

# Special Customs Zones / Free Zones



# Many news on these zones

## Jack Ma opens Malaysia's 'digital free trade zone' with an eye to Southeast Asia's ecommerce boom



Jack Ma and Prime Minister Najib Razak (second and third from left). Photo credit: Alibaba.

(source: <https://www.techinasia.com/jack-ma-opens-malysias-digital-free-trade-zone-eye-southeast-asias-ecommerce-boom>)



## UAE Ministry of Finance Clarifies Details Surrounding Designated Zones

Published January 11th, 2018 - 14:25 GMT Press Release

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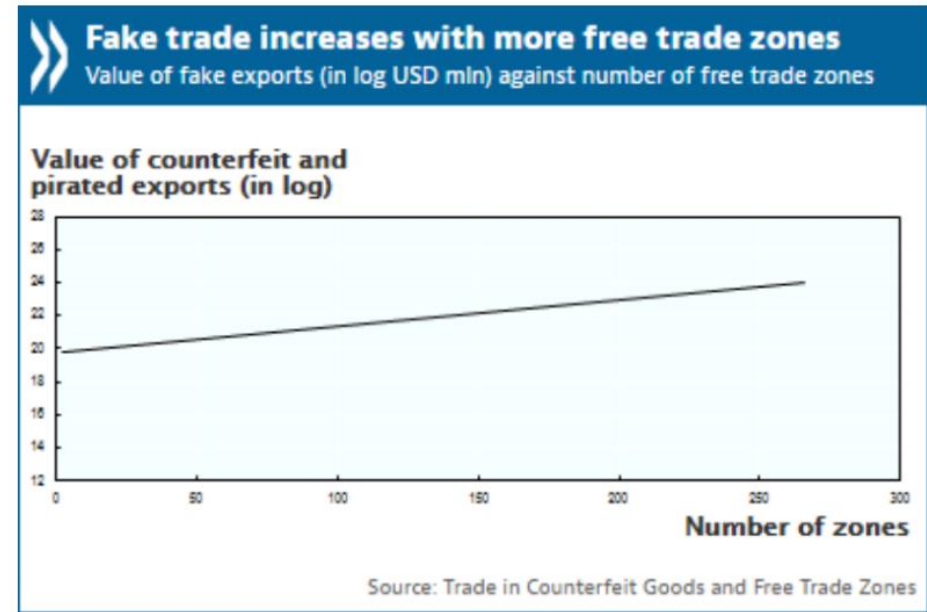


Although Designated Zones are part of the UAE territory, the Ministry continued, for VAT purposes, they are treated as being outside the UAE.

The Ministry clarified that according to the Law and relevant Cabinet Decisions, a "Designated Zone" is a specific fenced geographic area that has security measures and Customs controls in place to monitor entry and exit of individuals and movement of goods to and from the area, and are listed in a Cabinet Decision as Designated Zones, which differ from free zones in terms of definition and conditions.

(source: <https://www.albawaba.com/business/pr/uae-ministry-finance-clarifies-details-surrounding-designated-zones-1072890>)

## Free trade zones are being used to traffic counterfeit goods, says OECD



The FINANCIAL -- Rapid growth in free trade zones -- where economic activity is driven by reduced taxes and customs controls, light regulation and limited oversight -- is unintentionally fostering growth in counterfeit goods trafficking, according to a new report by the OECD and the EU's Intellectual Property Office.

(source: <https://www.finchannel.com/business/72172-free-trade-zones-are-being-used-to-traffic-counterfeit-goods-says-oecd>)

# The RKC: the only international convention for Free zones

## RKC Specific Annex D, Chapter 2: Free Zones

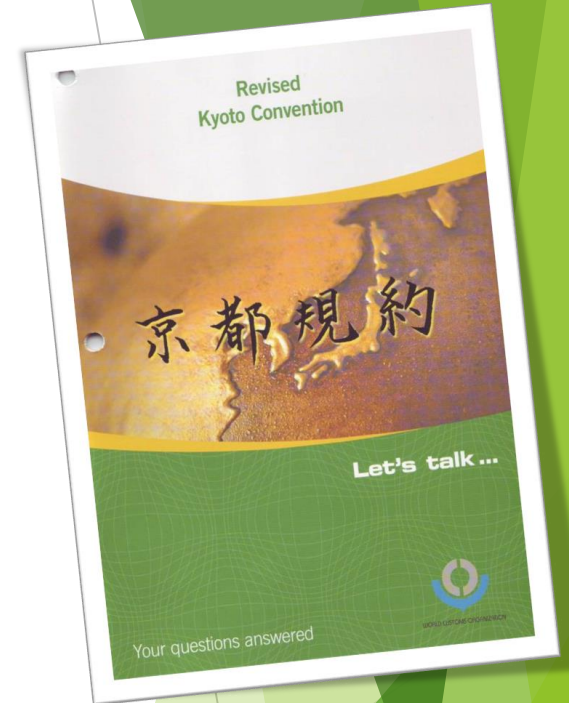
“Free zone” means a part of the territory of a Contracting Party where any goods introduced are generally regarded, **insofar as import duties and taxes are concerned**, as being outside the Customs territory.

## RKC Specific Annex D, Chapter 2: Free Zones

*Standard 4:*

Customs have a right to carry out checks at any time on the goods stored in a free zone.

**-> Free Zone is not free from Customs Control/Customs procedures**



# Cases of fraud identified

- ▶ Drug trafficking
- ▶ Trafficking of cigarettes and tobacco, alcohol
- ▶ Smuggling of Cultural heritage
- ▶ Counterfeit goods: footwear, clothing, etc.
- ▶ False declarations of origin
- ▶ Money laundering (bulk cash, trade based money laundering )

etc.



Morocco Customs



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Morocco Customs





## How does economic development influence drug trafficking?

### *Does globalization affect drug trafficking?*

Facilitating trade and easing trade barriers are features of globalization that can potentially have an impact on drug trafficking. While the value of trade agreements in boosting economic development is not under question, by fostering the expansion of trade and global transportation networks, trade openness may also facilitate the cooperation and the formation of alliances among criminal organizations in different countries. Such cooperation expands the power and reach of cartels to distant markets and thereby strengthens their ability to evade detection by local law enforcement. Indeed, it has been argued that globalization has driven an overall decline in the retail prices of drugs by increasing the efficiency of their distribution, by reducing the risk premium involved in dealing drugs and by increasing the degree of competition in illicit drug markets.<sup>84</sup>

Strategies adopted to facilitate trade, such as free trade agreements and the establishment of free trade zones, export-processing zones, economic areas and customs unions, may reduce the opportunity for law enforcement authorities, specifically customs authorities, to monitor shipments from their origin to their destination. Such strategies shift the onus of monitoring trade from the country of destination to the point of entry into the broader economic area. This may potentially affect not only trafficking in illicitly produced drugs but also,

83 *World Drug Report 2012*, p. 67.

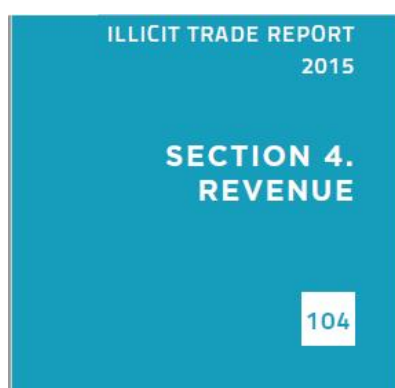
84 Cláudia C. Storti and Paul De Grauwe, "Globalization and the price decline of illicit drugs", *International Journal of Drug Policy*, vol. 20, No. 1 (2009), pp. 48-61.





Illicit Trade Report  
2015

Operation Gryphon II confirmed a well-known fact that free trade zones are used for illicit trade. Consignments travelling between free zones were reported to have been 'lost' or to have disappeared.



SECTION 4.  
REVENUE

104



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TABLE 4. CIGARETTES BY LOCATION

Location	2014		2015	
	Number of seizures	Quantity (pieces)	Number of seizures	Quantity (pieces)
Airport	244	5,665,860	243	4,423,180
<u>Border of free trade zone</u>	5	4,098,840	6	582,200
High seas	2	75,964,980	3	3,132,000
Inland	3,237	7,497,534,423	2,524	1,007,870,945
Land boundary	1,239	826,659,652	895	429,855,563
Mail centre	15	2,940,590	34	2,402,448
Other	63	309,724,680	56	97,035,280
Rail	68	10,358,436	110	29,783,199
River	44	4,861,140	11	2,232,670
Seaport	260	1,133,271,794	159	1,080,546,477
Unknown	5	1,661,950	1	400
<b>Total</b>	<b>5,182</b>	<b>9,872,742,345</b>	<b>4,042</b>	<b>2,657,864,362</b>





## Switzerland addresses the traffic in cultural goods

By Professor Jean-Robert Gisler,  
FEDERAL OFFICE OF POLICE, SWITZERLAND



years, this historical function of Customs warehouses has evolved to encompass the storage of valuables, including cultural goods in particular. Thus, works of art are stored in these warehouses under the best possible conditions, while they wait to change hands.

The interest in contemporary art and the need for secure storage facilities go some way towards explaining this development, but there are other factors: the diversification of private investors' portfolios, especially in the aftermath of the financial crisis; tax optimization strategies in the area of asset and wealth management; the development of 'art banking' (an art advisory service developed by the banks); and the development of investment funds and hedge funds that invest in art.

Thus, in recent years, works of art have become financial assets like any other, and transactions can be concluded independently of the physical location of the work of art. This situation has considerably increased the demand for secure storage, preferably outside the tax laws of a given country, enabling works of art to change hands as financial transactions may dictate, without physically changing location.

The OCWs, whose primary function is the temporary storage of large consignments of goods in transit – for example, garments while being labelled – are sometimes used for high-value goods. However, although their number has increased rapidly in recent years, they have yet to outrank the now ultra-secure free ports in this respect; especially the one in Geneva which recently opened a new building on its 'territory,' with a floor area of 10,400 m<sup>2</sup>, devoted entirely to the warehousing of works of art.

As one can imagine, these warehouses have also been used to store illicit goods and to circumvent, notably, the requirements of the CPTA. Given such activities, the Swiss legislature had to draw up a new legal framework to regulate, in particular, these 'exceptional' Customs areas, namely free ports and OCWs.

### New Customs Act

The new Customs legislation, i.e., the Customs Act which was adopted by the Swiss Parliament in 2005 and entered into force in 2007, updated Swiss law to reflect modern Customs requirements, especially in the area of combatting illicit trafficking. It replaced legislation which dated back to 1925, and which had not been revised frequently.

One of the exceptional pieces of ancient Etruscan art, discovered at Geneva Free Ports, handed back to Italy in January 2016

The provisions concerning OCWs (CA, Articles 50 to 57) and free ports (CA, Articles 62 to 67) fall into two different Chapters, but some of them are similar. The major changes introduced by this new legislation, insofar as free ports and OCWs are concerned, include the following:

- The introduction of Customs warehousing as a new Customs regime, encompassing OCWs which are distinct from free ports. The Customs warehouse is defined as a place in the Customs territory which is authorized by the Customs administration and placed under Customs supervision, and in which goods can be stored under conditions laid down by Customs. For OCWs, this procedure involves, among other things, the removal of import duties and the non-application of commercial policy measures, the identification of the goods, and random checks on compliance with the conditions and charges stipulated in the authorization;
- A new definition of free ports, now known as 'duty-free warehouses.' Free ports are no longer defined as being foreign Customs territories, and as a result they no longer have 'extra-territorial' status which precludes any inspections on their premises. The

# Need international Customs community's action



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra



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# WCO Economic Competitiveness Package

## Action Plan Phase III

The ECP Action Plan invites discussion on this matter and on the possible drafting of an instrument for Special Customs Zones.

Action	Responsible body	Relevant Work Programme or Action Plan
Discuss the development of new Guidance on Special Customs Zones	WCO Secretariat, PTC, other related WCO committees or working groups	PTC Work Programme



# Key issues

- ▶ Involvement in the approval process of those zones;
- ▶ Customs procedures (e.g. entry, storage/processing, exit);
- ▶ Current Customs declaration/reporting arrangements, and available data/documents;
- ▶ Inventory audit
- ▶ Duty aspect(e.g. exemption from duty/tariffs, importation after manufacture);
- ▶ Customs surveillance, control and intelligence
- ▶ Cooperation with other agencies (e.g. tax authorities);
- ▶ Partnership with the private sector (e.g. authorization, periodic reviews);
- ▶ Mutual Customs cooperation



# Proposed Project Plan for Special Customs Zone/ Free Zones

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





# Questions?

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