



Brussels, 8 October 2018.

SPECIAL CUSTOMS ZONES/FREE ZONES
(Item XIV on the Agenda)

Background

1. Special Customs Zones/Free Zones (SCZs) are at the forefront of government policies as “growth poles” for national and regional economies, through the stimulation of foreign direct investments (FDI), the creation of economic value added and the generation of employment. The rapid adoption of the SCZ concept around the globe is a measure of its continuing relevance, both for countries and for the business community.
2. With the expansion of SCZs in the various WCO regions, the issue of how to apply adequate and efficient Customs procedures and control in SCZs appeared on the WCO’s agenda several years ago. More and more Customs administrations are ready for constructive dialogue in this challenging sphere.
3. In order to assist Members with this task and contribute to the healthy expansion of SCZs for the economic benefit of countries, the WCO has included in the scope of the Economic Competitiveness Package Action Plan, discussions on the possible development of a new instrument dealing with SCZs.
4. The Permanent Technical Committee at its 219th/220th Sessions, and the Enforcement Committee at its 37th Session, held discussions on SCZs and agreed to conduct an analysis of the current situation, including the economic benefit of SCZs, and examine the need to develop WCO instruments.
5. This process of examining SCZs will be supported by workshops, a detailed analysis of the results of a WCO online survey, and additional research - including fieldwork in SCZs in different WCO regions. This will allow for an in-depth analysis of the current situation, including the economic benefit of SCZs, leading to the development of common ground for adequate international standards on Customs procedures and controls; the objective is to ensure that Customs plays a proper role in the development and operation of SCZs, with the necessary policy dialogue.
6. In addition, other international organizations have actively engaged in SCZ issues. By way of example, in 2018 the OECD Task Force on Countering Illicit Trade (TF-CIT) developed a draft text entitled “OECD Guidance to Counter Illicit Trade: Enhancing Transparency in Free Trade Zones”, which is intended to become an

international standard of reference. The draft was open for public consultation among all stakeholders, including Free Zone operators, government agencies and the private sector, until 3 September 2018. The WCO Secretariat consulted closely with TF-CIT in this respect, and provided its input and comments through the relevant channels. The publication of the final version is currently awaited.

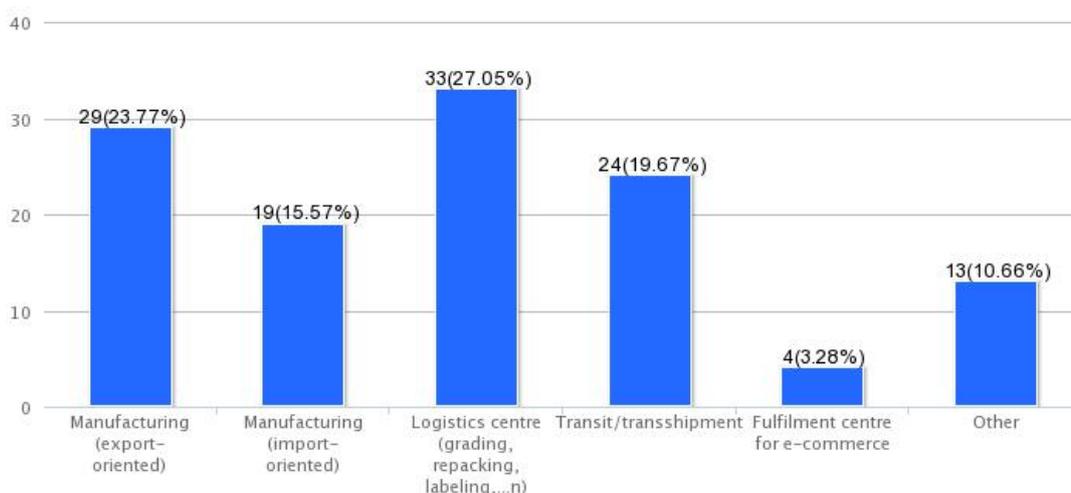
7. The purpose of the present document is to offer a preliminary summary of the results of the WCO online survey on SCZs conducted in June/July 2018, with the aim of providing a brief overview of Members' experiences in order to facilitate further discussion in the PTC on the way forward.

Overview of the WCO online survey

8. The Questionnaire consisted of five main parts: 1) number and type of SCZs in the responding Member; 2) administration and operation of SCZs; 3) Customs procedures in SCZs; 4) Customs control of SCZs; and 5) Cooperation in SCZs. Furthermore, the Questionnaire provided Members with an opportunity to identify any areas of Customs procedures and control where there was a need for further improvements.
9. Replies to the Questionnaire have been received from 60 of the 182 WCO Members (i.e., 33% of the membership); 33 responses came from the Europe region, 9 from Asia-Pacific, 6 from the Americas and Caribbean region, 4 from West and Central Africa region, 4 from East and Southern Africa region, and 3 from North Africa, Near and Middle East region.
10. Forty-three Customs administrations (73% of those which responded) indicated that they have SCZs in their countries, and the total number of SCZs listed in the responses to the Questionnaire was 2,086¹.
11. The key findings from the online survey are as follows:

Types of SCZs

[Chart 1]



¹ For the purposes of the online survey, the term "SCZs" was used in the same way as "Free Zone", being defined as "a part of the territory of a Member country where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory" (see Chapter 2 of Specific Annex D to the Revised Kyoto Convention).

12. It was found that Members have various types of SCZs (Chart 1). In particular, 33 Members (77% of those have SCZs) indicated that they had SCZs of the “logistics centre” type. Twenty-nine Members (67%) indicated that they had manufacturing (export-oriented) SCZs and 24 Members indicated that they had Transit/Transshipment type. It is worth mentioning that four Members reported having “fulfillment centre” type SCZs, which demonstrates the impact that the expansion of e-commerce is having on the development of SCZs.

Administrative body governing the SCZs²

13. Twenty-one Members (42% of those have SCZs) indicated that Customs was the administrative body governing the SCZ regime, while 10 indicated that the administrative body for SCZs was a special body dedicated to this purpose.

Customs involvement in Approval process for companies operating in SCZs

14. The responses were split almost evenly, with 22 Member Customs administrations reporting that they are involved in the approval process for companies which conduct daily business activities in SCZs, while 19 reported that they were not involved in such a process. This result may suggest a lack of political will to secure Customs’ involvement.

Customs procedures in SCZs

15. The responses to the question “Does the Customs administration have the authority to carry out the following in SCZs?”, provide an indication of the current application of Customs procedures in SCZs. Table 1 below summarizes the Customs procedures that respondents reported having the authority to conduct in SCZs³.

[Table 1]

	No. of administrations
Audit companies conducting business in SCZs	35
Require periodical reports from companies conducting business in SCZs	34
Post-clearance audit of goods that have left SCZs	39
Physical inspection of goods in SCZs	43
Detection or seizure of illegal goods in SCZs	38

16. It should be noted that the number of Customs administrations which reported having the authority to conduct physical inspections of goods in SCZs is 43, i.e., 100% of the Member administrations that have SCZs in their countries have the authority to conduct Customs control therein; on the other hand, only 35 administrations have the authorities to audit companies conducting business in SCZs, and only 38 have the authority to detect/seize illegal goods in SCZs.

² Standard 2 of RKC Specific Annex D, Chapter 2 (Free Zones) indicates that “National legislation shall specify the requirements relating to the establishment of free zones, the kinds of goods admissible to such zones and the nature of the operations to which goods may be subjected in them.” The RKC Guidelines to Specific Annex D, Chapter 2 (Free Zones) indicate the special conditions to be imposed, such as safety and security measures to be observed in connection with the storage of goods, and the approval and control of vehicles and personnel allowed access to the free zone.

³ Standard 1 of RKC Specific Annex D, Chapter 2 (Free Zones) states that “The Customs regulations applicable to free zones shall be governed by the provisions of this Chapter and, insofar as applicable, by the provisions of the General Annex.” The RKC Guidelines to Specific Annex D, Chapter 2 (Free Zones) explain that the core provisions in the General Annex should be applied in full to Free Zones. In particular, Chapter 1 of the General Annex (General principles), Chapter 3 on Clearance and other Customs formalities, Chapter 4 on Duties and taxes, and Chapter 6 on Customs control, must be read in conjunction with Specific Annex D, Chapter 2.

Data submission in SCZs

17. Table 2 below summarizes data submission requirements for Customs procedures in SCZs.

[Table 2]

	No. of administrations
Advance cargo data	17
Entry declaration	29
Exit declaration	28
Import declaration	36
Export declaration	35
Transit/transshipment declaration	30
Data regarding transfer of money	7
Other	11

18. Thirty-six Members responded that they require import declarations in respect of goods imported from SCZs, while only 29 Members require entry declarations for goods coming into SCZs; this is an indication of the difficulty of analyzing the risk posed by goods in SCZs (before importation). It is noteworthy that 17 Members require advance cargo data to be submitted before the arrival of goods in SCZs.

Customs office in SCZs

19. Thirty-one Member administrations indicated that they had officers constantly stationed in the SCZs, while nine reported that they had officers there intermittently; five administrations do not have an office in their national SCZs, implying that it would be difficult for them to conduct proper physical Customs controls there.

Detection/seizures in SCZs

20. Members reported various types of detections and seizures in SCZs; duty fraud, tobacco smuggling, IPR infringements and false declarations of origin were the types most frequently reported in this survey, followed by illegal drugs. It is worth mentioning that Members also reported certain detections and seizures which may be related to terrorist activities, such as the detection and seizure of small and light arms, explosives and cultural heritage goods, as well as money laundering.

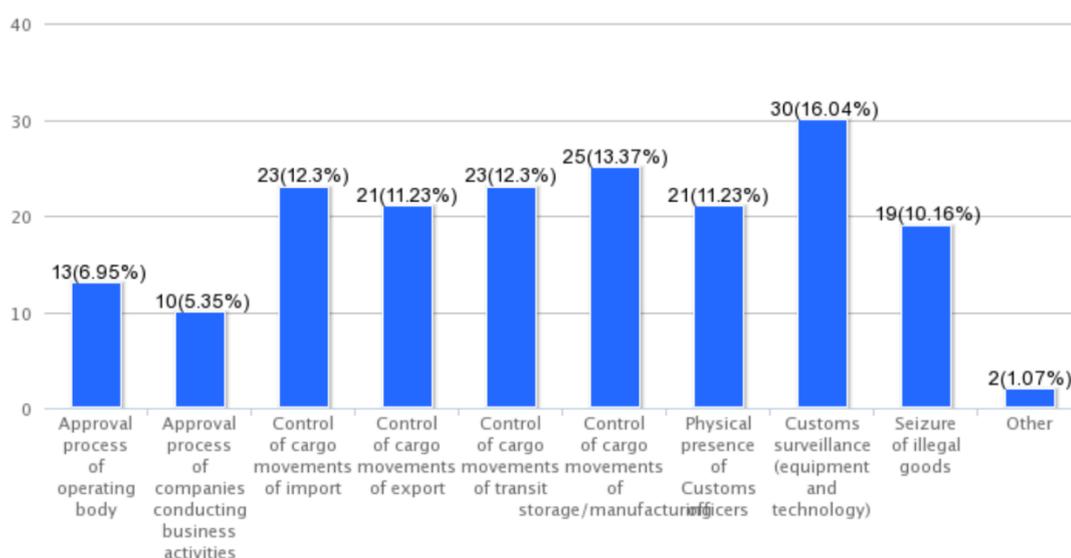
[Table 3]

	No. of administrations
Explosives	5
Small and light arms	6
Illegal drugs	15
IPR infringements	19
Duty fraud	27
Tobacco smuggling	20
Cultural heritage smuggling	5
Money laundering	6
False declarations of origin	16
Other	15
None of the above	23

Need to improve Customs procedures and controls in SCZs

21. Thirty-three administrations responded that there was a need to improve Customs procedures and control in SCZs; only 14 saw no need for this. Regarding the areas for improvement shown in Chart 2 below, it can be seen that the area most frequently mentioned – by 27 administrations – was Customs surveillance (equipment and technologies); this was followed by the control of cargo movements in respect of storage and manufacturing (22 administrations), import (20), transit (20) and export (18).

[Chart 2]



Other issues

22. The Questionnaire also offered Member administrations the possibility of sharing any thoughts and/or comments they may have on Customs procedures and control in SCZs.
23. Many respondents highlighted the significance of using ICT equipment and inspection technologies in SCZs for the proper monitoring of the movement of goods and for revenue collection, in order to strategically and effectively handle the growing volumes of goods in SCZs.
24. Some administrations also underlined the need for awareness-raising on the responsibilities and obligations of companies in SCZs, and the importance of Customs' full involvement in the company approval/registration process, as well as the need for proper training on Customs procedures/control in SCZs. One Member stressed the importance of defining construction standards⁴ which enable the appropriate Customs procedures/controls to take place in SCZs.

⁴ Standard 3 of RKC Specific Annex D, Chapter 2 (Free Zones) states that "The Customs shall lay down the arrangements for Customs control including appropriate requirements as regards the suitability, construction and layout of free zones." The RKC Guidelines to Specific Annex D, Chapter 2 (Free Zones) give examples of such arrangements, including: premises to be enclosed and constructed to ensure proper safety and accounting of goods; restrictions on means of access and establishing hours of business; access to the free zone under permanent or intermittent supervision; and keep proper accounts of the goods to control the circulation of the goods.

25. It is noteworthy that nine Member administrations with no SCZs on their own territories nevertheless expressed a need for improvements in SCZs in general, indicating the existence of cases where illicit goods come from SCZs in other countries.

Summary of the WCO online survey

26. Bearing in mind all of the above-mentioned considerations, the initial analysis of the online survey on SCZs leads to the following key findings, which could potentially provide the basis for the revision or updating of international standards, together with necessary awareness-raising activities to ensure the effective implementation of those international standards:
- the need to ensure that Customs has the appropriate competence to conduct Customs procedures and surveillance over goods/companies in SCZs, in order to combat illicit trade while maintaining and contributing to the economic benefits of SCZs;
 - the importance of Customs' full involvement in the process of establishing SCZs, including planning their construction, and in the approval process for SCZ operators and companies in SCZs;
 - the need to strengthen cooperation with operators and companies in SCZs, for example through periodic dialogues and reporting, the provision of adequate training and the application of the AEO concept;
 - the urgent need to find a new way of using data to effectively control the overall movement of cargo in SCZs for transit/transshipment, import and export, and even pre-arrival; and
 - the usefulness of applying modern technologies for Customs surveillance without disturbing the movements of cargo.

Action required

27. PTC delegates are invited to:
- share national experiences of SCZs (including those of Members with no SCZs) and examine the overview of the online survey on SCZs;
 - exchange thoughts on possible innovative Customs procedures and controls using data and modern technologies, to be applied experimentally in SCZs, considering the characteristics of SCZs and treating challenges as opportunities; and
 - discuss awareness-raising activities that could be carried out by the Customs community as a whole to ensure effective Customs procedures/control while contributing to the economic benefits of SCZs.
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