III. Business in Poland

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Preface

Dear reader,
Many thanks for taking the time to read this short, guide of cooperation and investing in Poland. We hope that you will find it helpful and informative.
Over the last 15 years Poland and Slovakia have come a long way - entry to NATO and the EU.

Today Poland and Slovakia are a full members of the EU, NATO, OECD. This guide has been prepared to provide a general overview of the current situation in Poland and Slovakia.

The information contained in guide is of a general nature and is not intended to address the circumstances of any particular individual or entity, there can be no guarantee that information will continue to be accurate in the future. Whenever a business decision is to be made, the actual laws and regulations in force should be consulted.

General remarks

- The main source of preparing this part of the guide is HOW TO DO BUSINESS IN POLAND prepared by the Investment and Technology Promotion Office of the United Nations Industrial Development Organization (UNIDO) in Warsaw.
- The UNIDO is a specialized UN agency established in 1967 with the aim of reducing the traditional gap between the industrialized countries, developing countries, and, more recently, economies in transition. The UNIDO headquarters is in Vienna and its membership numbers 171 countries. UNIDO harnesses the joint forces of governments and the private sector, acting as a neutral adviser to foster competitive industrial production, develop international partnership, and promote socially equitable and environmentally friendly industrial development. It is the only worldwide organization dealing exclusively with industry from a development perspective and rendering non-profit, neutral and specialized services.
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- We would like especially to thank the following institutions – sources of preparing this part of the guide:
  - Embassy of Poland in Bratislava - information in Polish and Slovak
  - Embassy of Slovakia in Warsaw - information in Polish and Slovak
  - GUS - Central Statistical Office in Warsaw and Branch of Statistical Office in Bielsko-Biała

III. Business in Poland

CONTENTS

III. Business in Poland

1. Poland - General Information

1.1. History

The Poland has a long and important cultural and scientific history. The earliest human traces in the basins of the Vistula and Oder date back to about 100thousand BC. Neanderthal hunters penetrated mostly the area of the present-day southern Poland. The earliest settlements of Homo Sapiens in Poland are traced back to the Mesolithic era (8thousand - 5,5 thousand BC). At that time, settlements were established by people migrating from the Danubian Basin culture.

Slavic tribes probably lived in what is now Poland as early as 2000 BC. During the AD 800's several of the tribes united under the Polanie - one of the largest group in the area.

Members of the Piast dynasty became the first rulers of Poland. By the mid-900's Prince Mieszko I ruled over most of the land along the Vistula River and Oder River. In 966 Prince Mieszko I, through his acceptance of Christianity, brought Poland into the sphere of Western European, Latin-based culture. In 1025 his son Boleslaw Chrobry became the first King of Poland, placing the Piast dynasty among the ruling families of Europe at the time.

In 1386 Queen of Poland, Jadwiga named Władysław Jagiełło the Grand Duke of Lithuania. Jagiełło ruled both Poland and Lithuania as a king. Jagiellonian kings ruled Poland for nearly 200 years. Under their leadership Poland expanded its territory and made important advances in its cultural, economic and political development. The Polish empire reached its height during the 1500's, when it covered a large part of central and eastern Europe.

After the death of the last Jagiellonian monarch in 1572, Polish kings were elected by the nobles. In 1791 under the last King, Stanislaw Poniatowski, the Polish constitution was voted in. After the French constitution, it was the first modern European constitution. Soon after that Poland's neighbours, Russia, Austria and Prussia, three of the strongest European powers, signed a treaty to partition the country. In 1795, the third partition of Poland ended its existence as a separate state. Poland ceased to exist for 123 years. In spite of several national uprisings in the XIX century, Poland did not manage to regain its freedom till World War I, when the country's enemies were at war with each other. But there were only 19 years of independence before Poland became the first victim of World War II. Hitler and Stalin's secret pact (the Ribbentrop-Molotov Pact) sealed the fate of Poland which was attacked simultaneously from both sides. After the war, the map of Europe was re-drawn and Poland's borders were moved to the west. The end of the war also marked the start of almost half century of Soviet-sponsored communist rule.

After the Second World War communism was established in Poland. In 1945 a communist-dominated government was formed and Poland's present-day boundaries were established. In 1989, after almost ten years of struggle by the Solidarity movement, the communists conceded, and parliamentary elections were held. In 1990, Lech Wałęsa became the country's first democratically elected president since the war. Since that time, Poland has made enormous strides toward re-integration with the rest of Central and Western Europe.

Poland was the first country in Central and Eastern Europe to free itself from communist rule. This bold move (Solidarity) was soon followed throughout the region. It all started early in 1989 when the communist-dominated authorities and the opposition embarked on discussions which became known as the "Round Table Negotiations". As a result, major agreements were reached, including legalisation of the Solidarity trade union and an agreement to hold elections on 4 June 1989. The elections were won by the representatives of Solidarity, who then formed the first non-communist government in East-Central Europe since the Second World War.

The economic integration process with the European Community aimed at re establishing Poland as an integral part of the European economy. It led to Poland’s acquiring EU membership as of 1 May 2004. NATO membership, ensuring external security, has been achieved even earlier. The first step in the process of joining NATO had taken place in March 1991, when the military structures of the Warsaw Pact were dissolved. On 12 March 1999 year, Poland’s accession to NATO was sealed with the ceremony of depositing the ratification treaty with the Treaty’s Depository Office.

1.2. Geography, Climate and Natural Resources

The Republic of Poland (Rzeczpospolita Polska) is one of the largest countries in Central Europe. It borders on Russia, Lithuania, Belarus, Ukraine, Slovakia, the Czech Republic and Germany. Its northern frontier on the Baltic Sea gives it easy access to Scandinavian and North Sea ports. The capital of Poland, Warsaw, is situated in the centre of the country. Poland ranks ninth in Europe in terms of size, and 69th in the world, with a surface area of 312,677 sq. km. Poland is in the Central European time zone (GMT + 1 hour). In late March it switches to daylight saving time, which lasts till late October.

Poland has a moderate climate characterised by relatively cold winters and warm summers. Winters become increasingly severe inland from the Baltic coast, with January temperatures averaging -1°C (30°F) in the north and going as low as -5°C (23°F) in the south-east. July temperatures range from 16.5°C (62°F) near the coast to 19°C (66°F) in the south.

Poland has substantial agricultural and mineral resources. It has the world’s fifth-largest proven reserves of hard and brown coal, in addition to deposits of copper, sulphur, zinc, lead, silver, magnesium and rock salt. There is natural gas and also potentially useful deposits of chalk, kaolin, clays, and potash.

Poland’s main agricultural crops are wheat and other cereals, potatoes, sugar beets and fodder crops. Poland is the leading exporter of apple concentrate and is among the world’s leading producers of berries, cabbages and carrots. In 2002 Poland was ranked second in the world in rye and sixth in potato production. At the end of 2003, the livestock sector comprised 5.3 million beef and dairy cattle and approximately 18.5 million pigs. Due to its favourable geographical position and temperate climate utilised agricultural area amounts to more than half of Poland’s surface (16.2 million hectares). In addition, over

8.9 million hectares are forested, making sawn timber an important resource.

Production of Major Fuels and Energy Products in 2003 (Unit Output):

– Hard coal million tons	102.3
– Brown coal million tons	60.9
– Coke million tons	10.2
– Fuel oils million tons	4.8
– Petrol (incl. aviation fuel) million tons	4.0
– Diesel oil million tons	4.6
– Natural gas cubic hectometres	5,211
– Electricity TWh	149.2

Source: Central Statistical Office, 2004

About 35 % percent of Poland's demand for natural gas is covered by domestic production and most imports come from Russia.

1.3. Political System and Government

The political system in Poland is a republic reflecting a mixture of parliamentary and presidential models. In 1997, a new constitution was adopted by the national assembly and submitted for ratification in a national referendum. The new constitution contains some important guarantees for business. It states that the Republic of Poland assures freedom of economic activity and that any limitation of this freedom should be based on law. On the other hand, constitutional regulations concerning public finance protect business against unfair and overburdening fiscal charges. For instance, the constitution says that fiscal charges may be imposed only by law and should not be excessively high. Another important safeguard clause says that an increase of expenditure by the government should not cause an increase of the budget deficit above the level set by the budgetary law, and that the budgetary law should not provide for the financing of the deficit through lending from the central bank. The president is elected to office by universal suffrage for a 5-year term. He appoints candidates for the post of prime minister and has the right to veto acts passed by parliament. His veto may be rejected by a two-third majority in the *sejm*. The president is the head of state and the commander-in-chief of the armed forces. He has the right to dissolve parliament if it is unable to approve the budgetary law or to form a government. Lech Wałęsa, the historic leader of the Solidarity movement, was elected president in November 1990. However, in a heated presidential campaign in the autumn of 1995, he lost to Aleksander Kwaśniewski, leader of the Democratic Left Alliance, who also won the subsequent presidential elections held in October 2000, and who will thus be in office until the end of 2005. Legislative authority is vested in the parliament, or National Assembly, composed of two chambers: the lower house, the *sejm,* with 460 seats, and the upper house, the senate, with 100 seats, both elected for a 4 year term. The s*ejm* has 460 deputies elected through a proportional voting system.

The government administration is composed of the central administration (ministries and other bodies) and the regional administration. The administrative division of the country is based on three levels of administration, i.e., provinces (*województwo*), which are divided into districts (*powiat*), which are further divided into communes (*gmina*). There are 16 provinces, 379 districts, and 2478 communes in Poland.

1.4. Population and Language

In recent years (since 1999) the population of Poland, currently 38.2 million people, has been experiencing a very slow decline. In 2003 this trend continued and the population of Poland declined by 0.08 %. Approximately 62 % of Poles live in 884 towns, which are mostly small or medium-size, and almost half of the town population lives in 40 cities with a population of over 100,000 inhabitants. Warsaw, the capital and Poland's largest city, has a population of 1.6 million people. With respect to size of population, Poland ranks 8th in Europe and 30th in the world, with an average population density of 122 persons per km^2. The population of Polish communities abroad is estimated at 12 million, with the largest communities living in the USA (5.6 million), the Commonwealth of Independent States - CIS (2.5 million), France (1 million), Germany (0.8 million), Canada (0.4 million), Brazil (0.2 million), Australia (0.15), and the UK (0.14). Demographic trends in Poland indicate rapid growth in the working-age population, until 2005, approximately. In 2003 there were 14.8 million people employed, including 4.8 million by companies employing ten or more persons. On the other hand, the number of retired persons and pensioners reached 9.2 million. Even though the number of retired people is growing, Poland's workforce is among the youngest in Europe. The activity rate is equal to 54.7 % (as of the first quarter of 2004). From the ethnic point of view, Poland is one of the most homogeneous countries in Europe, with over 98 % of the population being ethnically Polish. In the business community, as well as among young people, English is the most popular foreign language. In addition, German and Russian are frequently spoken, reflecting the geographical position of the country.

2. Economic Environment and Foreign Trade

2.1. GDP and Inflation

The Polish economy entered the 1990s as the weakest in Central Europe. It emerged in the new millennium as one of the strongest. The introduction of radical reforms was a precondition for Poland's survival. The "shock therapy" programme applied in late 1989 by the then Deputy Prime Minister, Leszek Balcerowicz, resulted in the dismantling of all central economy planning mechanisms and the introduction of a market economy. This bold reform programme was quick to produce effects. The freeing of prices allowed them to rise in response to market forces, during a period of corrective inflation, and to find their own level. As a result, inflation, running at three digits in 1990, fell

to double digits in 1991-1998, and declined steadily in the following years to fall to as little as 0.8 % in 2003 (or 1.7 % end of year).
Although successful, the stabilisation programme also plunged the country into a deep, but relatively short-lived recession, and Poland was the only country in the region to achieve GDP growth in 1992. The recovery gained momentum in 1993 with a GDP growth rate of 3.8 %, at that time the highest growth rate in Europe. In 2003, GDP grew by 3.7 %. Comparing Polish GDP per capita to that of other countries, to reflect the real degree of development, overall price levels should be considered and thus appropriate adjustments made. In 2003, applying the OECD estimates of the PLN's purchasing power, GDP per capita in Poland in PPP (Purchasing Power Parity) terms amounted to approximately USD 11,500.
The official currency in Poland is the złoty (zł or PLN), which is divided into 100 groszy.

2.2. Employment and the Labour Market

Unemployment was unknown in Poland before 1990, but the realities of the free-market economy were soon felt in the labour market. Unemployment appeared in 1990 and soon reached 1.1 million people, or 6.3 % of labour force. It peaked and stabilised in 1993-1994, and started to decline from then on. However, since 1998, it has been growing again, mainly as a result of industrial restructuring and structural changes in companies aimed at increasing productivity and competitiveness. At the start of 2005 the number of unemployed persons reached 3.0 million, or 19 % of the labour force. The unemployment rate varies significantly from one province to another. It is lowest in provinces of Mazowieckie (15 %) and Małopolskie (16 %) and highest in Warmińsko-Mazurskie province (30 %). Of the 3.0 million unemployed, 1.6 million, more than half, have been without work for more than one year. Furthermore, 85 % of the unemployed are not eligible for benefits, and a considerable number of job-seekers are school leavers.
Nonetheless, Poland's labour force is generally well educated and highly qualified. The number of young people seeking better and / or higher education has been constantly increasing since the beginning of the transformations. In the 2002/2003 academic year, there were over 1.7 million students, attending lectures at over 370 universities, polytechnics, academies and other higher education institutions. The proportion of students and pupils in the 16 - 18 age group reached 91 %, while in the 19 - 24 age group it accounted for almost 51 %. In 2003, the average gross monthly salary in Poland was PLN 2,201.47 (approx. USD 570). In industry, average salaries were approximately 7 % higher, (PLN 2,350.80). It was considerably higher (PLN 3,816.53) in mining and quarrying. On the other hand, average salaries in the manufacturing sector (PLN 2,128.84) as well as in the hotel and restaurant sector (PLN 1,756.85) were lower than the national average. Gross real wages and salaries grew by 4.1 % in 2003. The relatively low labour costs and easy access to skilled workers are important assets for prospective foreign investors, particularly in regions with industrial traditions. According to Eurostat, the cost of an hour of labour remains approximately 5 times lower in Poland than in the "old" European Union countries and amounts to some EUR 4.5 per hour.

2.3. Industry and Agriculture and Banking Sector

With the trade and service sectors gradually gaining in importance, the share of industry and especially agriculture, in Poland's gross domestic product has been falling steadily over the last few years. Along with the diminishing share of industry in the Polish economy (a 24.8 % share in gross value added terms in 2003), the economic transformations have brought progressive modernisation, reflected, for example, in growing productivity and exports. The structure of the Polish economy in 2003, in terms of the number of economic entities by sector, taking form of ownership into account, is presented in the table below. The figures encompass legal entities, entities with no legal personality, and singleperson businesses, excluding branches. The private sector of the economy has grown rapidly since the beginning of the transformations. In 2003, the private sector accounted for 79 % of industrial output and it is still expanding, due to the privatisation of state-owned enterprises and to the establishment and development of new private businesses. At the same time, the private sector, already dominant in foreign trade for several years, was responsible for 93.0 % of imports and 89.5 % of exports. Furthermore, nearly all of agriculture, retailing, wholesale trade (93.6 %), and construction (98 %), is in private hands. In 2003, the structure of industrial production saw a continuation of the general trend visible during the last decade, with the processing industry's share steadily increasing and the mining and quarrying sectors' share decreasing. In 2003, the share of the processing industry grew to 83 % (from 81.8 % in 2002), while the share of the mining and quarrying sectors diminished, to 4.8 %, as compared to 5.4 % the year before. The power, gas and water production and supply sector's share also decreased, to 12.2 % (from 12.8 % in 2002). The production of food and related products (beverages and tobacco articles) occupies the most important part in the Polish processing industry, accounting for approximately a fifth of total production. Other important sectors are the electrical engineering industry, the metalworking industry, the chemical industry, the rubber and plastic materials industry and the automotive industry. The year 2003 witnessed a very substantial growth of industrial output, which increased by 8.4 %, as compared to a growth of 1.9 % the year before. The private sector accounted for 79 % of the output, up from 77.7 % in the previous year, and productivity rose by approximately 12 %.

Structure of Industry by Branch in 2003

Sector Industrial Production	Sold (PLN million)
– Food products and beverages	100,824
– Tobacco products	3,345
– Textiles	8,359
– Wearing apparel and furriery	7,398
– Leather and leather products	2,802
– Wood and wood, straw, and wicker products	14,168
– Pulp and paper	12,738
– Publishing, printing, and reproduction of recorded media	14,577
– Coke and refined petroleum products	24,281
– Chemicals and chemical products	34,463

–	Rubber and plastic products	24,887
–	Other non-metallic mineral products	22,672
–	Basic metals	20,969
–	Metal products	26,284
–	Machinery and equipment	23,703
–	Electrical machinery and apparatus	17,544
–	Radio, television, and communications equipment and apparatus	10,142
–	Medical equipment, precision and optical instruments, watches and clocks	4,005
–	Motor vehicles, trailers and semi-trailers	37,330
–	Other transport equipment	8,321
–	Furniture and manufacturing not elsewhere classified	20,778
–	Total manufacturing	443,874
–	Mining and quarrying	25,645
–	Electricity, natural gas, and water production and supply	65,435
–	TOTAL	534,953

Source: Central Statistical Office, 2004

In 2003, a very dynamic growth in sales was noted in the following areas: motor vehicles, trailers and semi-trailers (30.7 %), furniture (23 %), electrical machinery and apparatus (22.6 %), rubber and plastic products (20.3 %), and machinery and equipment (16.5 %, with a remarkable boom in household goods of 59.6 %). On the other hand, a decrease in sales was noted in the following branches: leather and leather products (7.5 %), other transportation equipment (6.9 %), and wearing apparel and furriery (5.1 %). The output of the companies with ten or more employees producing mainly investment goods experienced very high growth, by approximately 21 % in 2003. At the same time, output of companies with ten or more employees manufacturing mainly consumer goods increased by a healthy 6 %. Several branches of Polish industry are still undergoing organisational, managerial, and technological transformations based on restructuring programmes.

In Poland, 38 % of the population lives in rural areas and approximately 27 % is engaged in farming. There are some regions where agriculture is still the major sector of the economy, even though its importance has been declining steadily. However, persons who work exclusively, or mainly in agriculture account for less than 6 % of Poland's population. The Polish agricultural sector includes farms that vary considerably in terms of organisational structure, ownership, size, and output volume. There are 2.9 million farms in Poland, with an average size of 5.8 ha. Over 70 % of farms in Poland have an area of less than 5 ha.; however, their total area amounts to less than 19 % of farmland. The structure of Polish farms in terms of size and number is presented on the following graph. Despite politically driven efforts to collectivise farms after the Second World War, private ownership has always prevailed in the agricultural sector. The political and economic transformations launched in 1989 led to even greater reduction of the public sector's share in agriculture and to the introduction of new forms of ownership, e.g., various types of companies and foreign equity. In 1992, the Agricultural Property Agency of the State Treasury (AWRSP) started its operations, which focused on taking over and managing state-owned farms, primarily through selling or leasing their land. In 2003, privately owned farmland accounted for approximately 95 % of utilised agricultural area. In 2003, there were 16.2 million hectares of utilised agricultural area in Poland, or close to 52 % of the country's surface. In 2003 agricultural output declined for the second successive year, by 1.4 % (- 1.9 % in 2002). The most important crops in Poland are cereals, especially wheat and rye. Next, there are potatoes, fodder crops, sugar beets, oilseeds and pulses. Pigs and cattle dominate the livestock sector, though poultry, and sheep in southern Poland, are also quite popular. This means that Polish agricultural products are generally ecological and very healthy.

Construction Industry

The construction sector is regulated by The Construction Law of 7 July 1994, as amended. The output of the construction industry increased significantly in 1997-2000, primarily as a result of foreign investment mainly in the industrial, retail and office sectors, although developments financed by Polish capital were also on the increase. In 2001, however, after ten years of growth, this favourable trend reversed. In 2003, there was an approximately 3 % drop in the output of the Polish construction industry. The overall result was influenced by a 3 % decrease in private construction and a sharper, 5 % decline in the output of state enterprises. In 2003, the private sector's share in the construction industry further increased, to reach approximately 98 % (97.6 % in 2002). New investments and modernisation projects dominated the sector's output, with their share amounting to 73.6 %, as opposed to a 26.4 % share of repair and maintenance work. In 2003, 163,578 new flats were brought to the market, a huge 65 % increase over the previous year, powered by the fear of taxation changes coming into force in 2004 and resulting in higher construction material prices.A constantly increasing average usable floor area is yet another indicator of economic growth in Poland. In 2003 it increased by 17 %, to reach 116.2 sq.m.

Banking Sector

The operations of the Polish banking system are governed by the Act on the National Bank of Poland and by the Banking Act (both of 29 August 1997). The National Bank of Poland (NBP) performs the role of a central bank. The NBP issues currency, holds Poland's foreign exchange reserves, refinances the banking system, exercises supervising functions, and issues licences for banking activities. Most banks in Poland operate as multipurpose institutions. They are involved in various types of deposit taking and financing activities, and offer a wide range of commercial and personal banking services. Some of them are also active on the capital market through their own brokerage houses. Some of the banks are involved in investment banking activities, such as underwriting issues of bonds and stocks, or advisory services. At the end of 2003, there were 658 banks operating in Poland. This number included 56 commercial banks in the form of joint-stock companies, one state bank, one branch of a foreign bank, and 600 co-operative banks. The State Treasury directly owned three banks, with a further three being controlled indirectly. The co-operative sector, although very important for Polish farmers, does not play a significant role in Polish banking. In 2003, however, its share in banking services increased for the third consecutive year. By the end of the year the co-operative banks held 6.6 % of non-financial sector deposits and had loaned 7.1 % of total loans. Their total assets increased during the year and amounted to 5.3 % of the total assets of the whole banking sector in 2003. Major commercial banks, as well as some smaller ones (including some co-operative banks) offer bank services through the internet. There are also banks allowing their clients to carry out operations via phones, cellular phones using WAP technology, or via teletext. Moreover, there are already some virtual banks operating on the market. By the end of 2003, there were three (mBank, Inteligo and Volkswagen Bank Direct), operated by BRE Bank SA, PKO Bank Polski SA and Volkswagen Bank Polska S.A., respectively.

At the end of 2003, of the 56 commercial banks operating in Poland, 13 were listed on the Warsaw Stock Exchange, and their share in the WSE capitalisation amounted to 33 %. In 2003, just as the year before, the principal changes seen in the ownership structure of banks were the result of mergers and of foreign investors' involvement in the sector, as well as of increasing equity in the state-controlled banks. In 2003, out of 52 private commercial banks operating in Poland, foreign shareholders controlled 46. This number includes one branch of a foreign bank, 24 joint-stock companies with 100 % foreign ownership, 15 with a majority of foreign capital, and 6 banks controlled indirectly.

Moreover, foreign shareholders had minority stakes in a further 3 banks. The following diagram presents the ownership structure of the banking sector in Poland as of 31 December 2003. Foreign shareholders have been steadily increasing their investments in the Polish banking sector, with banks controlled by foreign investors accounting for 67.8 % of the total assets of the banking sector. According to the NBP, German, American, Belgian and Dutch institutions have made the largest investments in the Polish banking sector.

Foreign Investments in the Banking Sector as of 31 December 2003 (PLN million)

– Germany	333.4
– USA	151.2
– Belgium	407.0
– Netherlands	424.6
– Ireland	427.4
– France	445.2
– Sweden	514.1
– Portugal	768.5
– Austria	889.8
– United Kingdom	1155.4
– Other foreign	1779.3

Source: NBP, 2004

The clients of all banks established and operating according to Polish law are protected by a deposit insurance system - *Bankowy Fundusz Gwarancyjny* (The Bank Guarantee Fund) - established in November 1994.

Ranking of Banks: bigest

- PKO BP
- Bank Pekao S.A.
- Bank Przemysłowo-Handlowy PBK S.A.
- Bank Handlowy S.A.
- ING Bank Śląski S.A.
- BRE Bank S.A.
- Kredyt Bank S.A.
- Bank Zachodni WBK S.A.
- Bank Millennium S.A.
- BGŚ S.A.

On joining the Organisation for Economic Co-operation and Development (OECD), Poland agreed to let foreign banks open branches in 1999.

2.4. Co-operation with International Organisations

Poland's successful transition to a market economy has been, to a significant degree, facilitated by the assistance of international economic organisations. Already in the late 1980s, Poland had established good relations with the International Monetary Fund, the World Bank, and the International Finance Corporation. In the crucial years of 1989 and 1990, when the ambitious stabilisation programme was launched, the IMF arranged a stand-by loan to support the Polish currency. Actually, the loan was never used for the original purpose and most of the countries contributing to the stand-by arrangements agreed to use it to support the development of the Polish banking system.

Poland rejoined **the World Bank** in 1986 and began borrowing from it in 1990. Since then, the World Bank has supported the country's economic transformation through lending, advice, and technical assistance. Since 1990, the Bank has lent USD 5.720 billion (USD 4.650 billion net of cancellations) for 40 operations. About USD 4.060 billion of this amount has been disbursed and USD 1.9 billion repaid (as of end-May 2004). Thirteen ongoing projects are mainly focused on upgrading the infrastructure and energy sectors, protecting the environment, and promoting rural development. Since 1986, the World Bank has aimed at boosting the country's economic growth by rebalancing its macroeconomic framework and improving the effectiveness of government expenditures and programs. It has also helped the country create employment through privatisation and banking and financial sector reform. The World Bank is currently assisting Poland in making the most of EU membership. It is helping enhance the country's transport infrastructure and the government's capacity to use EU Structural Funds. In 2004, the World Bank approved two loans to Poland – one for the amount of EUR 100 million, which will help to finance the Road Maintenance and Rehabilitation Project (Roads 3), and another for the amount of EUR 160 million to finance the Social Mitigation of the Coal Mining Sector Restructuring Project that aims at assisting the Polish government in the implementation of the Coal Mining Sector Reform Project. Presently the World Bank's team is working on the preparation of another loan to help alleviate the negative consequences to the environment due to the closing down of the coal mines. In June 2004 a position of a Private Sector Liaison Officer (PSLO) has been established with the Confederation of Polish Private Employers to facilitate the contacts between the World Bank and the private sector.

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to finance development projects that foster transition to a market economy in Eastern and Central European countries. As of 31 December 2003, Poland was the Bank's second largest exposure representing 13 % of the Bank's current portfolio. Net cumulative business volume totalled EUR 2,840.0 million with equity representing 31 % of the volume, private sector operations representing 82 % of the portfolio stock. The Bank's business activity is well diversified, with the financial sector representing 35 % of volume, general and specialised industries representing 45 % and infrastructure representing 21 %. The Bank has continued to be an active participant in the transition process as it has continued to innovate to suit the emerging transition needs and continued to play a visible role in policy dialogue. Given its mandate the main operational priorities for the Bank will consist of the following:

- Actively support the completion of the modernisation and privatisation of Polish enterprises, especially in the more difficult sectors and in those sectors requiring liberalisation. Support foreign direct investment which contributes to transition and regional development. Support the domestic private sector, in particular SMEs, by expanding the availability of finance and working with the Polish authorities to continue SME finance programs with private financial intermediaries postaccession.
- Contribute to the further development of the financial sector by supporting consolidation of banking, insurance, and pension funds; supporting the expansion of the capital markets through the promotion of new financial products; continue to supply capital to the private equity industry to support its long-term viability and contribute to the privatisation and development of the remaining important financial intermediaries.
- Support continued investment in infrastructure and environment, especially at the local level, minimising reliance on sovereign guarantees while maximising effective absorption of EU Structural and Cohesion Funds and the building of institutional capacity. The Bank will continue to support the Polish government's effort to develop the PPP concept in infrastructure (especially motorway and road rehabilitation), environmental and municipal sectors, through policy dialogue, developing structures which blend private finance with EU grants, encouraging involvement of foreign PPP sponsors, as well as by taking a leading role in pilot projects.

The Bank will ensure that all EBRD operations in Poland are subject to the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans into legal documentation in order to address issues raised during due diligence, in line with the Bank's mandate to actively support environmentally sound and sustainable development through its investment projects. The Bank will also ensure that all of its projects adhere to best-practice international procurement rules.

The International Finance Corporation (IFC), a member of the World Bank Group, fosters economic growth in the developing world by financing private sector investments, mobilising capital in the international financial markets and providing technical assistance and advice to governments and businesses. The IFC's mission is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives. In light of Poland's accession to the European Union and the growing availability of long-term financing from private sources, IFC, as a developmental institution, has reorganized its mission in Poland. Effective from July 1, 2004, IFC will reduce its representation in Poland and continue operations through the Special Regional Representative for Central and Eastern Europe, located in the World Bank office in Warsaw.

Poland also had benefited for many years before its accession from the financial support of **the European Union**. Poland has been receiving non-returnable aid from the European Union since 1990 as part of the PHARE Fund. In line with decisions taken during the EU summit in Berlin in March 1999 (Agenda 2000), a considerable increase in financial aid to EU candidate states was planned for 2000-2006. Since 2000, Poland and other associated states have been able to benefit not only from PHARE funds, but also from two new funds: ISPA (the Instrument for Structural Policies for Pre-Accession) and SAPARD (the Special Accession Programme for Agriculture and Rural Development). PHARE (Poland and Hungary: Assistance for Restructuring their Economy) was initially meant to help Poland and Hungary in their political and economic transformations. It was later expanded to include other countries of Central and Eastern Europe. Right now it has ten beneficiaries: the ten countries of Central and Eastern Europe that are former and present EU candidate states, i.e., Bulgaria, the Czech Republic, Hungary, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. In the EU candidate states, the programme supported actions preparing the countries for accession. In 1990-1999 PHARE aid funds for all the aforementioned countries amounted to EUR 10.31 billion, with Poland receiving over EUR 2 billion. In the EU budget for 2000-2006, PHARE aid was set at EUR 1.56 billion per year. In line with the New Orientation of PHARE, 70 % of the resources was intended for investment projects and 30 % for projects related to institutional development. In 2000 Poland was granted a record sum of EUR 484 million within the PHARE programme, in 2001 - EUR 468.5 million, in 2002 - EUR 451.7 million, and EUR 459.5 million in 2003. There is no new 2004 PHARE programme, however the funds allocated in 2003, are to be contracted within a 2 year period and realised within one year. It means that PHARE will be present until 2006, when projects of 2003 should be concluded. After joining the EU on 1 May 2004, Poland can benefit from various EU funds earmarked for EU members. At the Copenhagen 2002 summit, it was decided that Poland will benefit from nearly EUR 13.5 billion over the period 2004-2006, which encompasses structural funds, direct payments, and other programmes. The ISPA programme was a pre-accession instrument of structural policy, aimed at supporting large-scale investments in environmental protection and transport.

The budget of the ISPA programme for the ten EU candidate states in 2000-2006 was set at EUR 1.04 billion per year. Poland could receive between EUR 312 and EUR 385 million per year. Over the period 2000-2004, Poland was granted EUR 1.4 billion in total from the ISPA fund (environment and transport projects). The ISPA projects will be continued and co-financed on the later stage form cohesion funds. There are still projects under development within the ISPA framework and many of them will only be finished by 2008, or 2009. The SAPARD programme was another instrument of financial aid addressed to EU candidate states. It was aimed at assisting the modernisation of agriculture and development of rural communities. In 2000-2003, almost EUR 700 million was granted to Poland, and the projects are still carried out.

From 2000 onwards, Poland was granted pre-accession aid of up to EUR 1 billion per year. Over the period 1990-2003 Poland was granted approximately EUR 5.8 billion within the framework of PHARE, ISPA and SAPARD.

UNIDO and its Activities in Poland

The United Nations Industrial Development Organization (UNIDO) is a specialised UN agency established in 1967 with the aim of reducing the traditional gap between the industrialised countries, developing countries, and, more recently, economies in transition. The Warsaw UNIDO Investment and Technology Promotion Office (ITPO), was set up in 1983 as a part of UNIDO's investment and technology promotion network. By drawing on the linkages of the UNIDO Exchange electronic platform, ITPO Warsaw redresses the industrial development imbalance by bringing investment and the latest technology on offer in Poland and abroad to those countries in Central and East Europe and Mid-Asia which are most in need of a promotional hand. At the same time ITPO Warsaw opens up new opportunities for investors and technology suppliers from Poland to find potential partners in countries with economies in transition. Its tasks also include supporting the development of Polish small and medium-size enterprises entering the markets of countries in Central and East Europe and Mid-Asia.

The main tasks of the Office are:

- the promotion of industrial investments and technologies in developing countries, in Poland and in other transition economies,
- the support of Polish industry through managers' training. In its operations, the UNIDO Warsaw Office implements the methodology, practices, and promotional tools developed by the UNIDO Secretariat. The most important are the Country Presentation Meetings, which provide information on the economies and legal frameworks for foreign investment in the developing and reforming countries. Further, individual industrial investment projects are promoted in Poland and in developing countries. ITPO supports the development processes of Polish industry through various management training courses, (teaching the evaluation of the profitability of export products, modern techniques for preparing an offer, marketing and negotiations related to, for example, technology transfer). The promotion of COMFAR, a software developed by UNIDO to enable the appraisal of industrial investment projects, business performance, financial analysis, and the diagnosis of enterprises,

is another example of training-related activities.

Moreover, ITPO services encompass the gathering and promotion of information via UNIDO Exchange on:

- Polish export offers,
- Polish technologies,
- Polish companies interested in investment and/or technical cooperation with foreign partners.

2.5. Foreign Trade Results

The liberalisation of the economy and fast economic growth have led to an ever growing internal demand for products and services. In order to maintain its trade balance Poland is faced with a challenge to ensure a greater market share for Polish goods and services on foreign markets. The following table illustrates the structure of Polish exports and imports in the last eight years, reflecting the very dynamic developments that have taken place in Poland's foreign trade. In the period presented, exports have more than doubled and imports have almost doubled, a great achievement, no doubt, although still somewhat inadequate in comparison to "old" EU member states' per capita exports and imports. Exports have been an important driving force accelerating the pace of economic growth in recent years. In 2003, exports experienced spectacular growth, increasing by 30.6 % (in USD terms), to USD 53.6 billion, with imports growing more slowly, though still very substantially, by 23.4 %, to over USD 68.0 billion, according to the Central Statistical Office (GUS). Despite the higher growth rate of exports - due to a very large increase in total foreign trade operations - the trade deficit increased and reached USD 14.4 billion, as compared to USD 14.1 billion in 2002. However, it must be noted that such spectacular foreign trade results in USD terms were due, to some extent, to a comparative weakness of the USD against the Polish currency in 2003. Nonetheless, export growth in PLN terms was still very impressive at 24.9 % (with imports growing by 17.9 %). Still, the official figures do not include cross border trade with neighbouring countries. It is estimated that this trade reaches several USD billion a year. When this "invisible" trade is included, the overall trade deficit is much less pronounced. Therefore, according to the National Bank of Poland, which bases its calculations on actual payments, the trade deficit amounted to USD 9.7 billion in 2003, as reflected in the balance of payments.

Developed countries dominate both Polish exports and imports and their share of Poland's foreign trade amounts to 74.8 % and 69.3 % respectively. Poland's main trading partner is Germany, which alone accounts for just under one quarter of Polish imports and almost a third of exports. The EU as a whole has a 68.8 % share in Poland's exports and 61.1 % in its imports.

The share of Central and Eastern European countries in Poland's foreign trade amounts to 19.6 % of exports and 17.7 % of imports and that of developing countries to 5.6 % of exports and 13.0 % of imports. Russia remains the major trading partner in the East, though its share of Poland's foreign trade decreased in comparison to 2002 and amounted to just 2.8 % of Poland's exports and to 7.7 % of imports. In 2003, despite the lower trade with Russia, the share of Polish exports to and imports from Central and Eastern European countries increased. The expansion of Polish exports in the period of transformations was accompanied by the modernisation of its commodity structure. This resulted in the growing importance of highly processed products (especially from the engineering and automotive sectors), which further increased its share to 47 % in 2003 (almost doubled in comparison to 1992). On the other hand, the importance of raw materials and semifinished products (mineral products, metallurgical products) substantially decreased, to just 16 % in 2003 (33 % in 1992). Restructuring of the economy, powered by the inflow of foreign direct investments was the leading factor behind this change. In 2003, engineering products dominate both exports (39.3 %) and imports (40.1 %). In exports this is followed by metallurgical products (11.3 %), chemical products (10.5 %), and agricultural products and foodstuffs (8.4 %). In imports, chemical products have an 18.2 % share, with mineral products and metallurgical products responsible for 10.0 % and 9.6 % of imports, respectively. Even though the overall foreign trade balance is negative, there are several commodity groups generating substantial surpluses. In 2003, the most notable of them included:

- engines, with exports of USD 2.10 billion and imports of USD 0.19 billion,consequently generating a USD 1.91 billion surplus;
- furniture (chairs, seats and couches), with exports reaching USD 2.14 billion and imports of USD 0.36 billion, generating a USD 1.78 billion surplus;
- other furniture, excluding the above types and medical furniture, with exports of USD 1.55 billion and imports of USD 0.24 billion, generating a USD 1.31 billion surplus;
- TV sets, monitors and video projection devices with exports of USD 1.11 billion and imports of USD 0.25 billion, generating a USD 0.86 billion surplus.

Other important examples of highly processed export items include passenger cars and other passenger motor vehicles, trucks, etc. As far as imports are concerned, it is important to note that the trade deficit mainly results from the import of raw materials necessary for the economy, and of investment goods and articles bought for co-operation and supply purposes, which are indispensable for industrial restructuring and development. In 2003, the import of raw materials and components accounted for 60.5 % of total imports, while the import of investment goods reached 18.8 %. Consequently, petroleum oils lead imports with the most important import products being natural gas, cars, parts and accessories for motor vehicles, computers, engines, and electronic integrated circuits. The private sector plays an increasingly important role in foreign trade. In 2003, the private sector accounted for 89.5 % of exports (compared with 42 % in 1993) and for 93.0 % of imports (compared with 60 % in 1993). The impressive expansion of foreign trade in the past decade was no doubt greatly facilitated by Poland’s political and economic integration with the world and especially with the European Union. Nonetheless, last year’s very positive developments, as well as the overall picture, should be viewed in a wider, international context. In terms of value, current Polish exports are similar to those of some much smaller countries of the region. Exports’ share in Polish GDP amounts to 29 %, while in the Czech Republic and Hungary it is two to three times higher. In 2003 exports per capita reached 1,400 USD, between half and one-third of the Czech, Slovakian, or Hungarian level, while in a majority of OECD countries this ratio is over ten times higher. The current account balance of payments has been negative for several years, as indicated in the following table. It is worth noting though, that a favourable trend consisting in diminishing the current account deficit from one year to another has been visible since 2000.

This deficit is balanced, however, by a strong position on the capital and financial account. Consequently, foreign exchange reserves have been rising continuously. In 1993, Polish official reserve assets amounted to USD 4.3 billion. Since then they have been rising steadily, to stabilise in the late 90's at a level of USD 27 - 29 billion. By the end of 2003, official reserve assets amounted to USD 34.0 billion (increasing by 14 % during the year), corresponding to almost 8 months of Poland's import payments.

2.6. Privatisation

The current framework for privatisation in Poland is contained in the Law on the Commercialisation and Privatisation of State Enterprises, passed on 30 August 1996. This legislation came into force in April 1997. The law governs two basic privatization methods: indirect privatisation, also known as capital privatisation, and direct privatisation, sometimes referred to as privatisation through liquidation. The legislation also permits the commercialisation and privatisation of state enterprises under the Law on State Enterprises of 25 September 1981 at the instigation of various authorities. These are the minister responsible for the relevant sector (e.g. the Minister of the Economy and Labour), the *wojewoda* (the governor of a province) or the mayor of a commune. The Mass Privatisation Programme, which aimed at spreading the benefits of ownership changes across the whole nation is based on the Law on National Investment Funds and their Privatisation of 30 April 1993. The Programme was launched in 1995. Other legal regulations pertaining to this matter include the Law on the Financial Restructuring of Banks and Enterprises of 3 February 1993 and the Law on the Formation of Agricultural System of 11 April, 2003. There are two entities responsible for the privatisation of the Polish economy:

- The Ministry of the Treasury,
- The Agricultural Property Agency.

Ministry of the Treasury

The Ministry of the Treasury was created on 1 October 1996 as the successor to the Ministry of Privatisation, which had operated for a period of 5 years - from 1 October
1991. The main functions and responsibilities of the Ministry of the Treasury include:

- the initiation of legislation,
- the keeping a record of State Treasury property,
- the exercise of ownership rights resulting from shares and stakes belonging to the State Treasury,
- the standardisation of the rules governing the legal representation of the State Treasury,

- the maintenance of funding supervision (over about 200 enterprises),
- the registration of State Treasury representatives,
- the legal representation of the State Treasury,
- the realisation of the ownership transformation policy,
- the supervision over:
  - The Agricultural Property Agency,
  - The Military Property Agency,
  - The Military Housing Agency.

The Agricultural Property Agency

The Agricultural Property Agency of the State Treasury (APA) was established under the Law on the Management of Agricultural Real Estate of the State Treasury dated 19 October 1991. APA was a trust organisation, authorised by the State Treasury to exercise ownership rights regarding state property in agriculture and obliged to take over all the property of liquidated state-owned farms, other agricultural real estate of the State Treasury, as well as realty from the National Land Fund. Furthermore, by virtue of the provisions of the Farmers' Social Insurance Law of 20 November 1990 the Agency had been obliged to acquire agricultural real estate for the State Treasury stock at the request of farm owners having the right to social security pension, or disability pensions. On July 16, 2003 the Law on the Formation of Agricultural System of 11 April, 2003 came into force, transforming the Agricultural Property Agency of the State Treasury into Agricultural Property Agency (APA). Other significant provisions of the Law stipulate, as follows:

- APA has pre-emption or priority rights for buying agricultural real estate on the land market,
- A family farm must be managed by an individual farmer and its total area can not exceed 300 ha,
- The individual farmer is defined as an owner or lessee of the family farm, managing farm personally, having appropriate qualifications or agricultural experience, living in the area of commune where at least one real property consisting his/her farm is located.

Basically, the new APA took over the Agricultural Property Agency of the State Treasury's tasks and its strategic objective to privatise the state's agricultural property. The property entrusted to the Agency forms Agricultural Property Stock of the State Treasury (APS). Almost 80 % of APS land comes from liquidated state farms. APA can sell the property to one purchaser if total area of agricultural land being in his/her ownership does not exceed 500 ha. Moreover, a separate authorisation from the APA president is required for the conclusion of sale contract concerning real estate larger than 50 ha, as well as real estate with value exceeding the equivalent of 2000 tons of rye, defined pursuant to provisions on agricultural tax. In accordance with existing regulations the APA may sell or lease agricultural property to foreigners who have obtained the required permit.

2.7. Capital Markets

The first Stock Exchange in Warsaw was opened on 12 May 1817. In the nineteenth century, it was mostly bonds and other debt instruments that were traded on the Warsaw bourse. Before the Second World War, there were seven Stock Exchanges operating in Poland, with Warsaw accounting for more than 90 % of the total trading. In 1989, along with the political changes, the new non-communist government began creating a capital market structure. The new legal framework, the Act on Public Trading in Securities and Trust Funds was adopted in March 1991, and the State Treasury established the Warsaw Stock Exchange joint-stock company in April 1991. At the same time, the Polish Securities Commission, with its chairman appointed by the prime minister, was created. Both the structure and the legal regulations of the Polish capital market were modeled on the most modern and efficient systems used elsewhere in the world that were relevant to Poland's situation. Following a thorough review of several contemporary markets, a system based on French experience was adopted and implemented. The Warsaw Stock Exchange (WSE), the only securities exchange in Poland, is a selfregulatory organisation. Pursuant to the Act on Public Trading, the Polish Securities Commission must approve the Rules and Statutes of the WSE. The Warsaw Stock Exchange is a non-profit joint-stock company. Its share capital stands at PLN 42 million, divided into 60,000 registered shares. The shares of the WSE may be purchased by banks, brokerage houses, the State Treasury, trust fund companies, insurance companies, and the issuers of securities approved for public trading and listed on the WSE. The structure of the Warsaw Stock Exchange is as follows: The General Meeting is the WSE's highest decision-making body. Its role is to put changes to the Statutes and Rules into effect and to elect members of the Supervisory Board. It consists of all WSE shareholders. The Supervisory Board controls the operation of the exchange, admits securities for trading, and grants and recalls stock exchange membership. It consists of 12 members appointed by the General Meeting, representing the shareholders. The Management Board co-ordinates the day-to-day operations of the WSE and introduces securities to exchange trading. The Management Board consists of five members. The President, elected by the General Meeting for a three-year term, directs Management Board activities. The high standard of the regulations and operations of the Warsaw Stock Exchange has been recognised by the international community. In October 1994, the Warsaw Stock Exchange was admitted as a full member to the International Federation of Stock Exchanges (FIBV). The Securities Act of 21 August 1997, effective from 4 January 1998, facilitated further development of Polish capital markets. Among the changes were further reconciliation of the act with the regulations of the OECD and the European Union, the introduction of securities lending and borrowing mechanisms, and the definition of the rules of underwriting. On 21 February 1998, the Act on Investment Funds was adopted, making the creation of new kinds of investment vehicles possible. The pension reform resulted in the establishment of pension funds, thus increasing the institutional investors' base. One great achievement of the WSE was to attract millions of Poles, as well as a large number of foreign investors. This was possible in part due to a longlasting bull market on the bourse, but most of all it was due to the fast economic growth, political stability, and to the market's efficiency and transparency and to the clear and comprehensive rules which govern it.

Presently, the legislative framework for Stock Exchange operations is formed by the following:

- The Securities Act of 21 August 1997,
- The Code of Commercial Companies of 15 September 2000,
- The Warsaw Stock Exchange Statutes,
- The Rules and Regulations of the Warsaw Stock Exchange,
- The Rules and Regulations of the Stock Exchange Court.

There are just under 1 million investment accounts. In 2003, as a result of the predominantly bull market, the annual turnover of the Polish bourse increased substantially, reaching some PLN 216 billion, up from PLN 150 billion in 2002. This translates roughly into USD 220 million a session, in comparison to approximately USD 150 million a session in the previous year. In 2003, stocks dominated trade on the Warsaw bourse cash market, accounting for approximately 85.3 % of total session trading. The remaining part was similarly dominated by bonds, accounting for a further 10.1 % with the share of other instruments (warrants, subscription rights, investment certificates and allotment certificates) being rather insignificant. The bull market resulted in a considerable increase in the cash market trade (39 %) and an even greater increase in the futures market trade (50 %), where the total turnover amounted to PLN 116 billion, once again exceeding the cash market figure. The basic statistics of WSE turnover during the last year are presented in the following two tables, which contain information on the cash and futures markets' performance. The impressive dynamics of the WSE's development are best reflected in the growing number of companies listed and in the booming capitalisation, which more than doubled over the past five years, to reach over PLN 167 billion (approximately USD 43 billion) at the end of 2003.

2.8. Taxation System

All taxes in Poland are approved by Parliament. The Polish taxation system has in recent years been undergoing substantial changes aimed at creating a more transparent system and at conforming to taxation standards existing in the European Union. Although Polish tax legislation itself is relatively straightforward, its application in practice can be difficult. In particular, the law leaves some areas open to interpretation and it may happen that officials within the same tax district will come to two different conclusions as to the tax consequences of a particular set of circumstances. Moreover, some areas of tax legislation refer to concepts that either lack a legal definition or have a different meaning from that adopted in other legislation. Taxpayers should note that all taxes are payable monthly on account and that interest penalties of 13.5 % per annum apply to the late payment of tax. The main taxes in Poland are:

- **Corporate Income Tax (CIT),** ***regulated by the Act on Income Tax on Legal Persons of 15 February 1992***: With the exception of partnerships having no legal personality, all legal persons and organisational units having a legal personality are subject to corporate income tax. The base of taxation is profit taken as surplus of income over the cost of acquiring it. Starting from

2004, the rate of this tax equals 19 %. During the transformation process, Poland has been constantly reducing the state's involvement in the economy, as is clearly reflected in the reduction of the tax burden. The following graph illustrates reductions in the CIT rate in the period of 1997-2004.

Corporate income tax does not apply to:

- revenues earned on agricultural activity, with the exception of income from special branches of agricultural production,
- revenue earned on forestry activities within the limits of the Forestry Act,
- revenue earned on activities, which cannot constitute the subject of a legally effective contract.

Corporate taxpayers having their seat or the location of their board of directors, within the territory of the Republic of Poland are liable to tax on the whole of their income, irrespective of the place where it was earned. Taxpayers having neither a seat nor a board of directors within the territory of Poland are liable to tax only on income earned within the territory of the Republic of Poland. Losses can be carried forward for up to five years, though no more than 50 % of the loss can be written off in any year. There is no concept of the carry back of losses. The Act very precisely enumerates expenditures that are not treated as costs. Furthermore, the last major revision of the CIT Act of November 1999 incorporated depreciation and amortisation issues, previously regulated in a decree.

***Transfer pricing**:* Companies and individuals entering into transactions with related entities or individuals (both domestic and foreign), as well as with entities or individuals located in tax havens, have to possess full transfer pricing documentation. Such documentation has to be made available within 7 days of request by a tax inspector. Profits assessed under a transfer pricing investigation are subject to a penalty tax at 50 % plus interest (currently 13.5 % per annum). Related entities and persons are defined as these having 5 % or more direct or indirect ownership. Transfer pricing definitions follow the OECD guidelines.

- **VAT (Tax on Goods and Services), *regulated by the Act on Value Added Tax of 11 March 2004***: The new act on VAT came into force on 1 May 2004, following Poland's accession to the EU. The basic rate amounts to 22 %. Apart from the basic rate there is a preferential rate of 7 % applicable to sales of certain agricultural goods, foodstuffs, books, newspapers, some goods for children, goods connected with health protection, etc. A complete list forms Annex 3 to the act. There is also a zero rate applicable to exports. However, services ordered from abroad but performed in Poland are subject to 22 % VAT. Only services performed abroad are treated as exports and thus are subject to 0 % rate. Moreover, some services are VATexempt. Examples include education and health services, as well as postal services. A complete list is found in Annex 4 to the act. Intra-Community transactions are zero rated, provided that the required EU VAT number has been allocated to the recipient of the goods or services. The VAT rate on unprocessed products is 3 %. Normally, the principle of VAT liability on sales of agricultural products is that a farmer who is a non-VAT payer (who is subject to lump-sum payments), selling his products, beside the sales price will receive a lumpsum VAT refund from the buyer of these products. This refund will amount to 3 % of the sum due for the sold products less the lump-sum tax return. Companies and individuals must register for and charge VAT if their annual turnover exceeds EUR 10,000. VAT is chargeable on supplies of goods and services unless they are specifically relieved by way of exemption or zero rating. Just like in most European countries, VAT is refundable to foreign tourists leaving Poland and exporting products from Poland. Foreign tourists are eligible for VAT reimbursement for purchases exceeding PLN 200 (incl. VAT) only if the customs authorities confirm that the goods have left the Polish territory intact and no later than on the last day of the third month following the month the goods were purchased in. VAT legislation causes the most problems to taxpayers, particularly where goods and services are involved that are not adequately classified in the official register. **Excise Duty, *regulated by the Act on Excise Duty of 23 January 2004***: In addition to VAT some commodities are subject to excise duty. This applies to over 60 commodity groups, encompassing goods such as passenger cars, fire-arms used for hunting, fuels and lubricants, alcoholic beverages, tobacco products, furriery, perfumes, etc. All excise goods are listed in Annex 1 to the act. The excise tax rate depends on the kind of goods, as well as on whether the goods to which it is applied are produced locally, or imported. It is always higher in the case of imports.

– **Tax on Dividends, *regulated by the Act on Income Tax on Legal Persons of 15 February 1992***: This tax applies to legal and natural persons, who are shareholders in companies. Income of holding companies coming from other Polish registered companies of the holding are exempted from this tax. The tax rate is equal to 19 % unless agreements on avoiding double taxation state otherwise. In order for a Polish payer to withhold tax at the reduced rates set by the relevant agreement for the avoidance of double taxation, the recipient will have to provide the payer with a certificate of tax residence issued by the tax authorities of the recipient. The certificate confirms that the taxpayer's headquarters, for tax purposes, are located in the country where the dividend is paid.
– **Personal Income Tax (PIT), *regulated by the Act on Income Tax on Natural Persons of 26 July 1991 and the Act on Lump-sum Income Tax on Some Income Derived by Natural Persons of 20 November 1998***: The tax is assessed on the income of natural persons, independently of the source of origin. The income tax scale is progressive. In 2004, the following tax scale has been applied.**Tax Base (PLN) Income Tax (PLN)** up to 37,024 19 % less 530.08 from 37,024 to 74,048 6,504.48 + 30 % of income exceeding 37,024 from 74,048 17,611.68 + 40 % of income exceeding 74,048 – amounts are changing.
– **Inheritance and Gifts Tax, *regulated by the Act on Inheritance and Gifts Tax of 28 July 1983***: The base of taxation is the market value of goods and property rights acquired through inheritance, donation and prescription. The rate is progressive and its level depends on the relation between the donor and the recipient.

- **Tax on Civil and Legal Proceedings, *regulated by the Act on Tax on Civil and Legal Proceedings of 9 September 2000***: A taxpayer who must pay this tax, is obliged, without being called to do so by tax authorities, to submit the appropriate declaration, calculate and pay the tax to the tax office, or transfer it to its bank account, within 14 days from the date of the commencement of tax obligation.
- **Stamp Duty. *regulated by the Act on Stamp Duty of 9 September 2000***: A taxpayer who must pay this stamp duty, is obliged, without being called to do so by tax authorities, to submit the relevant declaration, calculate and pay the stamp duty to the tax office or transfer it to its bank account, within 14 days from the date of the commencement of tax obligation.
- **Local Taxes, *regulated by the Act on Local Taxes and Charges of 12 January 1991***: Local authorities are empowered to set the level of rates and the scope of relief in local taxes. Their rates, however, cannot exceed the maximum levels determined by the government. Local taxes and fees include: real estate tax, vehicle tax, dog tax, and fair tax.
- **Real Estate Tax, *regulated by the Act on Local Taxes and Charges of 12 January 1991***: All real estate is subject to real estate tax within the limits defined in the official announcement of the Minister of Finance published every year in *Monitor Polski*. As specified, annual tax rates are determined by resolutions of the local communal level government (*gmina*) and may be different in each administrative area. The 2004, maximum real estate tax rates for selected types of real property are set out in the following table:

  Type of Real Estate Annual Tax Rate per Square Meter
  - Residential buildings - 0.52 PLN
  - Commercial buildings - 17.42 PLN
  - Other buildings - 5.82 PLN
  - Commercial land - 0.63 PLN
  - Other land - 0.31 PLN

There are Ministry of Finance plans to replace this tax, which is related to the size of property, with a cadaster tax, which will be related to the property's value. Some preparations are already underway, however due to the complexity of valuation-related issues, introduction of cadaster tax is foreseen no earlier than in 2010.

Tax Allowances for Companies Utilising Waste Materials

Pursuant to the Act on Corporate Income Tax, a part of income derived from operations in which waste materials produced in Poland are used is tax-free. This part is defined as the ratio of the value of waste materials used to the total value of raw materials and waste materials used in the manufacturing process. A list of waste materials that are eligible for such an allowance, as well as the specific rules for determining their value, are in the Minister of Finance's Decree of 7 January 1998, as amended. The list contains several items, including lubricating oils, batteries, used tires, paper and cardboard used as recycling materials, waste glass packaging, etc.

Capital Allowances

As of 1 January 2000, depreciation and amortisation rates as well as their application are governed by the Act on Corporate Income Tax of 15 February 1992 (with later amendments). Taxpayers are free to treat as costs any expenditure up to PLN 3,500. Current depreciation and amortisation rates are specified in Annex 1 to the Act on Corporate Income Tax. For certain categories of real estate and plant and machinery the reducingbalance method of depreciation may be applied, in such a way that depreciation can be charged at a higher rate. These rates are calculated by multiplying the normal rate by a certain factor. The factors provided by the Act vary between 1.2 and 2.0. On the other hand, it is also possible to reduce the listed depreciation and amortization rates, although a reduction may not exceed 50 %. There are eight groups of depreciation and amortisation rates. The major depreciation rates applied in 2004 are as follows:

- Buildings 2.5 %
- Constructions 4.5 %
- Machinery and equipment (general) 10 %
- Other machinery and equipment 7 % - 25 %
- Cars 20 %
- Computer systems 30 %

Double Taxation Treaties

Poland follows the model of the OECD convention in negotiating its tax treaties. As of June 2004, Poland has signed agreements on avoiding double taxation with 80 countries. These treaties are based on a reciprocity principle; they may actually reduce or eliminate various taxes.

2.9. Poland In The European Union

Integration Process Overview

Since the political and economic transformations started in 1989, the single most important objective of Polish policy has been political and economic integration with the European Union, meaning both joining the Common Market and NATO. On 12 March 1999, the Polish Minister of Foreign Affairs, Bronisław Geremek, submitted the ratification treaty to the North Atlantic Treaty's Depository Office and Poland became a NATO member. Integration with the EU was completed five years later. **On 1 May 2004 Poland, along with nine other countries, joined the European Union.** For Poland, the EU membership means, most of all, an opportunity to accelerate the country's economic and social development. The most important benefits include:

- better access for Polish goods and services to the EU market, not only through the abolition of tariff barriers, but also due to the removal of the requirement for additional testing and product certification,
- increasing the investment attractiveness of Poland,
- improving Poland's ratings on international financial markets,
- the import of modern technologies, thus improving quality and cost-effectiveness,

- more possibilities for business co-operation and contacts with EU partners.

Temporary Provisions

- Annex XII to the Act of Accession contains temporary provisions and transitional measures regarding Poland. Among these, it is worth noting the following:
- ***Freedom to provide services:***
  - With reference to the investor compensation scheme, Poland has been granted transitional arrangements until the end of 2007 to reach the minimum level of compensation. In this period the Polish investor-compensation scheme will provide for cover of not less than EUR 7,000 until 31 December 2004, of not less than EUR 11,000 from 1 January 2005 until 31 December 2005, of not less than EUR 15,000 from 1 January 2006 until 31 December 2006 and of not less than EUR 19,000 from 1 January 2007 until 31 December 2007.
  - With reference to the initial capital requirement concerning co-operative credit institutions, the EU regulations will not apply until 31 December 2007 to co-operative credit institutions already established in Poland at the date of accession. However, the initial capital requirement for these co-operative credit institutions in Poland are to be not less than EUR 300,000 until 31 December 2005, and not less than EUR 500,000 from 1 January 2006 until 31 December 2007.
- ***Free movement of capital:***
  - Poland is granted a five-year transitional arrangement during which it can maintain the national legislation regarding the acquisition of secondary residences. However, nationals of the Member States and nationals of the States which are a party to the European Economic Area Agreement and who have been legally resident in Poland for four years on a continuous basis are not included in the above arrangement and can not be subjected to any procedures other than those to which nationals of Poland are subject.
  - Moreover, there is a twelve-year transitional arrangement during which Poland can maintain its national legislation regarding the purchase of agricultural land and forests. Nationals of the Member States, who are self-employed farmers in Poland are excluded from the transitional period regulations, in accordance with specific provisions.
- ***Competition Policy:***
  - Transitional arrangements are agreed with Poland with regard to state aid for environmental protection, along the following lines: For investments that relate to standards for which a transitional arrangement has been granted under the Environment Chapter and for the duration of that transitional arrangement, the aid intensity is limited to the regional aid ceiling with a 15 % supplement for SMEs. For existing IPPC installations covered by a transitional arrangement under the Environment Chapter, an aid level of 30 % is agreed upon until the end of 2010. For IPPC-related investment not covered by a transitional

arrangement under the Environment Chapter, an aid level of 30 % is agreed upon until 31 October 2007. For large combustion plants, an aid level of 50 % was agreed upon for investments that relate to a transitional arrangement granted under the Environment Chapter.

- Poland may apply corporate tax exemptions granted before 1 January 2001 on the basis of the Law on Special Economic Zones of 1994, under the following conditions: a. for small enterprises, as defined in accordance with the Community definition of such enterprises and in conformity with Commission practice, up to and including 31 December 2011; b. for medium-size enterprises, as defined in accordance with the Community definition of such enterprises and in conformity with Commission practice, up to and including 31 December 2010. In the event of a merger, acquisition or any similar event which involves the beneficiary of a tax exemption granted under the aforementioned legislation, the exemption from corporate tax shall be discontinued. Moreover, a transitional arrangement is agreed upon whereby the restructuring of the steel industry is to be completed by 31 December 2006.

- ***Agriculture:***
  - Poland is granted a three-year transitional period from the date of accession during which the minimum requirements for the preliminary recognition of producer organisations shall be set at five producers and at EUR 100,000. The duration of the preliminary recognition may not exceed a period of five years starting from the date of acceptance by the competent national authority. The requirements relating to fat content shall not apply to drinking milk produced in Poland for a period of five years from the date of accession. Drinking milk which does not comply with the requirements relating to fat content may be marketed only in Poland, or exported to a third country.
- ***Transportation:***
  - By way of derogation from Article 1 of Regulation (EEC) No 3118/93 and until the end of the third year following the date of accession, carriers established in Poland are excluded from the operation of national road haulage services in the other Member States, and carriers established in the other Member States are excluded from the operation of national road haulage services in Poland. Before the end of the third year following the date of accession, Member States will notify the Commission whether they will prolong this period for a maximum of two years, or whether they will fully apply Article 1 of the Regulation henceforth. In the absence of such notification, Article 1 of the Regulation shall apply. Only carriers established in those Member States in which Article 1 of the Regulation applies may perform national road haulage services in those other Member States in which Article 1 also applies. As long as Article 1 of the Regulation is not applied, Member States may regulate access to their national road haulage services by progressively exchanging cabotage authorisations on the basis of bilateral agreements. This may include the possibility of full liberalisation.

- ***Taxation:***
  - Poland is allowed to maintain the reduced VAT rate on restaurant services and construction until the end 2007. Poland is also allowed to maintain the VAT zero rate on books, and a super-reduced VAT rate on foodstuffs and agricultural inputs, excluding machinery, until 31 December 2007, and until 30 April 2008, respectively. All countries joining can maintain a higher turnover threshold than the level provided for in the acquis to exempt SMEs from VAT, and can exempt international passenger transport from VAT. Furthermore, Poland is granted a one-year transitional arrangement, during which it can maintain its existing reduced excise duty rate on certain ecological fuels.
- ***Environment:***
  - Poland is granted a transitional period till 31 December 2007 for attaining the EU recovery and recycling targets for the following packaging materials, with the following intermediate targets:
    a) recycling of plastics: 10 % by weight by the date of accession, 14 % for 2004 and a minimum of 15 % for 2005;
    b) recycling of metals: 11 % by weight by the date of accession, 14 % for 2004 and a minimum of 15 % for 2005;
    c) overall recovery rate: 32 % by weight by the date of accession, 32 % for 2004, 37 % for 2005 and 43 % for 2006.

2.10. Forms of Real Estate Ownership

The Polish legal system differentiates between three groups of rights pertaining to holding of real estate: "real rights", "limited real rights", and "contractual rights". The grounds for this differentiation is the scope of rights and obligations to which entities holding and using real estate are entitled. There are two forms of property ownership in Poland similar to those existing in other countries:

- Ownership - equivalent to "freehold", absolute right "*in rem*",
- Perpetual usufruct (minimum 40 years - maximum 99 years, renewable) – a type of "*in rem*" right, which corresponds to "leasehold". The holder of this type of right is charged with perpetual-usufruct fees, paid to an owner (the commune or the State Treasury) on an annual basis. Buildings and structures constructed on the land in perpetual usufruct become the property of the perpetual usufruct holder.

Both forms of property ownership can be used as loan guarantees (mortgage) under Polish law. Ownership of real estate is freely transferable, although the transfer must be executed in the form of a notarial deed. The deed must be entered in the Land and Mortgage Register. The Polish Civil Code provides for a number of limited rights "*in rem*", for instance: usufruct rights over the property of another, mortgages, ownership rights to cooperative flats, co-operative commercial premises, and co-operative single family houses. Contractual property rights (leases) include:

- "*Najem*" - The landlord grants the tenant the use of premises for a fixed period of time (not longer than 10 years) or for an unspecified period, in exchange for rent,

– "*Dzierżawa*" - The landlord agrees to grant the tenant the use of the land and the right to collect the profits (raw resources are excluded) of property for a fixed period (not longer than 30 years) or for an unspecified period, in exchange for rent.

3. Operating in Poland and Foreign Investment

3.1. Business Law

Forms of Business Entities

Polish regulations allow the following legal forms of businesses:

– enterprises run by a natural person; these are subject to registration according to the type and scope of activity,
– civil partnerships established under the regulations of the Polish Civil Code,
– commercial companies, established by natural or legal persons under the regulations of the Polish Code of Commercial Companies,
– co-operatives established by natural or legal persons,
– state-owned enterprises.

The Code of Commercial Companies of 15 September 2000 regulates two groups of companies:

– partnerships (registered partnership, limited partnership, professional partnership and limited joint-stock partnership),
– corporations (joint-stock company and limited liability company). Societies, foundations, and trade unions may also carry out economic activity.

Establishing a Company

On the basis of the Law on Commercial Activity of 19 November 1999, foreign companies and foreign residents may conduct their business operations in Poland in all legal forms, subject to reciprocity. However, the condition of reciprocity does not apply to limited partnerships, limited liability companies and joint-stock companies.

Joint-Stock Companies and Limited Liability Companies

Before the registration procedure for a company may be started, the company charter (joint stock company) or the articles of association (limited liability company) must be prepared and duly signed and notarised. Prior to their finalisation in consultation with a notary, a draft should be prepared by the legal advisers of the company's founders.

In the case of a joint stock company, the notarial deed should contain the following:

– business name and company seat,
– type of activity,
– duration of the company, if limited,
– amount of share capital, capital paid-in before registration, the nominal

value of the shares and their number, the indication whether they are registered shares or bearer shares,
- number of shares and rights associated with specific share types, if applicable,
- names and addresses of the founders,
- number of members of the governing and supervisory bodies, or at least a minimum or a maximum number and an entity authorised to appoint the members,
- at least an approximation of costs resulting from the company's formation,
- a newspaper / periodical for publishing announcements, if the company intends to publish announcements in other than the Court and Economic Monitor (*Monitor Sądowy i Gospodarczy*).

Apart from the above, the charter should include provisions concerning the number and type of instruments that entitle the holder to participate in the profits or in the division of company assets, along with the rights associated with these instruments, any additional obligations related to the purchase of the shares, the conditions and manner in which the shares may be re-deemed, any limitations concerning shares' transfer or sale and any extra rights granted to specific shareholders. In the case of a limited liability company, the notarial deed should contain the following:

- business name and company seat,
- type of activity,
- duration of the company, if limited,
- amount of share capital,
- whether a shareholder is entitled to one or more shares,
- number and value of shares held by individual shareholders.

Apart from the above, the deed should include provisions concerning in-kind contributions and stipulations concerning additional shareholder benefits and/or obligations, if applicable. Other documents required at the notary office are:

- a list of names of shareholders and the value and number of shares held by the founders,
- a draft of the appointment of the Board of Management,
- a draft of the appointment of the Supervisory Board (obligatory for joint-stock companies) and Control Committee, if provided by law or the articles of association.

If the shareholder is a legal person, he is required to submit:

- a copy of the company's entry in the commercial register (valid for three months!),
- a resolution of the appropriate body of the company agreeing to the company's participation in the new company to be formed,
- notarised proxies, if the persons authorised to sign on behalf of the shareholder are not appearing in person and are to be represented by a proxy.

It should be noted that documents in a foreign language should be confirmed by the local Polish embassy or consulate as having been prepared in accordance with local law and must be accompanied by a certified translation. The next step is to register the company in the National Court Register. This is performed by the Registry Court, which acts after receiving an application for registration submitted by the Board of Management and containing information on:

- the company's name, seat, and scope of business,
- the value of the initial capital (and the number shares and their nominal value for joint stock companies),
- the names of Board of Management members and how the company is represented (and members' addresses for limited liability companies),
- the names of Supervisory Board members (obligatory for joint-stock companies) and Control Committee, if provided by law, or the articles of association,
- the duration of the company, if limited,
- a newspaper / periodical for publishing announcements, if indicated in the charter / articles of association,
- a statement on in-kind contributions made by the partners,
- whether a shareholder is entitled to one or more shares (limited liability companies),
- number of privileged shares and type of privileges (joint stock companies),
- final share capital amount, if provided by the charter (joint stock companies),
- amount of capital paid-in before registration (joint stock companies),
- any extra rights granted to specific shareholders, if provided by the charter.

Other documents required upon registration include:

- The company charter or articles of association;
- Documents appointing the company's governing bodies, with a specification of appointed members. In the case of a limited liability company only when these were not defined in the articles;
- A statement from all members of the Board of Management that the contributions towards initial capital have been made by all shareholders in full (limited liability companies), or that the share payments and contributions in kind envisaged by the charter have been effected lawfully (joint-stock companies);
- A list, signed by all members of the Board of Management, giving the names of the shareholders (individuals and companies) and the number and nominal value of shares held;
- Specimens of the signatures of the Board of Management members, certified by a notary or made in person in the presence of the Court.

There are some further requirements concerning documents required upon registration of a joint-stock company, specified in the Code of Commercial Companies, article 320. There is a registration fee amounting to PLN 1,000.

The registration has to be officially announced, as required by the law, in the Court and Economic Monitor. The announcement fee is PLN 500. After its registration in the Court, each company must obtain its statistical number from the local statistical office. To receive it the company is required to submit an application containing:

- the name of the company,
- the scope of its activities,
- the time when full capacity will be reached,
- the planned number of employees.

The application should be accompanied by a copy of the articles or charter and a certified copy of the entry in the Commercial Register. Finally, the company must be registered with the Social Security Institution (ZUS) and the local tax office (after opening a bank account).

Limited Partnership

Limited partnership is a partnership wherein at least one partner is fully liable against creditors (general partner) and the liability of at least one partner (limited partner) is limited. The partnership agreement must be notarised and it should contain:

- business name and company seat,
- type of activity,
- duration of the company, if limited,
- contributions made by each partner and their value,
- liability of each limited partner against creditors (value),
- if a limited partner contributes in kind, the contribution must be specified along with its value and the name of the contributing partner.

The next step is to register the company in the National Court Register. The same registration and announcement fees apply as in the case of other commercial companies. A limited partnership's registration application should contain:

- business name and company seat,
- type of activity,
- name(s) of general partners and, separately, names(s) of limited partners, as well as circumstances pertaining to limitations on partners' active capacity, if applicable,
- names of persons authorised to represent the company, and how the company is represented, and, should general partners entrust the running of the company to some of their number alone, this circumstance should be mentioned,
- amount up to which the limited partners are liable.

A limited partnership is established upon its registration. After this, just as for corporations, the company must obtain its statistical number, and register with the Social Security Institution (ZUS) and with the local tax office (after opening a bank account). Operations in some business areas require a license or a permit, regardless of whether the company is domestic or foreign. The licensed areas are defined in the Law on Commercial Activity of 19 November 1999, although it should be noted that there are other areas requiring a permit, as specified by other regulations.

Subsidiaries of Foreign Companies

Pursuant to the provisions contained in the Law on Economic Activity of 19 November 1999, foreign business entities may open branch offices and representative offices in Poland. None of these requires a permit however, a certificate of reciprocity issued by a relevant Polish consulate is required in order to register.

Branch Office

Foreign companies may establish branch offices in Poland, on the basis of reciprocity, in order to conduct business activity within the scope of their business objectives, exclusively. A foreign entity setting up its branch office is obliged to appoint a person at the branch who is authorised to represent this entity. A branch may commence its operations only after it has been registered with the National Court Register. Branch offices are to maintain separate accounting books in Polish, pursuant to Polish accounting regulations. Another requirement stipulates that branch offices are required to notify the Polish Minister of the Economy and Labour of:

- the commencement of liquidation of the foreign entity that has opened the branch in Poland,
- the loss by that foreign entity of the right to conduct business activity,
- the loss by that foreign entity of the right to dispose of its assets.

Moreover, branch offices are obliged to use the name of the mother company in the language of the country where it is registered, along with the name of its legal form translated into Polish and the words "*oddział w Polsce*" (branch in Poland) added.

Representative Office

Foreign companies may establish their own representative offices in Poland solely in order to promote and advertise the company establishing the office. Establishment of a representative office requires registration in the Register of Representative Offices of Foreign Business Entities kept by the Minister of the Economy and Labour. Registration is effected based on an application from the foreign company concerned. The application, in Polish, should contain the following:

- name, place of registration and legal form of the foreign company opening its representative office,
- equity, or other initial capital of the foreign company opening its representative office,
- scope of the business activity of the foreign company opening its representative office,
- name and address in Poland of a person in the representative office authorised to represent the foreign company.

The above-mentioned application should be accompanied by the documents listed below:

- deed of formation (articles of association, charter) of the foreign company,
- copy of its entry in the Commercial Register or its equivalent,
- statement of the foreign company on establishing its representative office in Poland,
- statement of the foreign company on the amount of share capital paid-in, if applicable.

The enclosures in a foreign language contained in this list should be accompanied by a certified translation into Polish. Representative offices are obliged to use the name of the mother company in the language of the country where it is registered, along with the name of its legal form translated into Polish and the words "*przedstawicielstwo w Polsce*" (representative office in Poland) added.
Just as branch offices, representative offices are required to maintain separate accounting books in Polish, pursuant to Polish accounting regulations, and to notify the Polish Minister of the Economy and Labour of:

- the commencement, or end of liquidation of the foreign entity that has opened the representative office in Poland,
- the loss by that foreign entity of the right to conduct business activity,
- the loss by that foreign entity of the right to dispose of its assets, as well as,
- any change pertaining to the information contained in the application for registering of the representative office and the amount of capital paid-in.

3.2. Accounting and Auditing

The accounting and auditing regulations are based on the Accounting Law of 29 September 1994, as amended. All businesses operating in Poland must adhere to Polish accounting regulations. The required accounting procedures are based on a double-entry system. Each company must establish its own book of accounts. Except for state organisations, no uniform book of accounts is imposed. Nevertheless, a book of accounts must still meet certain requirements, such as the ability to show the company's assets, the cost of production, and the profitability of the company. The accounting records, the annual balance sheet, and the profit and loss account must be maintained in Polish currency and prepared in Polish language. The requirements regarding the correctness and clarity of the accounting records and vouchers do not differ from those normally applied in other European countries. Accounting records, documentation, reports, etc., have to be kept for 5 years. The accounting law provides for the (optional) application of Polish Accounting Standards (which do not exist at present), and where there is no Polish standard, the appropriate International Accounting Standard (IAS) may be used. In practise, this means that many companies will not comply with IAS where the accounting law is silent on a particular issue. In light of commercial activity regulations, the entrepreneur is obliged to transact business via a bank account if:

- The amount of the transaction exceeds 3,000 EUR,
- The transaction exceeds 1,000 EUR, if the total turnover with the party exceeded the equivalent of 10,000 EUR in the previous month.

The law specifies information to be included in financial reports. There is also a provision allowing for simplified financial reports. Such reports can be used by companies meeting at least two of the following three criteria in the year to be reported:

- the average number of employees (in full-time terms) does not exceed 50,

– balance sheet assets do not exceed EUR 2 million,
– net income does not exceed EUR 4 million.

However, simplified reports are not allowed in the case of banks and insurance companies. The entrepreneur must notify the appropriate tax office of his intention to operate a bank account for business purposes. If he has more than one bank account opened, he is obliged to indicate one of them as basic and to inform both the bank and the relevant tax office what the principal bank account of his choice is. Holdings, joint stock companies, banks and insurers, pension funds, entities operating according to the Law on the Public Turnover of Securities and Investment Funds are required to have an annual audit. Other companies must be audited if two of the following three conditions are met in the preceding year:

– the number of employees exceeds 50,
– balance sheet assets exceed EUR 2.5 million,
– net income exceeds EUR 5 million.

The auditor's report must be submitted to the company's local tax office, as well as to the registration court. The report is available for public inspection. All auditors must be members of and are governed by the National Registered Auditors' Chamber and the list of auditors empowered to audit may be obtained there.

Public Procurement

The Polish public procurement system is governed by the Law on Public Procurement of 29 January 2004, as amended. It came into force on 2 March 2004, in order to harmonize the Polish law on public procurement with EU requirements. The law pecifies the rules and procedures for awarding public contracts, law enforcement measures, monitoring of the award of public contracts and the competent authorities with respect to matters addressed therein. Public procurement activities are supervised by the Public Procurement Office (Urząd Zamówień Publicznych - UZP). Generally, the law applies to all public contracts with a value exceeding EUR 6,000, including for example, those awarded by state and local governments, co-operatives, public health care centres and all other entities which use public funds to finance at least 50 % percent of a given project. Entities from some sectors, such as water management, power, transport and telecommunications are subject to the law if they operate on the basis of special or exclusive rights, or if they are subordinated to dominant entities from the public finance sector. However, it should be noted that defence related purchases are excluded from public tender requirements. Moreover, contracts related to the performance of an international obligation, labour and real estate transactions are also exempt from the regulation. Depending on the value and nature of the tender, one of six tender procedures envisaged in the law is to be applied. The six are:

– public tenders,
– limited tenders,
– two-stage tenders,
– competitive negotiations,
– price inquiries, and finally,
– open orders.

Generally, public contracts involving the sale of goods and/or services up to EUR 60,000 may be carried out using simplified tender procedures, and thus avoid the need to follow all public tender requirements. If a value of tender for the sale of goods and / or services exceeds EUR 130,000 (EUR 5,000,000 in the case of construction services), public tender announcements are published in the Official Journal of the European Union. However, a public agency administering the tender is allowed a certain degree of discretion to utilize the limited tender procedure as opposed to the formal public tender, regardless of the value of the contract. Specifying the subject of a contract by identifying trademarks, patents, or origin is not allowed. Still, if such a degree of specification necessarily arises out of the very nature of the contract, or the ordering party cannot describe the contract in any other manner, this ban can be avoided. A bidder is entitled to correct mistakes in his calculations, mistakes which under previous regulations disqualified many bidders. Moreover, regardless of the value of the tender, the unsuccessful bidder has the right to appeal. Even if just one bid is received, the tender may continue without the need to cancel it, or call for a new one. Polish entities no longer receive preferential treatment, as compared to their EU counterparts. On the other hand, non-EU based entities may find themselves at a competitive disadvantage. In specific cases, the law provides for an option of awarding public contracts by auction via the Internet, by submitting bids to the UZP's web site.

Bankruptcy and Insolvency

Bankruptcy and insolvency is governed by the Law on Corporate Insolvency and Recovery of 28 February 2003. It applies to all types of economic entities, including state enterprises, companies and individuals. The aim of the Law on Corporate Insolvency and Recovery is to create greater protection for creditors and also to encourage reorganisation schemes during the course of the insolvency process. The primary objective is to ensure that the entity can continue its economic activities, with the objective of maintaining employment and the integrity of the enterprise. Moreover, the law aims at the corporate recovery of the enterprise, creditor satisfaction, the prevention of further insolvency, debt rescheduling, and the encouragement of responsible business practices amongst entrepreneurs. The legislation applies to entrepreneurs, limited liability companies, joint-stock companies, partners in partnerships, and branches of foreign banks operating in Poland. Insolvency of any business may be declared when a business entity has ceased to pay its debts. However, if the situation is short-lived only, due to some temporary difficulties, it does not give grounds to declare bankruptcy. In the case of state-owned enterprises, co-operatives, joint stock companies, limited liability companies, other legal persons conducting economic activity, liquidated general partnerships, registered partnerships, professional partnerships, or limited joint-stock partnerships, bankruptcy is also declared if the assets of such subjects cannot satisfy existing debts. In all cases, the court always closely supervises proceedings. An insolvent debtor is obliged to lodge a formal application within 14 days of the occurrence of conditions of insolvency. Failure to comply can lead to civil law consequences, prohibition from conducting economic activity by the individual and prohibition from acting as a director or supervisory board member of any entity. In addition, persons acting dishonestly or impeding the process of insolvency can be prosecuted under criminal law. The legislation has a restrained scope of application to individuals, where its application is limited to personal insolvency caused by factors outside the control of the individual. This law does not apply to non-commercial entities. The insolvency process is divided into two phases. The first concerns the declaration and publication of insolvency and the process of establishing whether there are grounds for declaring insolvency. The second phase regards the execution of the insolvency process, ending in the complete or partial satisfaction of creditors, or in some compromise scheme. The choice of the method to satisfy creditors' claims is determined by the court. A creditor of the company may also file a motion for bankruptcy, as well as any of his creditors. Further, in the case of general partnerships, registered partnerships, professional partnerships, or limited joint-stock partnerships, any partner or shareholder is entitled to file a motion for bankruptcy, while in the case of legal persons and other organisational units this right is granted to any person representing such an entity. There are the following types of insolvency procedures:

- bankruptcy,
- arrangements within bankruptcy proceedings,
- voluntary agreements,
- banking arrangements.

The bankruptcy of a company results in the sale of all assets, the meeting of all commitments, and the collection of all debts. Where possible, companies with no financial liquidity should be sold as going concerns. The law aims to avoid the bankruptcy of economic entities that are facing short-term liquidity problems Under the legislation it is not possible to place the following into insolvency:

- The State Treasury,
- Local authorities and their entities,
- Public health service units,
- Institutions and legal entities set up by an act of Parliament, or those set up under delegated authority arising from legislation,
- Farmers,
- Education establishments.

Recovery of a business entity which, as a result of exceptional circumstances beyond its control, has ceased to pay its debts or foresees that its payments will cease, may demand the opening of proceedings for arrangements with creditors in order to make a voluntary arrangement.

3.3. State Aid for New Investments

It is important to note that financial investment incentives, fully compatible with the EU legislation besides the exceptions granted to Poland within the framework of transition periods (e.g. regulations concerning Special Economic Zones in the following subchapter) come from many sources and that there is no specific single act which regulates granting aid to investors. As of the date of Poland's accession to the European Union (1 May 2004) the grounds for allowing public aid in Poland are the same as in other EU countries. These grounds are laid out in art. 36, art. 73, art. 86-89 and art. 296 of the European Treaty. The local legal framework is formed by the Law on Public Aid Procedure of 30 April 2004 andthe Law on Financial Assistance for Investments, passed by the Parliament on 20 March 2002. This law was substantially changed by the aforementioned Law on Public Aid Procedure, due to Poland's EU membership requiring conformity with the EU public aid policy. The public aid is monitored by the president of the Office for Competition and Consumer Protection. Basically, investors in Poland can benefit from regional aid, sectoral aid for investments in sensitive sectors, excluded from the regulations of the Law on Financial Assistance for Investments, and horizontal aid. Horizontal aid schemes provide for further assistance, over the limits of regional aid, in case of specific projects, such as projects in R&D, or environmental protection. The Law on Financial Assistance for Investments does not apply to financial assistance for entrepreneurs operating in the following sectors:

- synthetic fibres;
- coal mining;
- iron and steel industry;
- shipbuilding;
- fishing;
- production and trade in agricultural products listed in Enclosure 1 to the European Treaty.

According to the above mentioned law, financial assistance for new investments may be granted to an entrepreneur in the following cases:

- the value of the new investment equals at least EUR 10 million;
- the value of the new investment equals at least EUR 500 thousand and the investment pertains to the development or modernisation of an existing company and is connected with maintaining at least 100 jobs for at least 5 years;
- the new investment results in the creation of at least 20 jobs for at least 5 years;
- the new investment introduces a technological innovation;
- the new investment has a favourable environmental impact;
- the new investment is located in an industrial, or technology park.

Financial assistance for a projected investment may be granted to an entrepreneur if, in addition to one of the above, the investment meets all of the following criteria:

- the entrepreneur's own financing equals at least 25 % of the investment outlay;
- economic activity resulting from the assisted investment will be carried out for at least five years from the investment's completion;
- if financial assistance is earmarked for creating new jobs, the newly created jobs are to be maintained for at least five years from the investment's completion;
- application for financial assistance of a new investment is submitted before the investment begins.

Financial assistance to entrepreneurs embarking on new investments can be granted in various forms and amounts, defined in art. 5 and 6 of the law. It is granted by the Minister of the Economy and Labour, upon reviewing the following general criteria:

- location of the new investment;
- value of the new investment;
- employment;
- impact of the new investment on the environment;
- impact of the new investment on the regional economic development;
- innovativeness of technology applied in the new investment to produce goods and /or provide services;
- the new investment's conformity with directions acknowledged as priorities.

The maximum amount of financial assistance granted to entrepreneurs basically depends on the sector, location of the investment and size of the company applying for assistance. The state assistance is limited to 50 % of eligible investment outlays, except in:

- Warsaw and Poznań (30 % limit),
- Gdańsk-Sopot-Gdynia, Kraków and Wrocław (40 %).

A higher ratio (+15 %) applies to small and medium-size enterprises (SMEs), bringing the public aid ceiling up to 65 % of the investment. On the other hand, the assistance limits for large investments (over EUR 50 million) are lower.

3.4. Special Economic Zones

The Law on Special Economic Zones of 20 October 1994 created the grounds for establishing and operating Special Economic Zones (SSE). It provided the investors operating in the zones with various incentives and tax breaks. The most important ones included a partial or a complete exemption from corporate income tax on revenue coming from business operations carried out in a given zone, and counting some part of investment expenses as an income-generating cost. The law specifies the aims of Special Economic Zones and how to establish them, the rules and conditions applying to investments within the zones, and the benefits for investors. All investors who started business operations in SSEs before the end of 2000 are subject to the provisions applicable till then. Those who started business operations in 2001 or later are subject to the provisions of the amended Law of 16 November 2000 and the Public Aid Law of 30 June 2000, the latter having been replaced by the Law on Public Aid Procedure of 30 April 2004. An investor, in order to take advantage of regional assistance has to obtain a permit for conducting business operations in a zone and must first meet its terms and conditions. The permit is granted by the zone's management through a tender or through negotiations undertaken on the basis of a public invitation. Such a permit specifies a field of activity, the size of the investment, and future employment. Permits are not granted and public assistance is not offered for some types of business activity. These include: manufacturing of explosives, production of tobacco products, bottling and processing of spirits and other alcoholic beverages, processing of engine fuels, running game centres, offering services connected with the installation, repair, or maintenance of machinery and equipment used to carry out business operations in the zone, certain types of construction services, services connected with retail and wholesale trade, repair of motor vehicles and household and personal-use articles, hotel and catering services, financial mediation services, services connected with real estate, renting, education and business operations, services in the area of public administration, national defence, obligatory social insurance, education, health care and social welfare, municipal services, and some licensed business activities. For a long time Special Economic Zones remained one of the toughest problems in Poland's accession negotiations with the European Union. The following compromise was negotiated:

- a transition period (i.e., respecting the acquired rights) for small enterprises, till the end of 2011, and for medium-size enterprises till the end of 2010;
- for big enterprises that had obtained their permits by the end of 1999, the maximum state aid amounts to 75 % of investment costs, and for permits issued in 2000, 50 % of investment costs;
- for enterprises in the automotive industry the maximum state aid amounts to 30 % of investment costs.

The above provisions are part of the Accession Treaty.

3.5. Institutional Structure for Foreign Direct Investments

Polish Information and Foreign Investment Agency (PAIiIZ) was established in June 2003 through a merger of Polish Agency for Foreign Investment (PAIZ S.A.) and Polish Information Agency (PAI S.A.). It took over the responsibilities of both institutions. The Agency's role is to stimulate the inflow of foreign direct investment into Poland, to provide comprehensive services to foreign investors in Poland, to offer individually-tailored information about the Polish economy and to support exports by promoting a positive image of Polish goods and services. PAIiIZ is also responsible for general economic promotion of Poland abroad. The agency acts as an intermediary, serving individual and corporate foreign investors. PAIiIZ offers foreign companies its know-how and helps them to establish contacts with governmental bodies and the business community. The range of services includes:

- quick and tailored information on the economic and legal environment in Poland;
- help in identifying reliable Polish partners and the most convenient locations for business activities;
- facilitating the initial stages of the investment process;
- guidance through all the formal procedures by handling contacts with authorities on both central and local levels;
- fully updated publications, including "The List of Major Foreign Investors in Poland", in-depth analyses of particular sectors of the Polish economy, and others.

3.6. Why Invest in Poland?

The high inflow of foreign direct investments is a clear proof of the country's investment rating in the eyes of foreign investors. Fourteen years after the introduction of successful economic reforms, Poland remains the leader in Central and Eastern Europe in terms of FDI stock, as well as its annual growth. Poland enjoys attention of foreign investors, for various reasons. The features that particularly attract foreign entrepreneurs include:

- continued, stable, and fast economic growth,
- the size of the Polish market of 38.2 million inhabitants, 40 % more than the Czech Republic, Slovakia and Hungary put together,
- EU membership as of 1 May 2004,
- a productive, well motivated, highly skilled, and relatively cheap labour force,
- Poland's location in the heart of Europe, a very good "bridging position" assuring easy access of goods manufactured in Poland both to other EU countries and to Eastern markets,
- the success of foreign companies that have already entered the market since the early 1990s, thus encouraging others,
- specific investment incentives,
- the support of and positive appraisals from international institutions, such as the IMF and the World Bank.

For more information on various kinds of tax and non-tax incentives, available to foreign and domestic entities alike, please refer to chapter 2.8.

Among the investors on the PAIiIZ list, the largest group was represented by German companies - 226, followed by investors from the USA - 123, the Netherlands - 110, France - 91, and Italy - 63. European Union countries had a dominant share in 2003 foreign direct investment in Poland. At the same time North American investors' share amounted to just 8 %, despite the off-set agreement for the purchase of American jet fighters. In 2003, transnational corporations from the Netherlands invested USD 2.06 billion in Poland (32 % of total 2003 foreign direct investment inflow). These investments encompassed Fiat-GM Powertrain B.V.'s investment of USD 432 million in the car industry and ITI Media Group NV's investment of USD 160 million in the media and entertainment sector. In the same year, the second largest total sum of foreign direct investments in Poland, amounting to almost USD 1.0 billion, came from international corporations. The next
three places were taken by companies coming from Germany (USD 806 million), France (USD 616 million), and the United States (USD 535 million). Taking into account cumulative investment values, France is a clear leader, with its investments exceeding USD 13.85 billion, accounting for almost 20 % of total over 1 million USD foreign direct investments. The Netherlands with investments of USD 9.86 billion takes second place, followed by the USA (USD 8.69 billion), Germany (USD 8.41 billion), and Italy (USD 3.84 billion).

Foreign Direct Investment by Country of Registration:

– Others	21.4%
– Sweden	4.4%
– United Kingdom	5.3%
– International	4.6%
– Italy	5.5%
– Germany	12.1%
– USA	12.5%
– Netherlands	14.2%
– France	20.0%

3.7. Purchase of Real Estate by Foreigners

Ownership rights on land and real estate concerning foreigners are governed by the act of 1920 (The Law on the Acquisition of Real Estate by Foreigners), as amended. The most recent amendments stemmed from Poland's accession to the EU on 1 May 2004. Therefore, the law provides for a favourable treatment of EU and other European Economic Area (EEA) citizens. For the purposes of this act a foreign person is defined as:

1) a natural person who is not a Polish citizen,
2) a legal entity with its registered seat abroad,
3) a partnership with no legal personality between the above mentioned persons, or entities with their registered seat abroad, established on the grounds of a foreign law,
4) a legal entity or a commercial partnership that has no legal personality and a registered seat in Poland, controlled directly, or indirectly, by any of the above.

Purchase by Foreigners, EU / Other EEA Citizens

Purchase of real estate by EU / EEA citizens does not require any permits. Still, there are some noteworthy exceptions during the transition periods. These are:

– Purchase of agricultural and / or forest real estate, during the first 12 years of Poland's membership in the EU;
– Purchase of “second houses”, during the first 5 years of Poland's membership in the EU. However, even in the above mentioned periods it is not necessary to obtain a permit in the following cases:
– For the acquisition of agricultural real estate located in the Dolnośląskie, Kujawsko-Pomorskie, Lubuskie, Opolskie, Pomorskie, Warmińsko-Mazurskie, Wielkopolskie, Zachodnio-Pomorskie provinces, upon 7 years of concluding a lease agreement with stated date, if during this period the foreigner conducted agricultural activities in person and lived legally on the territory of the Republic of Poland;
– For the acquisition of agricultural real estate located in the Lubelskie, Łódzkie,
– Małopolskie, Mazowieckie, Podkarpackie, Podlaskie, Śląskie, Świętokrzyskie provinces, upon 3 years of concluding a lease agreement with stated date, if during this period the foreigner conducted

agricultural activities in person and lived legally on the territory of the Republic of Poland;

- For the acquisition of “second houses”:
  - if the buyer has legally, continuously been residing for at least 4 years on the territory of the Republic of Poland, or
  - in order to engage in economic activity involving the provision of tourist services.

Purchase by Foreigners, Who Are Not EU / Other EEA Citizens

Generally, a purchase of real estate, or taking it over in perpetual usufruct, as well as a purchase or taking over shares in a company having its registered seat in the territory of Poland and holding title to, or the right of perpetual usufruct to real estate (if such an action results in the company becoming controlled by a foreign person), requires a permit from the Minister of Internal Affairs and Administration. However, acquiring stock in publicly traded companies does not require a permit. Permits are issued by the director of the Department of Permits and Licences (*Departament Zezwoleń i Koncesji*) in the Ministry of Internal Affairs and Administration, acting on the authorisation from the Minister of Internal Affairs and Administration. A permit is issued in the form of an administrative decision, pursuant to an application having been filed by a foreigner. The permit is valid for two years from the date of issue. Provisions of the Code of Administrative Procedure apply to the purchase of real estate. Currently, a foreigner does not have to apply for a permit in the following cases:

- The purchase of an independent residential property, as defined in the Law on Ownership of Premises of 24 June 1994, including purchase of separate premises destined for garages, or of shares in such premises;
- The purchase of real estate by a foreigner who has lived in Poland for at least five consecutive years from the date of issuance of a permanent residency card;
- The purchase of real estate by a foreigner who is the spouse of a Polish citizen and who has lived in Poland for at least two consecutive years from the date of issuance of a permanent residency card, when the real estate will become part of the matrimonial estate;
- The purchase of real estate by a foreigner, if legally entitled to inherit from the property title holder on the day of the purchase, when the property title holder was the owner or perpetual user of the property for at least five years;
- The purchase by a legal entity or a commercial partnership that has no legal personality and a registered seat in Poland, controlled directly, or indirectly by any entity mentioned in 1, 2, or 3 above, in accordance with its statutory objectives, when the total area of undeveloped land does not exceed 0.4 ha within city zones;
- The purchase of real estate by a foreign entity that is simultaneously a bank and a mortgage debtor, as a result of a unsuccessful auction being a part of an execution process;
- The purchase or acquisition by a bank being a legal person, as described in art. 1 paragraph 2 item 1 of the law, of shares

in a company, as mentioned in art. 3e of the law, in connection with that bank's pursuance of claims arising from banking activities performed.

The above listed exemptions from the permit requirement do not apply to property located in the border zone, or when the total area of land zoned for agricultural use exceeds 1 ha. A permit may be refused only if such a refusal is justified by national security, public order, social policy, or public health concerns.

Permits Issued

In 2003, the Minister of Internal Affairs and Administration issued 1,580 permits for foreigners to buy land or real estate. Most of these (1,128 permits) regarded foreign companies investing in Poland. Furthermore, 412 permits for acquiring shares or stakes in Polish companies that own real property in Poland were issued. The number of permits issued for purchase of land and real estate as well as the total amount of land covered by the permits, presented on the graph below, are yet another measure of evaluating foreign interest in investing in Poland. In 2003, foreign companies investing in Poland received permits for the purchase of approximately 4,500 ha, while 452 foreign natural persons received permits encompassing just 220 ha. The permits were issued primarily for lands in central and south-western Poland. In 2003, the largest amount of land was bought by companies and individuals from the Netherlands and Germany. According to The Ministry of Internal Affairs and Administration, foreigners were allowed to purchase 38,883 ha in Poland in 1990-2003.

Transaction Costs

- Purchasing a company: stamp duty on company shares: 1 %
- Purchasing a property
  - Non-development land: no VAT payable, stamp duty: 2 %
  - Buildings with land or vacant development site:
    - Sale by VAT Payer: 22 % VAT, no stamp duty
    - Sale by non-VAT Payer - stamp duty 2 %, no VAT
- Leasing a property: VAT: 22 %

Additional Transaction Costs

- Permit fee: 1,000 PLN, if applicable
- Notary fees: varies, based on the value of the real estate, maximum rates are as follows:
  - up to PLN 10,000 - 3 %
  - up to PLN 20,000 - PLN 300 + 2 % of the amount exceeding PLN 10,000
  - up to PLN 50,000 - PLN 500 + 1 % of the amount exceeding PLN 20,000
  - over PLN 50,000 - PLN 800 + 0.5 % of the amount exceeding PLN 50,000
- Court registration fees: varies, depends on the transaction
- Agent's fees:
  - Purchase: 1 - 2 % of transaction value, usually paid by the owner
  - Lease: 10 - 15 % of the annual rent + VAT, usually paid by the owner

Property Tax

- Real estate tax - the rate is determined by the local authority, subject to maximum rates set by the Minister of Finance every year.
- Annual perpetual usufruct tax is assessed as 3 % of the value of perpetual usufruct land for commercial premises and 1 % for residential land.
- Owners of certain types of property, including owners of land zoned foragricultural use, must pay an agricultural tax. Its amount depends on the size of the property, the type, the class of the agricultural land and the tax district within which it is situated.

3.8. Industrial and Intellectual Property

Patent Legislation

Poland is a member of the Stockholm Text of the Paris Convention on the Protection of Industrial Property. Since 1990, Poland is also a signatory to the Patent
Co-operation Treaty. Protection of inventions by patents and utility models is provided by the above mentioned Industrial Property Law of 30 June 2000. However, if obligatory European Union regulations, or international agreements provide for special procedures for granting protection in the subject matter, the provisions of this law apply only to thesubject matter not governed by that agreement or falling within the responsibilities ofnational authorities. Applications are filed with the Polish Patent Office. Foreign applicants must be represented by Polish patent attorneys. Registered patents are valid for 20 years from the date of filing. A patent granted for a manufacturing process also covers products directly obtained through this process. The protection right of a utility model is valid for 10 years. To keep a patent or protection right in force annuities must be paid. Patents are not granted for:

- inventions, whose application would be contrary to the principles of public order or decency;
- new plant varieties or animal breeds, or purely biological methods for the cultivation of plants or breeding of animals, although this does not apply to the microbiological cultivation of plants or breeding of animals, nor to its results;
- surgical and therapeutic methods of medical or veterinary treatment, or diagnostic methods in the fields of medicine or veterinary science, although this does not apply to products used in diagnosis or treatment.

Trademarks

Poland is a member of the Madrid Agreement on the registration of trademarks and the prevention of false or deceptive indications of the origin of goods. Since 1991, Poland has also been a member of the Madrid Agreement on the international registration of trademarks and became a member of the Protocol to this Agreement in the spring of 1997.

The following kinds of mark may be registered:
- trademark,
- service mark,
- collective mark,
- mutual quality assurance trademark.

An application must define the goods and services that are to be marked by the registered trademark. The application procedure, the rights conferred, and the forms of registerable and unregisterable marks are regulated by the aforementioned Industrial Property Law. Foreign applicants have to be represented in Poland by a local patent agent. There are many patent attorneys. Their list is available at the Polish Chamber of Patent Agents (www.rzecznikpatentowy.org.pl).

Copyrights

Copyrights in Poland are protected by the Law on Copyrights and Related Rights of 4 February 1994. The law meets contemporary international standards and corresponds to the principles of free trade in intellectual property. The scope of copyright protection is quite extensive. The law covers not only the protection of traditionally understood author's rights, but also related rights. The law provides for new rights, and their owners who can now decide how their work is to be used and can derive financial benefit from it. The owners include producers of sound and video recordings, TV and radio stations, as well as artist-performers. The law provides protection for intellectual property in the areas of science, technology, and manufacturing, including computer programmes, industrial designs, etc. The protection mechanism for computer software is similar to that used in EU countries. The rights to any manifestation of creative activity of an individual character in any form, regardless of its value, purpose, and manner of expression are protected. The term during which intellectual property rights are protected was expanded to 70 years after the author's death or, in cases were the copyright belongs to somebody else, 70 years after its distribution. The EU membership requires meeting international standards in intellectual rights protection. This in turn creates favourable environment for foreign investments making use of property rights.

4. Other Information

4.1. Visiting Poland

Information for EU and Other EEA Citizens

The following information applies to EU citizens and their family members as well as citizens of states of the European Economic Area (Norway, Iceland, Liechtenstein, Switzerland), which do not belong to the EU, but pursuant to agreements with the EU enjoy free movement of persons and members of their families (spouses, children elow the age 21, being their legal wards, direct relatives who are their dependants or share their household). In order to cross the border with Poland a citizen of the EU needs a valid travel document or another document testing to his/her identity and citizenship. Family members who are not a citizen of the EEA are able to enter the territory of Poland on the basis of a valid travel documents and visas - if required. Stays beyond three months' duration require obtaining a residence permit or a temporary residence permit. This requirement does not apply to persons who perform work or a "free profession" on the territory of Poland, or conduct business activity here, provided they retain permanent residence in another EU state, to which they return at least once a week. Decisions concerning residence permits and residence cards for EU citizens and residence documents (also with regard to their prolongation and revocation) are issued by the governor of the province (voivode) where the EU citizen intends to reside. A residence permit is granted to a EU citizen on condition that he/she:

- intends to perform or performs work, a "free profession" or business activity on the territory of Poland for a period exceeding 12 months,
- has health insurance and sufficient resources to cover his/her expenses without needing social security support.

Residence permits are valid for five years with the possibility of extension for further five-year periods. For more details on granting EU citizens residence permits see Article 5 of the Law on the Terms and Conditions of Entry and Stay on the Territory of Poland of Citizens of EU States and Members of Their Families of 27 July 2002, as amended. Temporary residence permits are granted to EU citizens who have health insurance and sufficient resources to cover their expenses without needing social security support and who, when in Poland:

- take up studies - a temporary residence permit for one year, extendable with further one-year periods until completion of the studies,
- intend to, or perform work, a "free profession" or conduct business activity for a period from 3 months to 12 months for the duration of such occupation, or for six months for those seeking employment.

4.2. Information for Foreigners, Who Are Not EU / Other EEA Citizens

- Passport: a valid passport is required to enter Poland. If a Polish visa is required, the passport's expiry date should not be less than three months from the expected date of arrival in Poland.
- Visa: a Polish visa is required, except for tourists coming from the countries listed in Appendix 8.
- Currency requirements: PLN 100 per day, no less than PLN 500, except in transit - PLN 300. Persons under 16 half of the amount.
- If driving a car, you are obliged to carry a civil liability insurance.

Practical Information

- Currency, arrival: you must fill a currency declaration form and have it stamped by a customs officer if you are bringing in cash or cash equivalents in an amount exceeding EUR 10,000.
- Currency, departure: upon departure you are allowed to export your

personal belongings, souvenirs, and foreign currency up to a total amount of EUR 10,000, as well as foreign currency imported to Poland with a currency declaration form confirmed by the customs authorities.

- Money exchange: in Poland you can change money either at a bank or at currency exchange offices, labelled "*Kantor*". You can find them at the airports and most hotels, but usually you can find better rates at the independent exchange offices that can be found almost everywhere.
- Credit cards: Visa, American Express, Diner's Club, and MasterCard are widely accepted.
- Transport from Okęcie airport in Warsaw: city buses 175 and 188 and a night bus, the 611. Some hotels offer their own minibus service to and from the airport.
- Taxi: at Okęcie Airport beware of taxi drivers stopping you in the airport hall, they are very likely to charge you excessive rates. All you need to do is to go out and take a cab from the queue parked in front of the entrance; they are all licensed by the airport. As far as other trips are concerned, a list of telephone numbers of reliable taxi corporations can be found in the most popular newspaper in Poland:

"*Gazeta Wyborcza*", or just ask for advice. These taxis will pick you up at no extra charge from any place in Warsaw, usually within a few minutes of your call.

- Rent a car: some of Europe's largest rent a car companies have their offices in the arrival halls of Polish airports, as well as in some hotels.
- Electricity: 230 volts / 50 cycles.
- Public phones require a phone card. Phone cards (of different values) are available at post offices and local kiosks.
- Emergency numbers: Ambulance: 999; Fire-brigade: 998; Police: 997; and finally, 112 is a mobile phone all-emergency number. However, do not count on them to speak any foreign language.

An Overview of the Country

Poland can satisfy the needs both of the tourist who wants to spend a long holiday here and the traveller who is looking for an interesting place to spend one or more weekends. One can enjoy the country during every season and whenever you come, you are bound to find something new. The castles call to mind the stormy history of Poland. The most important ones are the Wawel Royal Castle in Cracow and the Royal Castle in Warsaw, destroyed during World War II and rebuilt afterwards. The old quarters of Warsaw, Cracow, Gdańsk, Lublin, Poznań, and Wrocław have witnessed centuries of history. A thousand years of Catholic religion in Poland is reflected in its numerous churches, chapels, and monasteries. The shrine of Jasna Góra in Częstochowa, where the image of the Black Madonna attracts millions of pilgrims from all over the world each year and he Church of St. Mary in Cracow are among the most famous. However, hundreds of sanctuaries and rural churches, some of them built of wood, are also full of mystic atmosphere and well worth visiting. Poland is one of those rare countries that offer a great variety of landscapes. The southern part of Poland is surrounded by the Sudetic and Tatra Mountain ranges, perfect for walking all year round, and for winter sports during the season. Trekking and excursions are possible in all seasons and are especially recommended in summer and autumn, when the country is in full bloom. In winter you can go skiing, for example, in Szczyrk and Zakopane, tourist resorts famous for their mountain folklore. Moving from the mountains to the north, one will find large plains, nests of storks in spring, small rural villages, and forests - the most famous being the National Park in Białowie a, close to the eastern border, which, with its unique charm, is home to the European bison. All in all, there are 23 National Parks in Poland, covering over 314 thousand ha, or 1 % of the country's surface area. Horse riding and hunting fans will discover numerous opportunities in Poland to follow their favourite hobby. Further north there are lakes, including those of the Mazurian Lake District, which is also known as "the country of a thousand lakes", and contains a series of lakes stretching for more than 750 km. It is possible to sail through the lake district's rivers and network of canals for days. This is a paradise for those who enjoy water sports and fishing, thanks to the clear waters of the lakes, the green landscape, and its wilderness. Moreover, in winter, as the temperature often drops to well below 0 °C, the frozen lakes are often suitable for ice-sailing. Finally, there is the northern frontier - the Baltic coastline. A very long strip of golden sand, beaches and dunes, Rozewie promontory, Hel peninsula, the gulf of Gdańsk and Wolin island, are just some of the countless views which will fascinate any tourist travelling along the coast. Furthermore, in this region you can enjoy saline thermal baths and healing mud-baths, particularly in the town of Kołobrzeg, all year round.

Polish Cities, Art, and Culture

Polish art and culture has always been a part of Western Europe, though at the same time it is a bridge to the East. Among the most famous Polish contributions to European culture are the genius of Copernicus, the science of Marie Skłodowska-Curie, the art of Chopin, the music of Krzysztof Penderecki, the movies of Andrzej Wajda and Krzysztof Kieślowski, the theatre of Tadeusz Kantor, and the poetry of Adam Mickiewicz and of the Polish Nobel prize-winners, Czesław Miłosz and Wisława Szymborska. Besides, Poland houses the works of artists and architects from all over Europe, such as the Italian painter Bernardo Bellotto (Il Canaletto), the architects Bernardo Morando and Domenico Merlini, the German sculptor Veit Stoss (Wit Stwosz), and the Dutch architect Tylman van Gameren. There are many cities in Poland worth visiting, and most of them are well described in the leading tourist guides. Here we will limit ourselves to just a brief outline of Warsaw and Cracow, which are undoubtedly the most famous cities in Poland. Warsaw is the capital of Poland. You need to keep in mind that Warsaw, which was one of the most lively and cosmopolitan cities in Europe before the Second World War, was destroyed in 1945 and 90 % of it was completely in ruins. It was rebuilt after the War, arising from the rubble thanks to the determination and sacrifice of its surviving citizens. Although sightseeing in the centre of the city will let you take a look at some modern architecture, one can discover the best of Warsaw only through exploration of the old town, where, besides the old restored buildings and villas, here and there the pre-war architecture miraculously survived. Walking about the old town and plunging into the magic atmosphere of the past, thanks to an amazing reconstruction which took place in the fifties and which brought to life again the Warsaw of the XVII and XVIII centuries, is a truly remarkable experience. There is enchantment in its parks and gardens, the wide course of the Vistula River, and the rich cultural life of this city, which is cosmopolitan without losing its particular, native charm. While visiting the Royal Castle one can admire its interiors and its works of art, including some works of the world's finest painters. Another "must see" is the Polish portrait gallery in Wilanów Palace, the beautiful Baroque residence of Jan III Sobieski. Then there is the Grand Theatre, a remarkable example of classicist architecture; the Łazienki Park, a beautiful 18th century park, one of everybody's favourite places to have a stroll and rest from all the excitement; the National Museum, featuring precious collections of Polish art; and much, much more. The uniqueness of Cracow is primarily due to the rare cultural heritage contained within its walls. Here, the Royal Castle, presently housing the crown jewels and a collection of Flemish tapestry, was constructed on Wawel Hill, and became the site for the coronation and burial of kings, as Cracow was the capital of Poland for hundreds of years, from the 11th to the 17th century. Here, in 1364, the Cracow Academy was established, the first Polish university (today known as the Jagiellonian University). The city's image has changed during the past centuries. During the Middle Ages, Cracow was a safe, rich, fortified city surrounded by walls with 55 towers (fragments of the city fortification have been preserved to this day). During the Renaissance, Cracow became a centre of progressive ideas, with a culture that brought together outstanding humanists, writers, architects, and musicians. City life focuses around the Market Square, which is the second largest square in Europe after St. Mark's Square in Venice. Tradition interlaces with modern times nearly everywhere you go, and it can truly be said that each stone has its own history. There is a multitude of architectural monuments, estimated at 6,000 buildings and structures. Furthermore, there are approximately 2.5 million artefacts collected and displayed in museums, churches, and other public places. In 1978, thanks to this extraordinary accumulation of cultural heritage, the city's historic centre was registered as the first of the 11 Polish sites on the UNESCO World Heritage List.

4.3. Tourism Industry

In 2003, Poland registered 52.13 million foreign arrivals, including both tourists and same-day visitors. The amount of foreign arrivals had been steadily increasing since the beginning of the 90's till the end of the decade. The year 2000 witnessed a reversal of this favourable trend. Consequently, Poland fell in the ranking of most frequently visited countries, to 14th place in 2002. In 2003 the number of foreign arrivals increased, albeit only by 2.7 % in comparison to 2002. As far as the country structure of arrivals to Poland is concerned, a domination of arrivals from Germany must be noted, accounting for almost half of all arrivals and increasing by 7.6 % in comparison to 2002. Arrivals from other EU countries decreased by 1.1 %. In 2003, arrivals from the following countries registered the largest decline: Belgium (-30 %), the Netherlands (-26 %), Ukraine (-17.5 %), Russia (-17 %) and France (-1 %). On the other hand, the highest growth was recorded in arrivals from Slovakia (36 %), Hungary (23 %), Denmark (21 %), Spain (20 %), and Ireland (19 %). While analysing tourists arrivals in 2003 one must take into account that as of October 2003 legal regulations introducing visa requirements concerning countries bordering with Poland in the east came into force (due to Poland's entering the EU). Thus

October 2003 witnessed a very sharp decline in arrivals from these countries. Arrivals from Russia decreased by 44 %, arrivals from Belarus decreased by 45 %, and arrivals from Ukraine collapsed, noting a 70 % reduction. In November and December arrivals from the aforementioned countries further decreased, not so much, though. In 2003, according to the Institute of Tourism estimates, the number of tourist arrivals (i.e., of visitors staying in Poland for at least one night, but no longer than one year) amounted to approximately 13.7 million, which is 2 % less than the year before. Mazowieckie province, as it boasts Warsaw, the capital of Poland, attracted 3.1 million tourists, more than the next in line Wielkopolskie (1.4 million) and Lubelskie (1.3 million) provinces together. Over the period of 1992-2000, the average duration of stay of foreign tourists remained at a level of 4.8 to 5.1 nights. In 2001, it equalled 4.5 nights, down from 4.8 in 2000, and in 2002 it decreased again, to just 3.9 nights. It seems that this unfavourable trend is over now, as in 2003 the average duration of stay increased to 4.1 nights. In 2003, business was the primary reason for tourist arrivals (29 %), closely followed by leisure tourism (27 %). However, if visiting friends and relatives (24 %) is included in the leisure category, then it still dominates the motives of foreigners visiting Poland. The structure of tourist arrivals by purpose of visit is reflected in the following graph.

Tourist Arrivals to Poland in 2003 by Main Purpose

- 6% Leisure tourism
- 8% Business
- 6% Shopping
- 29% Visiting friends and relatives
- 27% Transit
- 24% Other

Source: Institute of Tourism, Warsaw, 2004

In 2003, according to preliminary estimates of the Institute of Tourism, tourist trips accounted for 7.2 million (a decrease of some 14 %) out of a total of 38.7 million trips. As in the case of inbound tourism to Poland, Germany accounts for the majority of outbound tourist trips (2.60 million). Italy (0.55 million), the Czech Republic (0.55 million), Slovakia (0.50 million), and Austria (0.45 million), are the other most favoured destinations. Nonetheless, it should be noted that many tourists trips to Germany, the Czech Republic, and Slovakia are related to further trips to other countries located in Western and Southern Europe. Leisure and recreation is the major motive of Poles travelling abroad. All in all, 11 % of Poles over 15 years of age took part in tourist travels abroad in 2003.

4.4. Sources of Business Information in Poland

Considering information distribution methods and accessibility, one can basically group sources of business information into three categories:

- institutions,
- newspapers, magazines, and other printed publications,
- internet pages.

Usually an institutional source of information provides access to its information in many ways: direct consultation, publications, and information on its web-site. PAIiIZ (the Polish Information and Foreign Investment Agency) is a prime choice. PAIiIZ produces a series of high quality English-language titles under different headings, covering areas ranging from the construction sector to banking, and offers a whole range of free of charge services to foreign investors. Some information in English, regarding customs regulations one may find via their website (Customs Service). However, at the time of writing most of the information has not yet been updated with the changes resulting from Poland's EU membership. Trade and co-operation offers are collected and distributed, among others, by the Polish Chamber of Commerce, which also offers corporate due diligence services. This organisation produces regular bulletin-type publications on business trends and financial news in Poland. The Central Statistical Office is an invaluable source of information, some of which is readily available in English in their bilingual publications. The Polish Press Agency (PAP) offers an informative and comprehensive, if somewhat expensive, guide to Polish politics and business, as well as general issues. It provides Warsaw Stock Exchange and currency rate listings.

Internet

For those in search of hard economic news, as well as commercial and business offers and practical guidance concerning legal, tax, or, for example, insurance matters, the internet is ideal for the English-speaking foreigner and those not based in Poland, with no access to other, hardcopy, sources. From the point of view of reliability of information, and of its being up to date, it is certainly best to hear it "straight from the horse's mouth". Speaking in terms of the internet, this translates into seeking information on the pages of the information providers. Anyone seeking reliable business information on Poland is best advised to turn to the official pages of various Polish ministries and other government and quasigovernment institutions. Most of their web-sites have an English language version covering if not all, then at least the major topics available on the Polish site. However, more frequently than not, this information is not quite up to date, so it is highly advisable to verify whether the information presented reflects the current state of affairs. Quite often this can be done by a simple phone call to the institution involved. As far as business information is concerned, the sites especially recommended include the ones administered by the Ministry of the Economy and Labour, the Ministry of the Treasury, the Ministry of Finance, and PAIiIZ. Furthermore, one may find specific business information on the pages of the Warsaw Stock Exchange, the National Bank of Poland, and others. However, please remember that the internet is a very dynamic medium and by the time this information reaches the reader, there may be many other equally good, or even better, web-sites.

Poland Home Page http://www.poland.pl This page is the official web-site of Poland. It offers some general information on Poland, as well as the latest news. Moreover, it provides access to a wide range of information through redirecting to various specialised sites. The major topics include the economy, science and education, the natural environment, tourism and recreation, culture and art. The site provides access to business, financial and economic news, although not all the pages to which one is redirected have their English versions. It is highly recommended as a good starting point for anyone, who wants to learn about Poland, regardless whether from business, leisure, or any other point of view.

Polish Export Promotion Portal http://www.polishproducts.gov.pl, http://www.exporter.gov.pl This useful service is provided by the Ministry of the Economy and Labour. It contains brief and up to date information on the Polish economy, including facts and figures pertaining to industry, agriculture, foreign trade, prices, salaries and wages, etc. Furthermore, there is a database of Polish exporting companies, as well as an option to submit an enquiry. *http://www.export-import.pl* This internet service is a window onto the world of Polish exports. Moreover, there are some very good pages created by the economic and commercial divisions of various Polish embassies and consulates. The ones well-worth visiting certainly include:

– *www.handelsratpolen.at* (Austria),
– *www.poland-canada.org* (Canada),
– *www.wirtschaft-polen.de* (Germany),
– *www.polishemb-trade.co.uk* (Great Britain),
– *www.brhusa.com*
– *www.polandembassy.org* (both USA).

Finally, anyone interested in commercial relations will be glad to take a look at *Targi i Wystawy w Polsce* (*www.targi.com*) which lists all the major trade fairs in Poland. This site is simple to navigate, is updated on regular basis, and provides information on some 400 trade fairs organised in Poland each year. There are also information and/or links to some 100 fair organisers. Finally, they have launched an English version of the service, so searching out a particular event is not a problem for an English-speaking person. Alternatively, one can use Polish Trade Fair Corporation (*www.polfair.com.pl*), which offers a similar service, also with some English.