This helped bring foreign capital, especially in automotive sector, food, cloth, printing and construction industries, *i.e.* branches that are relatively sensitive to competition, which might have had a role in decisions made. GM Opel belongs to vehicle industry leaders and its involvement brought its subcontractors (Isuzu, Delphi, Lear and Butz Leper).

[4] According to the opinion poll carried out among investors doing business in SEZ Katowice.

[5] From my personal experience of operation in SEZ Katowice I can admit as follows:

– the Zone Management closely co-operates with my company and is readily accessible and helpful any specific problems need to be solved;

– it offers services (personal training, healthcare, *etc*.);

– it promotes the Zone image, involving investors in social activities for the region;

– it stimulates debate about the zone future.

[6] Special Economic Zone in Katowice consists of 4 sub-zones: Gliwice, Tychy, Jastrzębie and Sosnowiec. According to information from Katowice SEZ, the zone area is to be extended, a new subzone in Bielsko-Biała being planned for October 2000. Fiat, the largest manufacturer of motor cars, will close and GM Opel will start production of engines there.

[7] See section 6.3 – creation of 5364 new jobs was planned.

However, whilst incentives or allowances had some influence, the principal motivations behind investment decisions were different. Licences issued obliged companies to meet some conditions, mostly in terms levels of invested capital, of employment and of local content (added value generated in the zone must exceed 20% of price).[8] Failure to meet any condition results in licence withdrawal and suspension of all incentives, which certainly happens when a company achieves profit.

Domination of automotive industry in the region is a threat to its economic stability. Any market slump accompanied by a lack of demand is likely to reduce production levels, causing workforce reduction. It can also affect other companies, especially subcontractors in the zone.

8. SEZ from the EU and Polish government's perspective

In line with WTO regulations, a SEZ should be regarded as a subsidised area, if it constitutes an underdeveloped geographical region (*i.e.* its *per capita* GNP does not exceed 85% of the country average and the rate of unemployment is at 110% of the average or more.[9] The EU regulations, similar to those of WTO, also require that the above-mentioned ratios are monitored for 3 years before it is decided to create a SEZ. Polish SEZs, however, are not bound by such criteria, as they are split into parts and their levels of unemployment in some cases are strikingly different.[10]

[8] The problem of local content really occurs the investors' nightmare. The company I am working for has serious troubles meeting these criteria as well. When we decided to start production in the zone, things looked different in the domestic market. The company was able to achieve high profit margin (the higher the margin, the bigger the value-added). After 2 years of operation our competitors launched production in Poland as well preventing us from getting high profits any more. Nowadays we have to focus upon local content rather than on profit, to avoid losing the license.

I do not feel myself that operating in SEZ and producing flexible packaging places us in more comfortable and competing situation than other operating companies in Europe. Strategy of company mostly was based on taking profits from operating in zone but nobody took into consideration that Poland could eliminate import duties for flexible packaging and competition would perceive Polish market as interesting. Having spent many hours on local debates in SEZ Katowice I can admit that these problems also exist in the other firms. There one conclusion to be drawn: to gain a licence and not to loss it, the business located in zone must be really profitable otherwise the investment can be located anywhere because index zone is unattainable.

[9] http://www.rzeczpospolita.pl/pl-iso/dodatki/raporty_980602/raporty_a_3.html

[10] *Polska w WTO* (*Poland in WTO*), eds. J.Kaczurba, E.Kawecka-Wyrzykowska, Warsaw 2002, p.33.

Table 1. Unemployment in Poland (April 2000)

Country/Province	Rate	1000
Poland	**13.7**	**2490.0**
Warmińsko-mazurskie	23.6	149.0
Lubuskie	18.5	79.4
Zachodniopomorskie	18.1	136.0
Kujawsko-pomorskie	17.5	166.4
Dolnośląskie	16.6	215.7
Świętokrzyskie	15.6	112.6
Łódzkie	15.0	195.3
Podkarpackie	15.0	171.5
Pomorskie	15.0	132.4
Opolskie	13.9	62.6
Lubelskie	13.3	154.2
Podlaskie	12.8	74.9
Wielkopolskie	11.2	173.0
Małopolskie	10.9	168.6
Śląskie	10.9	232.7
Mazowieckie	10.2	265.6

Source: Central Statistical Office (GUS)

However, the level of GNP *per capita* is not reliable, considering that Poland has not implemented systems of credits financing or credits guaranties yet.

Competition-related policies were crucial negotiation with the EU. According to Polish government, all companies in SEZ should retain the incentives they have enjoyed after Poland's accession to the EU (benefiting from a transitional period), although social aid arrangements adopted there are inconsistent with some provisions of the Treaty (Article 63(1) general rules of State aid to regions,[11] such infringements consisting in:

- export aid in SEZ Mielec,
- current aid (EU allows investment support and new job creation),
- support for motor vehicle industry (no aid for sensitive sectors is allowed),[12]
- accumulation of several types of incentives (covering of up to 50% of investment spending is allowed. No respective limitation is adopted in Poland),

[11] J.Kułakowski, *Specjalne Strefy Ekonomiczne a Unia Europejska* (*Special Economic Zones and the European Union*), "Gazeta Strefowa", March 2000.

[12] The policy regarding motor industry is regulated under the *Community framework for State aid to motor vehicle industry*, O.J., no. C 279, 15 September 1997.

– lack of supervision over aid granted. This results from the system adopted (*ex ante-ex post*), basing on income tax relief.

Because of inconsistencies between Polish and European legislation, Poland has been obliged to clarify how it intents to eliminate discrepancies. Changing legislation could cause compensation duties for companies and undermine their confidence. Aware of that, Poland applied for a transitional periods and, at the same time, obliged to amend its SEZ-related regulations to adjust incentives granted to the EU rules.

European Union, however, insisted that Poland shuts SEZs down before the accession, arguing that Polish government, rather than just withdrawing all incentives and allowances granted, should compensate investors.[13] As Polish State budget could not afford this, deterioration of relations with foreign companies should be expected.

In June 1999, pressed by the EU, Poland agreed to suspend further SEZs creation and development of the existing ones.[14] Also, steel, cloth and plastic sectors entities were allowed to establish their affiliates in the privileged areas. It was decided to close two SEZs soon and only issue new licences if the level of unemployment exceeded 150% of national average. Still, such concessions were regarded insufficient by the EU which demanded that Poland gave up its system of preferences before the accession as inconsistent with European regulations and likely to affect the Common Market. Investors – in the EU opinion – were given too much benefit and long-term tax holiday. Withdrawal of all incentives for motor companies was required due to overproduction in Europe.

Polish government rejected the proposal feeling unable to compensate businesses with its deficit-stricken State budget. Whilst the articles of SEZs in Katowice, Mielec, Suwałki, Legnica, Łódź and Wałbrzych did not provide for any changes (*i.e.* adjustments to the EU requirements) either before or after the accession, regulations of the remaining nine zones allowed for making some changes, providing, at the same time, for their operation until the end of 2017.

The problem was unsolved: local communes insisted on retaining the, while the EU producers were afraid of unfair competition. The EU disagreed for coverage of 50% of environmental expenses in Poland, demanding them to be aligned to the EU 15% level.[15] In general, the EU required from our country to adapt legislation to its standards and stop issuing new licences, while the Polish party argued that European standards were flexible enough to allow to carry on the economy growth favouring policy in Poland and no closures would be

[13] Ibidem.

[14] Meanwhile Katowice SEZ claims that its area will be enlarged.

[15] K.Jóskowiak, *Polish Experience and Effects of Cross-border and Interregional Cooperation*, "Yearbook of Polish European Studies", vol. 5/2001, p.176-179.

necessary. Admittedly, Poland was the only EU-applicant country to run SEZs. Slovenia made some similar attempts, but gave the idea up before first licences were issued.

In 2000, however, regulations regarding SEZs in Poland were changed, public aid for companies therein being limited. The former 100% income tax exemption for 10 years and 50% for further 5 years was reduced to just 50% for newly-issued licences. It was planned to close some SEZs, merge other ones or move their borders. Three exceptions were left, allowing companies to obtain State aid in cases of excessive unemployment in an area, GNP 4 times lower than national average or restructuring process underway. This, however, gave no guarantee of incentives, as it was left to further decisions, which industries would benefit from incentives (steel, cloth and plastic sectors, regarded sensitive in the EU, were expected not to).

Can privileges really prove dangerous for economy? In fact, the belief that SEZ will only act as economic growth accelerator were only partially justified. Their negative impact upon the rest of business is obvious. Creation of an enclave that enjoys special rules, unavailable to the rest seems unfair indeed and suffocates growth prospects of entities beyond the zone. Insiders gain an enormous advantage, while the vast majority of outsiders struggle with their investment processes.

The recent report of the Supreme Chamber of Control[16] on SEZs in Poland revealed their unprofessional management, with a great deal of improper spending (except for Katowice and Mielec zones). This certainly calls for urgent correction, such items as promotional budget or business trips requiring close supervision. Worse still, the report concluded that the EU legislation was totally ignored in SEZs-creating decisions. Explanations that Poland had not been the EU Member State at that time and the zones were intended as instruments supporting national economy in terms of restructuring and aid for poor regions seems not entirely convincing.

Conclusion

1. SEZs had an undeniably positive effect in controlling unemployment.
2. They proved effective as regional policy tools (Katowice and Mielec zones in particular).
3. Some of them were a failure because nobody really launched their activity there (Częstochowa and Mazowiecka zones).
4. An excessive number of zones created was more than needed, giving rise to suspects about a role played by personal interests.

[16] Special Economic Zones, The Supreme Chamber of Control Report, October 1999.

5. SEZs were certainly causing unfair competition, being, on the other hand, very desirable from both social and regional point of view.
6. The Katowice zone was the best one, attracting 50% of total capital invested in Polish SEZs.
7. Meeting and exceeding the assumed levels of employment and invested capital, the Katowice SEZ achieved its goal, this particular mission being successful.
8. In general, business activities in the zones were successful only in some cases. Operating on a very low profit margin is doomed to failure in the long run.
9. Poland's accession to the EU had to seriously restrict or prevent further SEZs activities.