



PERMANENT TECHNICAL
COMMITTEE

PC0547E1a

-
223rd/224th
Sessions

-
5 - 8 March 2019

Brussels, 24 January 2019.

SPECIAL CUSTOMS ZONES/FREE ZONES

(Item XIX. on the Agenda)

I. Introduction

1. The expansion of Free Zones/Special Customs Zones (SCZs) has been driven mainly by political decisions with close linkages to the national economic development strategy. Thus, while in some countries Customs are the main governmental authorities that regulate and govern the SCZ regime and system, there are a number of countries where SCZs are governed by other authorities, with less involvement of Customs. Depending on the institutional set-up, the scope and degree of Customs procedures/control in SCZs and the economic operations carried out vary considerably from one country to another.
2. The issue of adequate and efficient Customs procedures/control in SCZs appeared on the WCO's agenda several years ago. With more Customs administrations ready for constructive dialogue in this challenging area, 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 in order to assist Members with this task and contribute to the healthy expansion of SCZs for the economic benefit of countries.
3. Last year, the Permanent Technical Committee (PTC), 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) through an online survey and field studies/workshops, and to examine the need to develop WCO instruments.
4. Following the decision taken by the PTC and the EC, the Secretariat conducted a WCO online survey on SCZs in June/July 2018, the results of which were presented in Doc. PO0531E and discussed during the 221st/222nd Session of the PTC. (The preliminary analysis of the survey can be accessed via <http://www.wcoomd.org/-/media/meeting-documents/permanent-technical-committee/221/PC0531E.>)
5. Furthermore, the Policy Commission (PC), at its December 2018 Session, held an extensive discussion on SCZs. During the discussion, delegates emphasized the

need to ensure that the Customs perspective is taken into account in the establishment of such Zones. Delegates also highlighted the need to explore new and innovative ways of implementing control in SCZs in order to prevent their being exploited for illicit purposes.

6. In conclusion, the PC approved the ongoing research and field work, as well as the development of a study report and guidance materials, and requested the Working Group on the Comprehensive Review of the RKC (WGRKC) to consider reviewing Chapter 2 of Specific Annex D (Free Zones) and the accompanying RKC Guidelines on Free Zones, including the need to harmonize the terminology used.

II. Comprehensive review of the Revised Kyoto Convention (Chapter 2 (Free Zones) of Specific Annex D)

7. Customs policy in relation to SCZs is outlined in Chapter 2 of Specific Annex D to the RKC, and the RKC Guidelines on Free Zones provide technical specifications regarding this Chapter. Chapter 2 contains 21 Standards covering a wide range of Customs procedures and controls related to SCZs. To date, the RKC is the only international agreement which includes provisions on this subject.
8. The RKC defines a free zone as *“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”*.
9. One implication of this definition is that all non-tariff Customs activities, such as Customs procedures and border control functions (including inspections and seizures), should be applied and enforced in SCZs. By way of example, Standard 4 is essential in that it stipulates that Customs “shall have the right to carry out checks at any time on the goods stored in a free zone”.
10. However, despite these Standards, Customs controls in SCZs are in general more flexible than those exercised in other contexts. Furthermore, some countries interpret these zones as “being outside the Customs territory” altogether, leading to a denial of Customs’ jurisdiction over goods in SCZs, and opening the way for illegal trade.
11. The WGRKC kicked off its work of conducting a comprehensive review of the RKC in September 2018, the outcome of which is expected to be completed during the financial year 2020/2021. As of 14 January 2019, the WGRKC has received three written proposals on Chapter 2 of Specific Annex D, from South Africa, Haiti and Cuba, recognizing the urgent need to review these Standards in order to ensure that the necessary control and facilitation measures to be applied to SCZs are adequately addressed in the RKC.

III. Field studies and workshops

12. Considering the global expansion of SCZs as well as the diversity of SCZs, an in-depth analysis of the current situation, through SCZ field studies in different WCO regions, is essential. This analysis should include the economic benefits of SCZs and good practices to enhance Customs controls through the utilization of IT and technologies, in line with the key findings of the online survey.
13. The Secretariat is currently conducting field studies in different regions based on the work plan set out in the Annex to this document. The results of these field studies

are summarized below. In addition, the results of the field study and workshop conducted in Morocco (28-30 January 2019), among others, will be presented orally during the 223rd/224th Sessions of the PTC.

14. Latin America region

(Field study and workshop conducted in the Dominican Republic in August 2018)

- With 71 SCZs currently in operation with 674 companies, the Dominican Republic has benefited from the SCZ regime for over 50 years, with the economic benefits of SCZs such as promoting jobs and contributing to economic growth.
- The Customs administration has established a special department dedicated to SCZs, with branch offices in each SCZ, significantly contributing to the development of the SCZs and to their operations through daily cooperation with logistics operators and companies in the SCZs.
- A project aimed at linking the IT system between Customs and client companies operating in the SCZs is ongoing, playing a significant role in allowing adequate Customs control including entry/exit and inventory control while expediting Customs procedures.
- A number of logistics operators in the SCZs have emphasized that simplified and expedited Customs procedures using digitization and modern inspection techniques are one of the key benefits of the SCZs for attracting clients. It was also highlighted that Customs needs to be able to respond to the rapidly changing business needs and trends in the SCZs by working together with the private sector.
- Workshop participants raised several important points that need to be addressed in future discussions: the importance of the definition of an SCZ in the national legislation in order to ensure adequate Customs procedures/control; digitization of Customs procedures and use of modern inspection technologies such as GPS seals and container scanners; and the need for awareness-raising about the role of Customs in the SCZs.

15. Asia region

(Field study conducted in China in January 2019)

- Of the total of 140 SCZs in China, there are six types of SCZ : (1) bonded area; (2) export processing zone; (3) bonded logistics park; (4) bonded port area; (5) comprehensive bonded logistics area; and (6) cross-border industrial zone. China's SCZ scheme has developed in line with changes in the policy and business environments, and consequently there is very little difference between these six types : e.g. export processing zones originally focused on only manufacturing for export, but now also include logistics operations.
- Export/import activities conducted by companies located in the SCZs correspond with more than 15% of China's total export/import volume. The trend in manufacturing for export is in relative decline, while logistics operations, especially those involving the importation of consumer commodities, are increasing owing to the rapid expansion of cross-border E-Commerce. This kind of E-Commerce business that makes use of the bonded system (bringing into/storing in SCZs in large quantities and importing in small quantities on the

basis of individual orders placed by consumers) is permitted only within the SCZs.

- As part of the government structure, the Customs administration has responsibility for monitoring compliance with the legal requirements of SCZs.
 - Companies must register with Customs in order to be able to start operating in SCZs. As part of the registration process, companies must meet certain conditions such as not having any record of smuggling or any other violations under Customs law, i.e. the same conditions as those which apply to companies wishing to start operating outside SCZs.
 - Companies must submit all cargo-related data such as entry, exit and consumption records via a website, by means of which Customs are able to capture and accumulate all data related to the movement of the cargo. In this way, Customs are able to monitor companies' compliance status and utilize any data on irregular activities for targeting purposes.
 - In addition, in some regional Customs offices, companies provide Customs with access to their internal inventory IT system, such that Customs' IT system automatically extracts designated data in real time instead of the company's having to forward the data each time, thereby reducing the need for physical verification of the company.

IV. The way forward

16. The Secretariat plans to conduct a series of field studies/workshops by May 2019 with a view to compiling and analysing the results therefrom in the form of a WCO Research Paper. In parallel, the WGRKC will continue to review the text of the RKC and its Guidelines, taking into account Members' proposals and field study results.
17. Furthermore, all discussions and study results are to be compiled in an SCZ Handbook, which will be developed as a tool for capacity building activities and to provide guidance for the review of Chapter 2 of Specific Annex D to the RKC.
18. Based on the discussions and field studies conducted thus far, the key imperatives for the proposed Handbook include (but are not limited to) the following :
 - Definition of an SCZ and related terminology;
 - Appropriate competence of Customs to conduct Customs procedures and surveillance over goods/companies in SCZs (including inspections and seizures), in order to combat illicit trade while maintaining and contributing to the economic benefits of SCZs;
 - 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;
 - 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;
 - Utilization of data to control the overall movement of cargo in SCZs for entry/exit, transit/transshipment, import and export, and even pre-arrival; and
 - Application of modern technologies for Customs surveillance without disturbing the movements of cargo.

V. Action required

19. PTC delegates are invited to :
- exchange national experiences and thoughts on possible innovative Customs procedures and controls using data and modern technologies, to be applied experimentally in SCZs; and
 - provide guidance on the way forward regarding the development of a Research Paper and Handbook, and the contents to be included in the Handbook as indicated in paragraph 18.

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Draft Work Plan (Special Customs Zones/Free Zones)

June 2018 :

WCO online survey on Special Customs Zones/Free Zones (SCZs)

August 2018 to May 2019 :

Field studies/workshops on SCZs including the following (supported by CCF Japan/CCF Korea) :

- January 2019 Asia region
- January 2019 MENA region
- February 2019 Africa region
- March 2019 ASEAN region
- April 2019 Latin America region
- May 2019 Europe region

June 2019 :

Publication of WCO Research Paper on SCZs

December 2019 :

Development of WCO tools (e.g. Handbook on SCZs)

June 2021 :

Completion of the review of Chapter 2 of Specific Annex D (Free Zones) to the RKC.
