**LAW**

**ON**

**THE FUNDAMENTALS**

**OF FREE ECONOMIC ZONES**

**Chapter I**

**General Provisions**

**Article 1. General Part**

The Law establishes the procedure and terms and conditions of the establishment, operation and liquidation of free economic zones in the Republic of Lithuania as well as the legal status of the economic entities operating in the free economic zone. The purpose of the Law is to create in the free economic zone favourable taxation, customs duties, currency and financial, legal and other preferential conditions of economic-commercial activities for the establishment within them by foreign and local economic entities of enterprises and organisations of international trade, production and export, which develop and introduce technical-scientific progress, as well as to stimulate foreign investments and create new jobs.

**Article 2. Free Economic Zone**

1. Free economic zone (hereinafter referred to as “zone”) means a territory designated for the purpose of economic-commercial and financial activities within which economic entities are provided with special economic and legal conditions of operation as established by this Law. The territory must have no permanent residents.

2. The goods within the zone shall be considered as being outside the customs territory of the Republic of Lithuania with respect to import and export duties and charges, as well as other prohibitions and restrictions of economic character.

**Article 3. Types of Activities of Free Economic Zones**

Commercial, production and export, business, banking or other activities may be developed in a zone established in the Republic of Lithuania. The types of activities shall be determined by a separate law on the establishment of a specific zone.

**Article 4. Laws of the Republic of Lithuania Effective in the Zone**

The Constitution of the Republic of Lithuania and this Law shall be effective in the zone. Other laws and legal acts of the Republic of Lithuania shall be effective to the extent the legal relations of activities of the zone and its economic entities are not regulated by this Law.

**Article 5. Administration of the Zone**

1. The territory of the zone shall be leased to the zone administration company in accordance with the procedure established by law.

2. The economic activities of the zone shall be organised by the zone administration company.

**Article. 6. The Zone Administration Company**

1. The zone administration company shall be a legal person. The shareholding of natural and legal persons in the zone administration company who own the shares by the right of private ownership must carry not less than 51% of votes. The zone administration company shall operate in compliance with the Company Law. It shall be registered in accordance with the procedure established by the Law on the Register of Enterprises. (Amended 2 April 1996)

2. The powers of the zone administration company shall be determined by this Law, as well as by the bylaws of the zone administration company approved by the Government of the Republic of Lithuania.

**Article 7. The Zone Enterprise**

1. The zone enterprise shall be an enterprise of any form and type of ownership situated within the zone and registered by the zone administration company in accordance with the requirements of the Law on the Register of Enterprises of the Republic of Lithuania, to which the terms and conditions of activities established by this Law and state guarantees for its activities within the zone shall apply.

2. The procedure for establishing zone enterprises shall be determined by the laws regulating the procedure for setting up enterprises and the law on the zone.

3. The zone enterprise shall operate in compliance with this Law, the law on the zone, the statute of the zone, its bylaws and the founding documents, as well as the agreement with the zone administration company concerning the terms and conditions of activities in the zone.

4. The economic-commercial activities specified in the founding documents, to which restrictions imposed by the Law on Enterprises of the Republic of Lithuania and laws on the appropriate types of enterprises shall not apply, shall be permitted in the zone. Retail trade shall be permitted only to the extent it serves to satisfy the internal needs of the zone.

5. The founders who wish to register a zone enterprise shall file with the Registrar the registration documents specified in the Law on the Register of Enterprises and the licence for activities in the zone issued by the zone administration company.

6. The decision concerning the issuing of a licence for the economic entity’s activities in the zone shall be taken by the zone administration company. The licence shall be issued to the economic entity within the time period and according to the procedure determined in the zone statute for those spheres of activities.

Economic entities may not be issued a licence for their activities in the zone if:

the activities indicated in the economic entity’s application do not correspond to the spheres of zone activities as determined by this Law and the law on the zone as well as spheres of zone activities specified in the zone statute;

the economic entity does not have a licence issued in the established manner by the Government of the Republic of Lithuania for the activities for which such a licence is mandatory, or the licence (permit) has been suspended or cancelled;

the zone territory has been parcelled out and technical potential for allotting production space is lacking.

The zone administration company must give a written justification of its refusal to issue a licence to the economic entity’s activities in the zone. Refusal to issue a licence may be appealed to the state institution authorised to conduct state supervision of free economic zones.

7. The activities of a zone enterprise may be suspended if the enterprise violates the terms and conditions of activities established by this Law, the law on the zone and the statute of the zone, the bylaws of the zone enterprise, or the agreement between the zone administration company and the economic entity or other laws and legal acts of the Republic of Lithuania which are in effect in the zone. On the proposal of the state institution authorised to conduct state supervision of free economic zones or the zone administration company, inspections of a zone enterprise may be carried out in accordance with the procedure established by laws of the Republic of Lithuania.

Work in a zone enterprise may be suspended in accordance with the procedure established by the Law on Labour Protection.

8. The zone enterprise may not set up subsidiaries or representations outside the zone. The zone enterprise may be the founder of an enterprise located outside the zone. An enterprise located outside the zone may be the founder of a zone enterprise. (Amended 2 April 1996)

**Article 8. Spheres of Capital Investment and Activities Prohibited and Restricted
 in the Zone**

1. The following spheres of capital investment and activities shall be prohibited for enterprises in the zone:

economic-commercial activities connected with ensuring state security and defence, as well as with the production, storage or sale of arms, ammunition or explosives, or having a harmful effect on the environment;

production, processing, storage and neutralisation of hazardous and radioactive materials;

production, sale and storage of narcotics, narcotic, virulent and poisonous substances;

processing, sale and storage of crops containing narcotic, virulent and poisonous substances;

manufacture of vodka, liqueur and other liquors;

manufacture of tobacco products;

manufacture of securities, paper money and coins, postage stamps;

founding and keeping of gambling-houses;

organisation of lotteries;

publishing activities, except for personal needs, preparation and broadcasting of radio and TV programmes, with the exception of technical servicing of printing -houses, radio and television;

treatment of patients who are ill with serious and especially dangerous infectious diseases, including venereal and contagious skin diseases, aggressive forms of mental diseases;

treatment of animals ill with especially dangerous diseases; and

settlement of labour migration issues.

2. A licence issued by the Government of the Republic of Lithuania or its authorised state institution must be obtained for licensed activities specified in the Law on Enterprises of the Republic of Lithuania.

3. Investment of capital of foreign origin into exploitation of natural resources shall be prohibited without a concession.

**Chapter II**

**ESTABLISHING A FREE ECONOMIC ZONE**

**Article. 9. Zone Establishment Procedure**

1. The establishment of a zone may be initiated by the Republic’s city and district municipalities as well as counties which present to the Government of the Republic of Lithuania a proposal to establish a zone. The following must be specified in the proposal:

type (types) of zone activities;

description of territorial boundaries of the zone and the plan of its territory;

the county governor’s agreement to lease the territory allotted to the zone agreed with the municipality;

information concerning the infrastructure required for the operation of the zone specifying the objects, communications and the preliminary costs of their installation;

draft law on the zone.

2. The zone shall be established by a law of the Republic of Lithuania. The law must lay down the territorial boundaries, the type (types) of the activities in the zone, the term of zone operation, terms and conditions of tenders and criteria for choosing the best bidders, the zone administration company structure, the functions, powers and responsibility of its managing bodies, the procedure for liquidating the zone administration company without the zone liquidation and for forming a new company, basic principles of relations between significant state (municipal) objects and the zone administration company regarding the use of said objects for the servicing of the zone, the procedure for prescribing taxes and other dues payable by the zone enterprises for the common needs of the zone.

3. After the Seimas of the Republic of Lithuania passes the law on the establishment of a zone, the Government of the Republic of Lithuania shall adopt a decision to invite international tenders in order to choose the best business plan for the zone and the zone statute as well as the successful tenderers for the group of founders.

International tenders shall be organised by the institution authorised by the Government of the Republic of Lithuania whereas the tenders commission shall be approved by the Government of the Republic of Lithuania.

4. The Government of the Republic of Lithuania shall adopt resolutions on:

1) the decision of the tenders commission concerning the formation of the zone founders’ group;

2) the approval of the chairman and members of the zone administration company ;

3) the approval of the zone statute; and

4) zone development stages and zone activities. (Amended 2 April 1996)

**Chapter III**

**ADMINISTRATION OF A FREE ECONOMIC ZONE**

**Article 10. Basic Principles of Zone Administration**

The structure, functions, powers and responsibility of the zone administration bodies shall be established by this Law and by the laws on an individual zone.

**Article 11. The Zone Administration Company**

The zone founders’ group which is the successful tenderer for the preparation of the business plan and zone statute as well as for choosing the founders’ group shall set up the zone administration company. The Government of the Republic of Lithuania and the council of the municipality in the territory whereof the zone is being established shall appoint one member of the zone administration company board each. The chairman of the zone administration company shall be elected by the members of the zone administration company by open ballot. Over 50% of members of the zone administration company must be the citizens of the Republic of Lithuania. Changes in the membership of the zone administration company (with the exception of the chairman of the zone administration company, who shall be approved by the Government of the Republic of Lithuania) shall be approved, on the recommendation of the zone administration company and the municipality, by the state institution charged by the Government of the Republic of Lithuania in accordance with the established procedure to carry out state supervision of the zones.

Supervisory board shall not be formed in the zone administration company. (Amended 2 April 1996)

**Article 12. Rights, Duties and Responsibility of the Zone Administration
 Company**

1. The zone administration company shall have the right:

acting in accordance with the goals of operation of the zone, its investment business project, statute, as well as the bylaws of the zone administration company, to adopt a decision to issue a licence for the economic entity’s activities in the zone;

to sublease to the zone enterprises registered in the zone the land and immovable property leased to the zone administration company;

to determine the internal rules of the zone;

to establish service enterprises in the zone;

to set in the agreements between the zone enterprises and the zone administration company, the financial conditions of the sublease of land and immovable property and provision of mutual services;

to obtain from the economic entities operating in the zone statistical report data concerning their activities as established by the Government of the Republic of Lithuania;

to use resources on a co-operative basis for the common needs of the infrastructure development and environment management of the zone; and

to submit proposals to the Government of the Republic of Lithuania and the state institution which carries out state supervision of free economic zones on the amendment of the statute of the zone and changing of its territorial boundaries;

establish, in accordance with the procedure laid down by the law on the zone, taxes and dues payable by the zone enterprises.

2. Duties of the zone administration company:

to abide by this Law and other laws of the Republic of Lithuania which are in force in the zone, the statute of the zone, the bylaws of the zone administration company;

to organise the economic activities of the zone;

to ensure that the economic entities registered in the zone adhere to the statute of the zone, refrain from engaging in activities prohibited under the laws of the Republic of Lithuania, operate in accordance with the terms and conditions set in the agreement, keep to the requirements of the Law on the Environmental Protection of the Republic of Lithuania and other legal acts in the sphere of environmental protection;

to ensure the protection of the zone boundaries and create conditions for the work of customs of the Republic of Lithuania at the check posts;

to ensure physical protection of the territory of the zone;

to create conditions for the law enforcement institutions and international control organisations to perform their respective functions in the zone; and

to form a commission for resolving disputes between economic entities.

3. The zone administration company shall be liable under the laws of the Republic of Lithuania for its activities and negative effects thereof.

4. The zone administration company shall account to the Government of the Republic of Lithuania for the activities of the company and the zone within the time period and according to the procedure established by the statute of the zone. (Amended 2 April 1996)

**Article 13. Zone Enterprises Board**

An advisory board of zone enterprises may be formed for representing the interests of the zone enterprises.. The procedure of its formation and its powers shall be specified in the statute of the zone.

**Article. 14. State Supervision of Free Economic Zones**

State supervision of free economic zones shall be carried out according to the procedure established by the Government of the Republic of Lithuania by the state institution authorised by it or a special institution formed by it. The above institution shall also resolve all issues related to the establishment, administration and activities which are common to all zones.

**Chapter IV**

**TAXES, CUSTOMS DUTIES, CURRENCY AND FINANCIAL CONDITIONS**

**IN FREE ECONOMIC ZONES**

**Article 15. Taxes in the Zone**

1. The enterprises registered in the zone and their employees shall pay the following taxes and charges:

tax on profits of legal persons;

income tax of natural persons;

land lease tax;

pollution tax and tax on the use of natural resources;

state compulsory insurance contributions;

stamp duty.

The above-listed taxes and charges shall be payable in accordance with the procedure established by the laws of the Republic of Lithuania.

2. Enterprises registered and operating in the zone which are engaged in production activities shall pay land rent at a reduced rate of 50%. The private capital of the zone administration company and zone enterprises which has been invested in the infrastructure shall not be included in the land value while determining the land rent.

3. A zone enterprise shall pay an 80% lower profit (income) tax for 5 years from the day of its registration, for the next 5 years the rate of the profit (income) tax payable by the enterprise shall be reduced by 50%.

4. If a foreign investor (investors) acquires at least 30% of the authorised (ownership) capital of an enterprise which is registered and operating in the zone and invests capital of foreign origin in the amount of no less than 1 million USD, the enterprise shall be exempt from profit (income) tax for 5 years from the day of its registration. For the next 10 years the enterprise shall pay profit (income) tax at a reduced rate of 50%.

In order to implement the right to preferential taxation as provided for by this part, an enterprise must present to the Tax Inspectorate documents determined by the Government of the Republic of Lithuania which confirm the origin of foreign capital and investment thereof, and the findings of an independent audit concerning the foreign capital investment.

5. The share of enterprise’s profit used for the acquisition of required fixed assets, for carrying out research and for the introduction of new technology as well as for investment in the zone shall not be included in the taxable profit.

6. Dividends received by foreign investors in the free economic zone shall be exempt from taxation.

7. Other tax privileges shall be applied in accordance with the laws of the Republic of Lithuania.

8. The zone administration company shall pay taxes imposed on corresponding enterprises by the laws of the Republic of Lithuania. Land rent collected from the zone enterprises shall be paid by the zone administration company. (Amended 2 April 1996)

**Article 16. Customs Privileges and Characteristics of Customs Inspection Activity**

1. When goods are transported from the customs territory of the Republic of Lithuania into the zone, laws and other legal acts of the Republic of Lithuania which regulate the exportation of goods abroad as well as export duties and taxes levied on the goods, and other prohibitions and restrictions of economic type shall apply.

When goods are brought into the customs territory of the Republic of Lithuania from the zone, laws and other legal acts of the Republic of Lithuania which regulate the importation of goods from abroad as well as import duties and taxes levied on the goods and other prohibitions and restrictions of economic character shall apply.

Foreign investors shall have the right to transfer abroad without restrictions their lawfully received income (profit). Foreign investors may take out of the country their income (profit) or a part thereof in goods purchased on the domestic market or reinvest it in the economy of the Republic of Lithuania.

2. The customs must inspect all persons and vehicles entering or leaving the zone as well as goods taken into or out of zone or placed therein. Goods shall enter and leave the zone only through entry (exit) points; the procedure for their entry (leaving) shall be regulated by the Customs Code of the Republic of Lithuania and decrees of the Government Republic of Lithuania.

Projects of all infrastructure and other buildings under construction which are required for the designation of the zone must be co-ordinated with the Customs Department under the Ministry of Finance in accordance with the procedure established by the Government of the Republic of Lithuania. (Amended 2 April 1996)

**Article 17. Activities of Banking and Insurance Institutions in the Zone.
 Currency and Financial Conditions**

1. The activities of banking and insurance institutions in the zone shall be regulated by the Law on Commercial Banks and insurance laws of the Republic of Lithuania.

2. For settlements litas and convertible foreign currency may be used in the zone.

3. The procedure applied to money that is brought in and taken out of the zone shall be the same as to money brought in from abroad or taken out abroad.

**Article 18. Keeping of Records and Accounting in the Zone**

Economic entities shall keep records and conduct accounting in the zone according to the effective laws of the Republic of Lithuania and other legal acts.

**Chapter V**

**LABOUR RELATIONS AND USAGE OF LANGUAGES**

**IN THE FREE ECONOMIC ZONE**

**Article 19. The Regulation of Labour Relations, Working Conditions
 and Social Insurance in the Zone**

Issues concerning labour, safety at work, state compulsory social insurance and other issues related to labour relations shall be regulated in the zone by the laws of the Republic of Lithuania and other legal acts.

**Article 20. Usage of Languages in the Zone**

The official language used in the territory of the zone shall be the state language of Lithuania (Lithuanian). Foreign languages may be used in compliance with the Law on State Language of the Republic of Lithuania.

**Chaper VI**

**REGULATION OF ECONOMIC RELATIONS WITH INSTITUTIONS**

**OF THE EXECUTIVE AUTHORITIES AND MUNICIPALITIES**

**Article 21. Utilisation of Land, Structures, Facilities of Infrastructure
 and Natural Resources in the Zone**

1. The relations of the ownership and lease of land shall be regulated by the Law on Land and the Law on Leasing of Land of the Republic of Lithuania.

2. Structures and facilities of infrastructure that are owned by the state (municipality) may be leased or sold in accordance with the procedure established by laws.

3. Natural resources in the zone may be exploited and utilised in the manner established by laws of the Republic of Lithuania.

**Article 22. Services Rendered to the Zones by the State and Municipalities**

The state and municipal institutions shall render the same services to economic entities operating in the zone as to other economic entities operating in their territory.

**Article 23. Activities of Law Enforcement Institutions in the Zone**

Law enforcement institutions of the Republic of Lithuania shall operate in the zone according to their competence in the manner established by the laws of the Republic of Lithuania. Zone administration company shall provide proper working conditions for these institutions.

**Article 24. Activities of Supervision Institutions in the Zone**

The functions of the sanitary and hygiene, environmental protection, and utilisation of natural resources inspectorates, fire prevention , labour and other state inspectorates shall be performed by the state supervision inspectorates of the Republic of Lithuania or local inspectorates formed by the zone administration company, the authorisations of which shall be granted by a respective state inspectorate of the Republic of Lithuania.

**Article 25. Activities of the Parties and NGOs in the Zone**

The activities of the parties and NGOs shall be prohibited in the zone.

**Chapter VII**

**ENTRY INTO FREE ECONOMIC ZONE**

**Article 26. Entry Procedure into the Zone**

1. Foreign nationals and stateless persons, permanently residing abroad, who want to enter the zone must obtain an invitation from the zone administration company and a visa of the Republic of Lithuania issued in accordance with the procedure established by the Government of the Republic of Lithuania.

2. Foreign nationals and stateless persons, permanently residing abroad and having no permanent residence permit in the Republic of Lithuania may come for temporary employment in the zone enterprise only when they have an invitation from the concrete employer of the zone enterprise, who has obtained licences from the Lithuanian Labour Exchange in the Ministry of Social Security and Labour to employ a certain number of foreigners.

3. Permits for temporary employment of foreigners in the zone enterprises shall be issued by the Lithuanian Labour Exchange in compliance with the quotas and procedure for the employment of foreigners, established by the Government of the Republic of Lithuania. This procedure shall apply to foreigners who come for temporary employment, if inter-state and inter-governmental agreements of the Republic of Lithuania do not provide otherwise.

4. The procedure for the issuing of licences to employ foreigners, the employment of foreigners, registration of foreigners, refusal to issue licences to employ a foreigner and permits to work in the Republic of Lithuania, as well as the procedure for the cancelling of these permits and licences shall be established by the Government of the Republic of Lithuania.

5. Requirements set forth in par. 1,2, 3, and 4 of this Article shall not apply to foreign nationals or stateless persons who come to the zone on the invitation of the zone administration company to work as managers of enterprises or members of the zone administration company, or experts.

6. Upon arrival to the zone, persons must get registered within 24 hours in accordance with the procedure established by the Government of the Republic of Lithuania. If such person fails to get registered within this time limit, he shall be subject to sanctions provided for in the laws of the Republic of Lithuania.

7. The zone enterprises or the zone administration company, which have employed foreigners, must within 3 days inform migration agency of the local police commissariat.

8. It may be provided in the statutes of the zones that the zone administration company may act as mediator in issuing visas to foreigners for going through the territory of the Republic of Lithuania from the border crossing posts to the territory of the zone. In such case, the same checking regime as established for border crossing posts shall be established at the entry point into the zone.

9. The citizens of the Republic of Lithuania and other persons shall be allowed entry into the zone upon producing permits issued in accordance with the procedure established by the zone administration company.

Persons who entered the zone in violation of the established procedure shall be liable under the laws of the Republic of Lithuania.

**Chapter VIII**

**STATE GUARANTEES TO INVESTORS INTO FREE ECONOMIC ZONE**

**Article 27. State Guarantees for the Functioning of the Zone**

1. Foreign investments, legally earned profit , income, dividends, rights and legitimate interests of the investors shall be protected by the laws of the Republic of Lithuania.

2. The system of state guarantees of investment security shall apply to all economic entities engaged in economic and commercial activities as well as other activities in the zone. The state shall guarantee the economic entities the right to bring in the zone and to take out of the zone and the Republic of Lithuania capital and profit.

3. Foreigners shall be guaranteed the right to own 100% of the assets of an enterprise operating in the zone.

The terms and conditions for the investment of capital of foreign origin or the existence of investments shall not change for five years from the beginning of investment for those investors who invested the capital of foreign origin owned by them by the right of ownership according to the procedure and conditions established at the time a relevant law was in effect.

**Chapter IX**

**SETTLEMENT OF DISPUTES CONCERNING THE ACTIVITIES**

**OF THE ZONE ENTERPRISES OR THE ZONE ADMINISTRATION COMPANY**

**Article 28. Procedure for the Settlement of Disputes in the Zone**

Disputes arising between the zone enterprises, the zone enterprises and the zone administration company, the zone administration company and state institutions, the zone administration company and the state institution authorised by the Government of the Republic of Lithuania to perform state supervision of the free economic zones, concerning the compensation for the change of conditions of the activities of zone enterprises, as well as other disputes shall be settled in accordance with the procedure established by the Civil Code of the Republic of Lithuania.

**Chapter X**

**LIQUIDATION OF THE FREE ECONOMIC ZONE**

**AND THE ZONE ENTERPRISE**

**Article 29. Procedure for the Liquidation of the Zone Enterprise**

1. The zone enterprise may be liquidated on the following grounds:

the decision of the owner of the enterprise to terminate the activities;

the decision of the court or creditors meeting to recognise the enterprise as bankrupt;

the decision adopted by relevant state institutions to revoke the registration of the enterprise for the violation of law provided for in this law or other laws of the Republic of Lithuania, the statute of the zone, the bylaws of the zone enterprise, and the agreement with the zone administration company;

failure to carry out economic-commercial activities in the zone for more than one year;

the fact established by law enforcement institutions that illegally acquired capital has been invested in the zone enterprise, or illegally acquired money is being used in the activities of the enterprise; and

on other grounds provided for in the laws of the Republic of Lithuania.

2. The zone enterprise shall be liquidated according to the procedure established by the Law on Enterprises of the Republic of Lithuania.

**Article 30. The Procedure for the Liquidation of the Zone**

1. Free economic zone shall be deemed liquidated upon the expiration of the period for which it was established, provided its activities are not extended by the Seimas of the Republic of Lithuania.

2. The zone may be liquidated by the Seimas of the Republic of Lithuania prior to the expiration of the period for which it was established in cases recognised as international legal grounds.

3. The Government of the Republic of Lithuania shall form liquidation commission for the settlement of property and other issues related to the liquidation of the zone, and the financial relations between the economic development and management bodies of the zone and the subjects of economic activities operating in the zone, which shall be authorised to administer the zone until final settlement of all issues concerning the liquidation of the zone.

4. Disputes over the liquidation of the zone shall be settled in the courts of law of the Republic of Lithuania.

*I promulgate this Law passed by the Seimas of the Republic of Lithuania.*

Algirdas Brazauskas

President of the Republic

Vilnius

28 June 1995

No. I-976

(As amended by 2 April 1996)