



SPECIAL CUSTOMS ZONES / FREE ZONES

(ITEM XII ON THE AGENDA)

Background

1. Many countries establish and manage special zones to raise their economic competitiveness and to adapt to needs arising from supply chain management and global value chains. In view of such expansion in the various regions, the Action Plan of the Economic Competitiveness Package invites discussion by WCO Members on the possible development of an instrument for Special Customs Zones / Free Zones (hereafter called as "SCZs").
2. At the 217th /218th Sessions of the PTC In October 2017, Members supported the WCO Secretariat's proposal under Agenda item "Special Customs Zones" to conduct analysis of SCZs and to hold regional workshops to determine the necessity of revising relevant WCO instruments, such as the Revised Kyoto Convention (RKC) and the RKC Guidelines for free zones, or the necessity of developing a new tool.

Revised Kyoto Convention

3. The RKC dedicates one Chapter (Chapter 2 of Specific Annex D) to Customs procedures applicable to SCZs, and RKC Guidelines provide technical specifications for that Chapter's implementation. So far, the RKC is the only international agreement which has provisions on this matter.
4. The RKC gives the following definition:

"free zone means a part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory."

The RKC and its Guidelines clearly specify that Customs procedures should be applied to SCZs, and that SCZs are not areas "free" from Customs control. As just one example, RKC Standard 4 in Chapter 2 stipulates that the Customs shall have the right to carry out checks at any time on the goods stored in a free zone.

5. Nevertheless, as has been regularly discussed at various WCO meetings, including those of the Enforcement Committee, illegal activities such as drug

smuggling, IPR infringements, tobacco smuggling and money laundering have been repeatedly reported, and Members have expressed the need for better Customs procedures and Customs controls in SCZs. Furthermore, originally SCZs focused on manufacturing for export, and they are often transit areas, and these illegal activities also target smuggling into other countries. Thus, proper Customs procedures and Customs controls in SCZs would be an issue not only for the countries with SCZs, but also for those countries without them, and possible solutions may need international action and cooperation.

Research on SCZs

6. In order to determine whether revision is required of current WCO instruments, or a new tool needs to be developed to provide guidance to Customs administrations on dealing with SCZs, the WCO Secretariat would like to propose conducting an online WCO survey to analyse the current situation and challenges, as well as to propose holding workshops to exchange operational experience and discuss ideas for better Customs procedures. The results of these activities could be summarized in the form of a WCO research paper on SCZs to facilitate further discussion by Members on necessary developments or revision of relevant WCO instruments.

Online survey

7. There has been no comprehensive WCO research on Customs procedures for SCZs. It would be beneficial if the WCO Secretariat could examine the current situation globally and identify challenges relevant to SCZs in a holistic manner via a survey.
8. In terms of the survey approach, an online survey with multiple choice questions requiring yes/no answers, and drop-down lists, would minimize the burden on Members and increase the efficiency of analysis. A draft survey is attached in the Annex.

Workshops

9. Workshops would enable Members and the WCO Secretariat to examine existing SCZs, to explore best operational practice of Members, to discuss challenges, and to collect input and ideas for the possible WCO instrument for SCZs.
10. The WCO Secretariat suggests holding two regional workshops in two different regions, and research missions, based on the needs emerging from the survey.

Key issues on SCZs for analysis and discussion

11. Several key issues could be analysed using the survey, and discussed in the workshops. The results could be summarized in the form of a comprehensive analysis of SCZs, focusing on Customs procedures and the application of WCO instruments. The key issues are as follows:

- National legal frameworks of SCZs;
- Involvement in the approval process of SCZs;
- Customs procedures (e.g. entry, storage/processing, exit);
- Current Customs declaration/reporting arrangements, and available data/documents;
- Duty (e.g. exemption from duty/tariffs, importation after manufacture);
- Customs control and security issues (e.g. seizures and illegal activities, physical controls in each process (entry, storage, exit));
- Cooperation with other agencies (e.g. tax authorities);

- Partnership with the private sector (e.g. authorization, periodic reviews);
- Mutual Customs cooperation.

Project plan for SCZs

12. With all of the above in mind, a possible project plan is as follows:

Time frame	Plan
Step 1 <i>(May 2018)</i>	<ul style="list-style-type: none"> • Online survey
Step 2 <i>(June to September 2018)</i>	<ul style="list-style-type: none"> • Regional workshops • Research missions
Step 3 <i>(October 2018)</i>	<ul style="list-style-type: none"> • Research paper on SCZs, focusing on Customs procedures and the application of WCO instruments and tools.
Step 4 <i>(after November 2018)</i>	<ul style="list-style-type: none"> • Revision of WCO instruments, or development of a new tool (based on the conclusion of the analysis in Step 3 and decisions by Members).

Action required

13. PTC delegates are invited to:
- share their experience and challenges relating to SCZs in their countries;
 - provide feedback on the key issues to be analysed and discussed;
 - consider the proposed project plan and, if appropriate, approve it.