



Study of the impact of free zones and proposals for guidelines on their future modernisation in light of the European Green Deal

Final Report

*Taxation and
Customs Union*

EUROPEAN COMMISSION
Directorate-General for Taxation and Customs Union
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PDF ISBN: 978-92-68-07888-4 DOI: 10.2778/649828 KP-03-23-387-EN-N

Manuscript completed in October 2023

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ABBREVIATIONS

AEO	Authorised economic operator
AFZ	Ajman Free Zone
AI	Artificial-Intelligence
AML	Anti-Money Laundering
AMLA	Anti-Money Laundering Act
AMLO	Anti-Money Laundering Ordinance
AMLD	Anti-Money Laundering Directive
CDD	Customer Due Diligence
CEACR	Application of Conventions and Recommendations
CFA	Committee on Freedom of Association
CIS	Commonwealth of Independent States
CIT	Corporate Income Tax
CJEU	Court of Justice of the European Union
CRF	Luxembourg Financial Intelligence Unit - Cellule de Renseignement Financier
CSR	Corporate Social Responsibility
CZFB	Barcelona Free Zone Consortium
DAC	Directive on Administrative Cooperation
DG	Directorate General
EAP	Economically Active Population
EC	The European Commission
EGD	European Green Deal
EMAS	EU Eco-Management and Audit Scheme
EP	The European Parliament
EPRS	European Parliamentary Research Service

EPZs	Export processing zones
ESPON	European Spatial Planning Observation Network
EU	The European Union
EUBAM	European Union Border Assistance Mission
EUIPO	The European Union Intellectual Property Office
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FEZ	Free Economic Zones
FIU	Financial Intelligence Unit
FTA	Free Trade Agreement
FTE	Full-time equivalent
FTZ	Free Trade Zones
GBER	General Block Exemption Regulation
GDP	Gross Domestic Product
GIFP	Giurgiulești International Free Port
GHG	Greenhous gas
GSP	Generalised Scheme of Preferences
ICT	Information and Communication Technologies
IFEZ	Incheon Free Economic Zone
ILO	International Labour Organisation
IP	Intellectual Property
LHSH	Luxembourg High-Security Hub
LPG	Liquefied Petroleum Gas
ML	Money laundering
MDCS	Moldovan Customs Service
MS	Member State

NUTS	Nomenclature of Territorial Units for Statistics
NGO	Non-governmental organisation
OECD	Organisation for Economic Cooperation and Development
PCA	Principal component analysis
RAG	Regional Aid Guidelines
RTG	Rubber-Tyred Gantry
RQ	Research question
SDG	Sustainable Development Goal
SEZ	Special Economic Zone
SME	Small and Medium-sized enterprises
SRS	Specjalne Strefy Ekonomiczne
SSE	State Revenue Service
SWD	Staff Working Document
TFEU	Treaty on the Functioning of the European Union
ToR	Terms of Reference
UBO	Ultimate Beneficial Owner
UCC	Union Customs Code
UK	The United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNODC	United Nations Office on Drugs and Crime
USD	US Dollars
VAT	Value Added Tax
WCO	World Customs Organisation
WFZO	World Free Zones Organisation
WTO	World Trade Organisation

ZFB	Zona Franca de Bogotá
ZFM	Zona Franca da Madeira

GLOSSARY OF TERMS

During the last decades, a variety of zone setups has evolved. This report aims to encompass the range of modern free zone types defined by the World Bank Group¹ as follows:

Term	Definition
Free zones	Free zones are defined as enclosed areas within the customs territory of the Union where non-Union goods can be introduced free of import duty, other charges and commercial policy measures. EU Member States may designate parts of the customs territory of the Union as ‘free zones’ that must be communicated to the European Commission (Article 243 UCC). 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 (WCO Revised Kyoto Convention Annex D, Chapter 2).
Customs warehouse	“Customs warehousing procedure” means the Customs procedure under which imported goods are stored under Customs control in a designated place (a Customs warehouse) without payment of import duties and taxes (WCO Revised Kyoto Convention Annex D, Chapter 2). ‘Customs warehousing’ means that non-Union goods may be stored in any premises authorised by the customs authorities (‘customs warehouses’). The storage may be for unlimited periods, unless the nature of the goods means that they could pose a threat to health or to the environment if stored for a long term. While in warehouses, the goods are under customs supervision and will not be subject to import duties or other charges related to the import of goods or to commercial policy measures (such as import licenses), EC ² .
Special Economic Zone (SEZ(s))	Generally defined as geographically delineated areas administered by a single body, offering certain incentives (e.g. duty-free importing and streamlined customs procedures) and corporate tax incentives to businesses physically located within the zone. While general free zones usually have only duty-free and customs facilitation benefits, SEZs also offer incentives for attracting investments and businesses (World Bank Group, 2008). The term “special economic zone” was intended to encompass the term “free zones”, because of the bad reputation of free zones during the 70’s and 80s and because of the modernisation of their role and definition. Still, not all countries adopted this, and definitions of special economic zones/free zones are not harmonised across countries yet. Today, SEZs have two different meanings. It can denote a zone model in the narrow sense of the word (that of the type of sizeable free zone as is found in China), or it can denote the new generic term proposed to designate all types of zones open to investors (Bost, 2019).
Free trade zone (FTZ(s))	Fenced-in, duty-free areas offering warehousing, storage and distribution facilities for trade, transshipments, and re-export operations (World Bank, 2018). Traditionally, they used to be called freeports that served as temporary tax- and duty-free storage for commercial goods and transit.
(U.S.) Foreign Trade Zone (FTZ(s))	A foreign-trade zone is a designated location in the United States where companies can use special customs procedures that help encourage U.S. activity and value added – in competition with foreign alternatives – by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings. A site which has been granted zone status may not be used for zone activity until the site has been separately approved for FTZ activation by

¹ World Bank Group. 2008. Special Economic Zones, Performance, Lessons Learned, and Implication for Zone Development.

² EC, available at: https://taxation-customs.ec.europa.eu/customs-warehousing_en

Term	Definition
	local U.S. Customs and Border Protection (CBP) officials, and the zone activity remains under the supervision of CBP. FTZ sites and facilities remain within the jurisdiction of local, state or federal governments or agencies, (US International Trade Administration ³).
Freeports	Freeports accommodate all types of activities, including tax and duty-free storage for commercial goods and transit, tourism, retail sales and provide a broad set of incentives and benefits, (World Bank Group, 2008).
Luxury Freeport	A recent concept, whereby virtue of legal exemptions, art and other luxury goods can be treated and kept for unlimited periods of time without tax and duty payment (World Bank Group, 2008). Luxury freeports are new actors in the political economy and they are specifically equipped long-term storages spaces where, by virtue of special legal exemptions, art and other luxury goods can be traded and kept for unlimited periods of time without tax and duty payments. The most famous examples are the Luxembourg Le Freeport – today called High-Security Hub and the Geneva Freeport (Coffer D4.9, 2019).
Export processing zones (EPZs)	Industrial estates aimed primarily at foreign markets. Hybrid EPZs are typically subdivided into a general zone open to all industries and a separate EPZ area reserved for sector-specific export-oriented, EPZ-registered enterprises (World Bank Group, 2008). Mostly common in South Asia, such as India and Bangladesh.
Enterprise Zones (EZs)	EZs are intended to revitalise distressed urban or rural areas through the provision of tax incentives and financial grants (World Bank Group, 2008).
Specialised Zones	Include science and technology parks, logistics parks, airport-based zones and in the future could, for example, include green-hydrogen parks (World Bank Group, 2008).

³ U.S. Gov: <https://www.trade.gov/about-ftzs>

EXECUTIVE SUMMARY

The ‘**Study of the impact of free zones and proposals for guidelines in their future modernisation in light of the European Green Deal**’ is the result of a proposal for a Pilot Project sent by the European Parliament to the European Commission. It has been commissioned by DG TAXUD and undertaken by Ecorys in the period February 2022-July 2023.

The underlying **objective of the study is to assess the performance of the EU free zones in several aspects** (including their contribution to economic growth, their associated risks, labour, and environmental considerations), **as well as a comparison of EU and non-EU free zones**. This study also provides a proposal for Guidelines on best practices of free zones on how to comply with the European Green Deal objectives, as well as an explanation of the particular added value that free zones can provide to achieve such objectives.

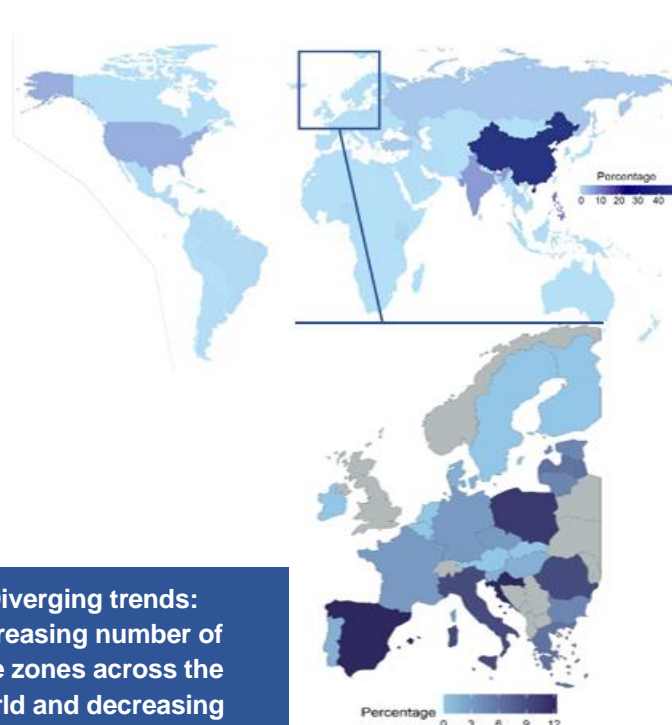
The conclusions of the study are based on the analysis of socio-economic indicators (e.g. employment, GDP), interviews with **more than 120 stakeholders** (including customs/tax authorities, free zone authorities/operators, NGOs, academics, and international organisations), and **six case studies** on topics like labour conditions and environmental practices. More than 80 % of the consulted customs authorities and FIUs replied, while 57 % of the consulted tax authorities did so.

Overview

There are more than 5 000 free zones⁴ worldwide, with more than 1 000 established in the last decade. Most free zones are in Asia, above 4 000 (UNCTAD 2019), while the share of EU free zones as a part of all free zones across the world is lower than 2 %. Furthermore, **there is an overall decreasing trend in the number of free zones (FZ) in the EU**, which counted 78 free zones in 2007 and 62 active free zones at present, except for Italy and Spain, which show a slight increase in the number of free zones over the years.

As of 2023, there are active free zones with customs procedures in 18 EU Member States. Seven Member States (Austria, Belgium, Finland, Ireland, Slovakia, Sweden, and the Netherlands) do not have a free zone, and two Member States (Cyprus and Hungary) have inactive free zones.

In some Member States, alternative customs procedures



⁴ Free zones can be broadly defined as geographically delineated areas, which may offer duty-free warehousing, storage and distribution facilities for trade, transshipment, re-export operations, streamlined customs procedures, as well as corporate tax incentives to businesses physically located within the zone.

such as customs warehousing or inward processing meet the objectives of trade and free zones. **Unlike in many third countries, the applicable legislation in EU free zones is generally the same as that in the rest of the country where they are located.** Nevertheless, the business-related objectives (business facilitation and trade) and the socio-economic objectives (decent jobs and regional development) of **free zones are of relevance.** In the context of changing geopolitical context (e.g. the European Green Deal, the war situation in Ukraine), **free zones can also be an option to cater for other purposes**, which enables them to remain relevant.

Risks and risks management

Unlike free zones in third countries, EU free zones follow the standard European, national, and regional regulations and apply all relevant customs, tax, anti-money laundering, labour and environmental provisions...

The issue of free zone risks has been the subject of various studies, including relatively recently from the European Parliamentary Research Service⁵. While evidence has been presented on the existence of specific risk categories (including customs and tax fraud, non-compliance with State aid rules, anti-money laundering, terrorist financing, and circumvention of sanctions), **most risks are understood to exist equally outside of the free zones** (i.e. in the general EU economy).

As all stakeholders observed, this is because free zones in the EU are not exempt from measures related to combatting money laundering and terrorist financing. When comparing results based on stakeholder group, it becomes evident that **customs authorities, tax authorities, and Financial Intelligence Units (FIUs) across the EU share similar assessments of the risks related to the free zones regime in their jurisdictions.** Overall, the highest risk score, provided during the stakeholder consultation activities, was given to tax evasion (higher risk assessment by tax authorities) and customs fraud (highest risk assessment by FIUs). However, even for these risk groups, the stakeholder assessment was mostly in the lower risk categories rather than assessing the risks as 'large'.

Nevertheless, the fact that goods can be stored in free zones with no time limit entails risks related to taxation and money laundering, which is particularly **relevant to high-value goods**, such as the ones stored in freeports, because they can constantly increase their value and change owners with no taxes paid.

Overall, in the free zones operating in EU Member States, firms operate in coherence with the ILO labour standards, EU regulations and national provisions. This means that **the same labour legislation is applied both inside and outside free zones** in the territory of the EU. Similarly, looking at **environmental aspects**, free zones, regardless of their legal status, follow EU/national/regional norms and plans.

...hence, most of the risks related to non-compliance of those provisions are understood to exist equally inside or outside free zones in the EU.

⁵ EPRS (2018). Money laundering and tax evasion risks in freeports. Ex-Post Evaluation Unit. PE 627.114 – October 2018. Available at: https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20laundrying-FINAL.pdf

Benefits of free zones

Despite their small number, **free zones in the EU are an important tool to support regional economies and regional diversification** through offering customs and tax advantages. The socio-economic contribution of free zones varies substantially between countries and free zones.⁶ There is no consensus on the economic benefits of free zones in the academic and policy literature. Free zones are linked to greater firm creation but lower employment creation in the case of Poland.⁷ Large cross-country studies find that there is no evidence of additional employment creation in free zones,⁸ with a few notable exceptions, free zones grow at an average or lower than average rate relative to their host economies.⁹

According to the stakeholder feedback, **business creation** is an important impact of free zones. In several instances, free zones introduced new industries and activities in their regions and cities, stimulating a process of **regional diversification**.

Across EU Member States, free zones with the highest contribution to their regional economy tend to be larger, goods-oriented and host

diversified economic activities, including manufacturing and logistics. The highest socio-economic contribution can be observed in free zones, which act as diversified special economic zones (SEZs). Econometric estimates carried out for this study suggest that in Poland and Latvia, the GDP of regions hosting a free zone tends to be 7 % higher on average relative to regions without a free zone. No difference, however, is found in the rate of economic growth between regions, suggesting that regions hosting free zones do not grow at a higher rate. As illustrated by the numbers below, **EU free zones can have a sizeable contribution to the regions where they are located**, but it has to be acknowledged that the numbers do not take into account possible displacement effects.

EU free zones' contribution to the region in which they are located:

up to 19 % of the annual regional GDP	up to 6 % of regional investments	over 2 % of regional export volumes	up to 4 % of regional employment
---------------------------------------	-----------------------------------	-------------------------------------	----------------------------------

Furthermore, the estimation of tax revenues and foregone taxes linked to the establishment of free zones conducted in selected EU countries led to mixed results. Out of the five free zones assessed, two showed positive net revenue estimates, suggesting beneficial impacts with regards to tax collection.

⁶ This is also illustrated by the different estimations on GDP and employment contribution, which cover different regions rather than an overall assessment of the free zones' contribution to the EU economy.

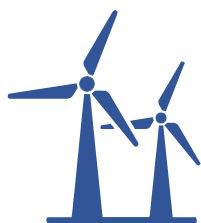
⁷ See Cizkowicz et al. (2015). The Effects of Polish Special Economic Zones on Employment and Investment: Spatial Panel Modelling Perspective. *MPRA Paper No. 63176, posted 23. March 2015*; Jensen and Winiarczyk (2014). Special Economic Zones: 20 Years Later. *Case Research Paper, No. 467*; and Ambroziak and Hartwell (2018). The Impact of Investments in Special Economic Zones on Regional Development: the Case of Poland. *Regional Studies*, 52(10).

⁸ Xavier Cirera & Rajith W. D. Lakshman, *Journal of Development Effectiveness*, 9(3), 2017-04-10. 2017.

⁹ Frick and Rodriguez-Pose (2019). Are Special Economic Zones in Emerging Countries a Catalyst for the Growth of Surrounding Areas? *Transnational Corporations*, 26(2). The paper is available at the following [link](#). For a similar study, see World Bank (2017). Special Economic Zones: An Operational Review of their Impacts. Available at the following [link](#).

Future

With the change in EU policy (e.g. the European Green Deal) and geopolitical context (e.g. the war in Ukraine and Brexit), the needs addressed by **EU free zones would also need to adapt**. In particular:



Considering the increasing urgency of climate action and other environmental measures, and the lack of data for assessing how far away the free zones generally are from fulfilling **the EGD objectives**, it is conceivable that voluntary activities by the free zones may, at some stage, become insufficient in light of the EGD objectives. At this point, **legal and economic incentives for compliance may become necessary**. In this context, **guidance** and incentives provided by the free zones to the companies would also be relevant. Furthermore, free zones could consider supporting **new supply chains**, like in the case of **offshore wind farms**.

Some free zones may have to take on new objectives to assist in emergency situations like the war in Ukraine. To do that, they could make use of streamlined emergency customs provisions, which are to be regulated at the EU level. **Some Member States are currently considering re-establishing some free zones following geopolitical changes like Brexit.** However, the limited availability of **cost/benefit analyses and data**, together with the presence of MSs without free zones, **does not allow the provision of a definitive conclusion on whether the benefits of free zones outweigh the costs of their establishment and the mitigation of related risks**. Such an analysis can only be performed on an in-depth case-by-case basis using rigorous data, but ideally also with the application of a **commonly agreed EU methodology, which currently does not exist**. This study provides an overview of data requirements which could be used to develop such a methodology.



The stakeholder input and the provided information by customs authorities show that **different authorities have different information systems**. The level of detail of the information (e.g. on storage time and value of goods) and the extent to which it is easy to access by customs and tax authorities differ across the EU. Thus, there is a **need to accelerate the digitalisation of free zones by ensuring sufficient investment in ICT** (information and communications technology) infrastructure, so that transparency is ensured and risks of potential fraud are mitigated.

1. INTRODUCTION

This report presents the findings and conclusions of the ‘Study of the impact of free zones and proposals for guidelines in their future modernisation in light of the European Green Deal’.

It is structured as follows:

- ▶ Objectives and research questions, methodology, and context of the study (Section 1);
- ▶ Findings per research question (Section 2);
- ▶ Conclusions (Section 3);
- ▶ Case studies, proposal for guidelines on good practices regarding green free zones to contribute to the objectives of the European Green Deal, and methodological notes (in annexes).

1.1 Objectives and research questions

The underlying objective of the report is to provide a study on the performance of the EU free zones in several aspects and to compare them with free zones in third countries in terms of these aspects. This study aims to assess the pros and cons of EU free zones, as well as their prospects for a sustainable future.

This objective can be further narrowed to three specific objectives.

- 1) **Assess:** first of all, the study aims to provide an **assessment of the performance** of free zones in the European Union (EU) based on key indicators such as jobs created, the volume/value of goods that entered or exited free zones or were traded therein, but also relevance-related issues like objectives (current and future) and key activities. Furthermore, the study aims to identify risks related to the free zones within the customs territory of the Union.
- 2) **Compare:** the performance and risks are also **compared** with free zones outside the EU on concrete aspects (e.g. anti-money laundering, environmental and State aid aspects).
- 3) **Provide a proposal for guidance:** finally, the study provides a **compilation of best practices** on how EU free zones best contribute or can best contribute to **the European Green Deal’s (EGD) objectives** (see Annex VII), as well as the added value that free zones can contribute towards achieving such objectives.

The **assessment criteria** covered by the study are the following five key assessment criteria:

- ▶ effectiveness: in terms, e.g. of the extent that free zones have created wealth, trade or employment in line with their objectives;
- ▶ efficiency: extent to which the costs/risks (economic, social and environmental) related to the free zones (including forfeit tax income) are commensurate with the benefits;
- ▶ relevance: extent to which free zones' activities and objectives match the identified needs;
- ▶ coherence: extent of coherence with relevant EU policies, in particular with the EGD;

- ▶ EU added value: extent to which there is a need for the EU to coordinate certain aspects of free zones, apart from the fact that the customs union is an exclusive competence of the EU.

The assessment criteria are reflected in the research questions (RQs) presented briefly below with the exception of EU added value. The assessment of EU added value is provided in the study's final conclusions, based on the answers to all research questions. The scope of the RQs is described in the following table.

Table 1: Scope of the research questions

No.	Question	Criterion	Scope of the research question
1	What is (are) the core activity(ies)/purpose(s) of the free zones established in the Union in the short and in the long run? What are the objectives of the Union free zones in the short and in the long run and what needs were meant to be met? Are they still valid?	State of play / Relevance	These questions aim to map the need for setting up free zones, their objectives and the activities/incentives they provide. This analysis leads to identifying the rationale for free zone establishment and operation, and objectives, leading to an overall assessment of their relevance.
2	Regarding the customs provisions regulating free zones in the EU, are the current rules fit for purpose? Do these rules ensure proper functioning of the free zones or are there any weaknesses or gaps in the legal framework (UCC)?	Effectiveness	This question focuses on whether EU customs and other related legislation regarding free zones helps to ensure the proper functioning of the free zones. This does not only cover the appropriateness of the rules themselves, but also an analysis of how they are implemented and enforced in EU Member States, and if current systems (incl. IT) help to facilitate this.
3	To what extent have the free zones contributed to the	Effectiveness	The scope of the research question focuses on economic

No.	Question	Criterion	Scope of the research question
	economic growth of the country/region/where they are located?		indicators such as the annual contribution of the free zone in the country's/region's economy; the value of all the goods / services traded; and investments in the free zones.
4	Have the benefits obtained from the free zones outweighed such costs or not (and to what extent)?	Efficiency	This is a classical Efficiency question, but what is specific is that within this study, it focuses on a combination of risks and benefits, because most risks cannot be quantified.
5	Does the fact that goods can be stored in free zones with no time limit entail risks (mainly in terms of taxation)? Do free zones disclose the value of goods stored on their premises or are there privacy and confidentiality clauses (akin to bank secrecy) in place?	Effectiveness/Efficiency	This question is, to a large extent, aiming to assess if the free zones are used for tax avoidance issues and other illicit activities. Thus, the study explores to what extent free zones are subject to national ML/TF requirements; access to information requirements; registering; controls; high-value goods and processes.
6	To what extent have the EU free zones contributed to fostering decent employment in the country/region of their location?	Effectiveness/Coherence	This question looks into effects of free zones on job creation, but also the four pillars of the decent work agenda: standards and rights at work, employment creation / enterprise development, social protection and social

No.	Question	Criterion	Scope of the research question
			dialogue, including the practice of freedom of association and collective bargaining.
7	Do the free zones in the Union make the elimination of duties, customs, etc., conditional on compliance with international standards on labour rights in the exporting countries (e.g. interviews with authorities responsible for free zones)?	Coherence	This question aims to assess whether the policy of free zones may have also contributed to the promotion of international labour standards in third countries by making some benefits conditional on complying with these standards.
8	Are the analysed free zones contributing to the objectives established in the European Green Deal (EGD)? If not, how far away are these free zones from fulfilling such objectives and what is the cost this lack of compliance entails?	Coherence	This research question assesses whether the effectiveness stemming from the indicators of free zones is coherent with the EGD aims and priorities established in the Communication Commission on the European Green Deal dated 11/12/2019. It determines how and to what extent the free zones practically contribute (or could contribute) to those priorities.
9	Do free zones have a plan to contribute to the objectives established in the European Green Deal? If yes, which concrete actions are envisaged to be taken in the following ten years? How should the	Coherence/ Relevance	Building on the previous research question, this question assesses the free zones' concrete plans for contributing towards the EGD in the next ten years. The purpose of this RQ is to determine whether

No.	Question	Criterion	Scope of the research question
	functioning of free zones change to become more relevant to the current needs and coherent with the EU policies?		the performance and achievements of the free zones match the current needs in the EU related to the EGD, and how they can change their operations to become more relevant to and coherent with the relevant policies.

1.2 Context

1.2.1. Mapping of free zones – EU and worldwide

Free zones have been in existence for a long time. However, their number has increased significantly in the second half of the last century. There are estimates that free zones account for over 20 per cent of world trade.¹⁰ The use of free zones has thus become quite common, but it is worth noting that there is no commonly accepted definition of free zones, except only in very general terms – **areas that provide a regulatory regime for businesses and investors distinct from what applies typically in the broader national or subnational economy where they are established**¹¹ (e.g. in terms of tax breaks, duty exemptions, simplified administrative procedures, and other financial incentives). Next to the lack of a common definition, the term is used interchangeably with other terms, like Special Economic Zones (SEZ), Freeports, Free Trade Zones, industrial parks, etc. While there have been various attempts to use common definitions or clarify the differences between the terms,¹² as of today, there is still no commonly used definition.

While many free zones are located in developing and emerging economies, as of 2022, there are 62 active free zones in the EU (see the table below). EU Member States have the authority to designate free zones, provided that they comply with EU law (Articles 243 to 249 of the Union Customs Code). Within the EU, free zones imply that goods brought from third countries can enter these zones without being subject to import duty and other charges related to their import (e.g. VAT), unless they are finally consumed or released for free circulation.

Table 2: Presence of free zones in the EU27 (Source: EC¹³ and own elaboration)

Country	Number of free zones
Austria	None
Belgium	None
Bulgaria	3
Croatia	10 (2 of which are inactive)
Cyprus	1 (inactive)
Czech Republic	2
Denmark	1
Estonia	3
Finland	None
France	2 (of which 1 is inactive)
Germany	2
Greece	4
Hungary	1 (inactive)
Ireland	None
Italy	6
Latvia	4
Lithuania	3
Luxembourg	1
Malta	1

¹⁰ OECD/EUIPO (2018) Trade in counterfeit goods and free trade zones, Evidence from recent trends. OECD/EUIPO publishing.

¹¹ UNCTAD (2019) World Investment Report 2019 / Chapter 4 – Special Economic Zones. Available at: <https://worldinvestmentreport.unctad.org/world-investment-report-2019/chapter-4-special-economic-zones/>

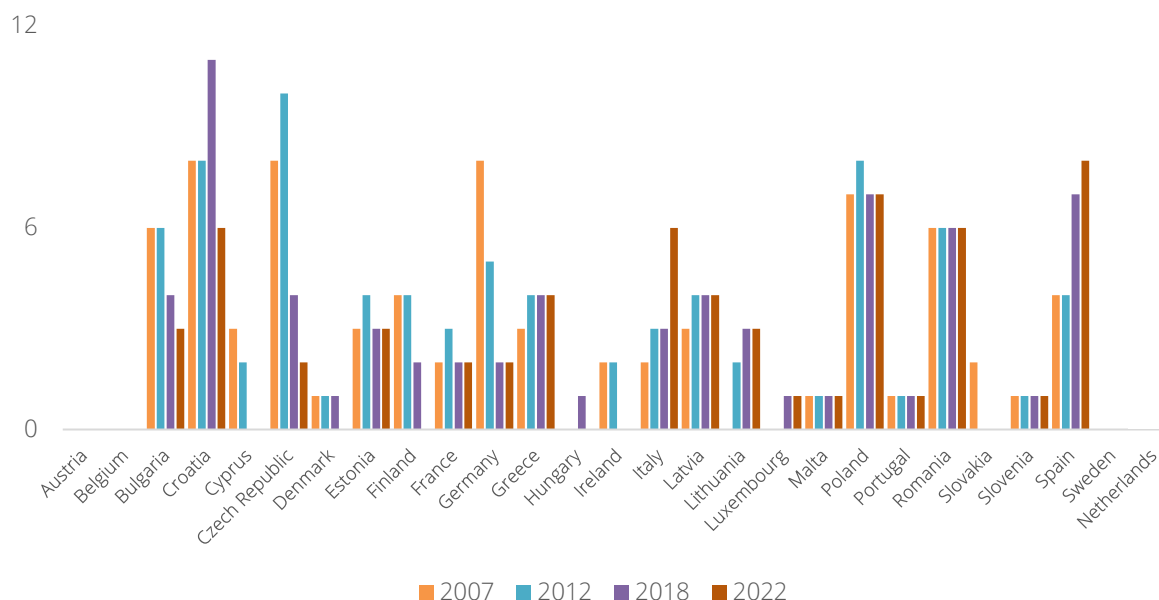
¹² See for example Bost, F. (2019) Special economic zones: methodological issues and definition, in TRANSNATIONAL CORPORATIONS Volume 26, 2019, Number 2, pp. 141-153.

¹³ The list of free zones is available here, but it does not fully take into account that some of them are inactive: https://taxation-customs.ec.europa.eu/system/files/2022-08/FZ%20LIST%2017%20August%202022_CLEAN.pdf

Country	Number of free zones
Poland	7
Portugal	1
Romania	6
Slovakia	None
Slovenia	1
Spain	8
Sweden	None
The Netherlands	None
Total	62 active free zones

As shown in the table, there are **currently active free zones in 18 MSs**. Seven MSs do not have a free zone, and two have only one free zone, which is inactive (Cyprus and Hungary). The table also shows that there is no direct link between the size of countries and the number of free zones established – e.g. Croatia has eight active free zones, while Germany has two.

Figure 1: Number of free zones over time by EU country

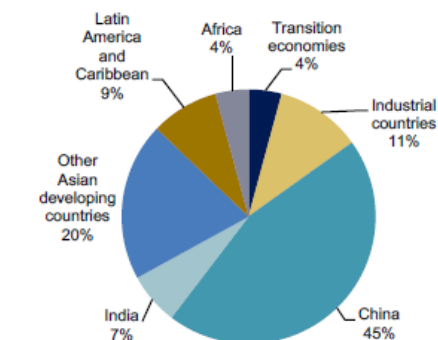


Source: current and past lists of the EC¹⁴

There is a decreasing trend of free zones in the EU, which counted 78 free zones in 2007, 80 free zones in 2012 and 62 active free zones at present. There is a negative EU trend in the number of free zones in total, for example, in countries such as the Czech Republic and Germany which have significantly reduced their number of free zones. Additionally, Finland, France, Slovakia, Hungary, Cyprus, the Netherlands, and Ireland no longer have active free zones with customs procedures in their territories (see Figure 1). Instead, we find the opposite trend in Italy, and Spain, which shows an increasing number of free zones over the years.

¹⁴https://taxation-customs.ec.europa.eu/system/files/2022-08/FZ%20LIST%2017%20August%202022_CLEAN.pdf

Figure 2: Free zones geography



Note: Industrial countries: Europe, North America, Australia, Israel, Japan, New Zealand. Transition economies: Countries in Eastern Europe, Central Asia as well as Russia.

Source: World Free Zones Organisation¹⁵

Unlike the EU trend, in 2021 the UK government, following Brexit, announced the opening of **eight new freeports** across the country, which will include tax reliefs, customs, business rates retention, innovation and trade. The plan has the objective of creating freeports as hubs for trade and investments, for driving innovation and for promoting regeneration with high-skilled jobs¹⁶. Beyond Europe, against the background of Intellectual Property Rights infringements¹⁷, the Kingdom of **Saudi Arabia** has also recently expressed intentions to launch **four new free zones**, which will offer incentives to companies that are fiscal and non-fiscal, including competitive corporate tax rates, duty-free imports of machinery and raw materials, and flexibility in employing foreign labour¹⁸.

Worldwide, there are more than 5 000 free zones, of which more than 1 000 were established in the last decade¹⁹. As shown in Figure 2, most free zones are located in Asia – above 4 000 (with China having more than 2 500). For comparison, in North America, there were 262 in 2019, while in the same year, Europe had only 105 free zones, with just more than 70 based in the EU.

In addition to geography, free zones can also be mapped **by their different characteristics**.

- ▶ *The objectives they aim to achieve.* Often this entails promoting trade (e.g. focusing on re-exports). Attracting investment, creating employment, economic diversification (regional spread or development of new sectors) are also among the most common objectives.
- ▶ *The incentives they provide.* The incentives for companies to operate in a free zone are often based on customs and tax exemptions, but the package of incentives can also be broader, including strong infrastructure support (roads, electricity, internet, etc.), simplified administrative procedures, and technical assistance (e.g. by providing training).
- ▶ *The type of activities in the zone.* These can range from only re-export-related activities, with limited value-added (e.g. warehousing, packaging, logistics), to manufacturing and processing activities. The latter can focus on a specific industry or cover a variety of industries/sectors.
- ▶ *The ownership structure* of the free zone, which can be public, private or a mix thereof.

These different characteristics of free zones also reflect the different purposes of setting up free zones. The purpose of setting up free zones also differs depending on the specific context, which is related to the geographic location of the free zone (which part of the world), the stage

¹⁵ World Free Zones Organisation (2020) Outlook report 2020, developed by Kiel Institute for the World Economy. Available at: <https://www.worldfzo.org/Report-Registration>

¹⁶ UK Government, Freeports, available at: <https://www.gov.uk/guidance/freeports>

¹⁷ For more information, see EC Report on the protection and enforcement of intellectual property rights in third countries. Brussels, 17.5.2023. SWD(2023) 153 final.

¹⁸ Arab News (2023). How Saudi Arabia's new special economic zones signal that the Kingdom is open for business. Available at: <https://arab.news/8qz9h>

¹⁹ UNCTAD (2019). World Investment Report. Special Economic Zones. UNCTAD/WIR/2019. ISBN 978-92-1-112949-6. The report is referring to Special Economic Zones as an umbrella term that comprises all types of free zones, including special economic zones, free trade zones, export processing zones, free economic zones, and freeports.

of economic development of the country in which the free zone was set up, and the time period within which it was set up.²⁰ In the EU, some are focused on regional development (e.g. targeting underprivileged or high-unemployment areas).

1.2.2. Relevant legal framework

The **Union Custom Code (UCC)**²¹ is an important element in the governance of free zones in the EU, and this study focuses on the aspects that are relevant to free zones. The UCC provides a framework for EU Customs legislation and aims, among others, to provide more clarity, legal certainty and uniformity across the EU, and also aims at a paperless and fully automated customs union. It has specific provisions regarding free zones in Articles 243 to 249, in particular:

- ▶ designation of free zones (Art. 243);
- ▶ buildings and activities in free zones (Art. 244);
- ▶ conditions for customs checks, entry, storage, movement, use, and processing in free zones (Art. 245-249).

The focus on the UCC is particularly relevant when answering research question 2, which explores whether the rules ensure the proper functioning of the free zones or if there are any weaknesses or gaps in the legal framework, including on IT aspects. Further to the UCC, work of the **World Customs Organisation (WCO)** regarding free zones also provides further practical guidelines on customs involvement in free zones, among others, to prevent illegal activities.²² The WCO document provides practical guidance on customs procedures/control, including on IT systems.

In that context, it is also relevant to note that there are rules and regulations that affect free zones more indirectly. For example, the **EC's 5th Anti-money Laundering Directive** makes freeports that are involved in storing, trading or acting as intermediaries in the trade of works of art, i.e. 'obliged non-financial entities'. This makes them subject to stronger customer due diligence (CDD) obligations. In addition, they are considered anti-money laundering (AML) 'gatekeepers' and have to report suspicious transactions to the Financial Intelligence Units (FIUs). Such issues and the AML Directive are particularly relevant to the efficiency questions (RQ4 and RQ5).

This study (for example, via the case study on freeports) explores if tax authorities have access at national level to free zones. In terms of tax cooperation, Member States can avail of EU legislation like Directive 2011/16/EU for administrative cooperation in direct taxation, Council Regulation (EU) No 904/2010 on administrative cooperation and combating fraud in the field of value added tax, and Directive 2010/24/EU for mutual assistance in the recovery of taxes, duties and other measures. However, the exchange of information with the requesting MS can only be effective if the requested MS also has access at national level to information on assets held in free zones, including beneficial ownership information. Therefore, if such access is not available at national level, then cross-border cooperation will be impeded. The lack of availability of such access will be an indicator of an inherent risk of tax abuse.

²⁰ For more details, see for example UNCTAD (2019) world Investment Report 2019, pp. 137-160.

²¹ Regulation (EU) No 952/2013 of the European Parliament and of the Council of 9 October 2013 laying down the Union Customs Code, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02013R0952-20200101>

²² See for example WCO (2020) Practical Guidance on Free Zones. Available at: <http://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/tools/practical-guidance-on-free-zones.aspx>

Due to the high risk of money laundering and financing of terrorism, it is important that tax authorities have direct access to free zone information and data, and that cooperation between customs and tax authorities is facilitated. Coordination between authorities is needed on the ultimate beneficial owner's identity - UBO²³, and consequently, to detect and identify suspicious transactions. As underlined by the EC²⁴, centralised IT tools for enabling cooperation at EU-level customs and tax authorities are helpful for standardising tax legal procedures in free zones at national level and across borders.

In the EU, free zones have to comply with **EU State aid rules**²⁵. State aid is normally prohibited if it threatens to distort trade and competition between firms, to ensure a level playing field in the EU. However, under certain conditions, they are allowed, for example, to support regional economic development. MSs do not need to notify the European Commission of measures that fulfil the conditions laid down under the General Block Exemption Regulation (GBER)²⁶. This, nevertheless, does not prevent the European Commission from investigating the proportionality of such State aid. In the case of free zones, the potential losses of revenue/cost for the competent authorities (customs duties, indirect taxes, possibly others), therefore, need to be outweighed by the benefits of free zones, such as increased employment or attraction of foreign investment. This is also an issue that is relevant to the efficiency questions.

Under the Code of Conduct for Business Taxation, a *special geographic area where business (corporate) tax privileges are available* qualifies as “special economic zone” (SEZ). Free zones can thus be covered by the SEZ definition only if business tax privileges are applicable. Such SEZs are the object of particular scrutiny by the Code of Conduct Group²⁷, e.g. that free zones where business tax privileges apply do not lead to harmful tax practices. The Code applies to business tax measures that provide for a lower tax rate than that which generally applies in the Member State. Such measures are then assessed on a case-by-case basis against five agreed criteria. Under the commitments taken in the Code of Conduct on Business Taxation, Member States are obliged to notify each other—on an annual basis—of any preferential business tax measure they adopted in the previous year that comes within the scope of the Code. One of the Code criteria is that the SEZ requires real economic activity carried out within the zone (such as distribution and manufacturing activities and activities that generate employment, assets and investments). As such Special economic zones should not provide advantages to companies involved in mobile activities, for example, treasury or the development of intangibles. Equivalent rules apply at international level, i.e. OECD rules.

Finally, through the last two research questions (RQ8 and RQ9), this study aims to identify to what extent the free zones contribute or aim to contribute to the objectives of the **European Green Deal (EGD)**. The overarching objective of the EGD is to transform the EU into a fair and prosperous society with a modern, resource-efficient, and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. The more specific EGD objectives include the supply of clean, renewable energy, mobilisation of the industry for a clean and circular economy, shifting to sustainable and smart mobility, implementing zero pollution, fair, healthy and environmentally friendly food systems, and resource-efficient building and renovating, and preservation and restoration of ecosystems and biodiversity. The EGD further covers green finance and investment, fair transition, research and innovation, and education and training. The activities of the free zones

²³See the study of the EPRS and the case of 'Le Freeport' in Luxembourg:

https://www.europarl.europa.eu/cmsdata/155721/EPRS_STUD_627114_Money%20lauding-FINAL.pdf

²⁴ Communication on the Action Plan for a comprehensive Union policy on preventing money laundering and terrorist financing (2020/C 164/06): [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020XC0513\(03\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020XC0513(03)&from=EN)

²⁵ For a general overview: https://ec.europa.eu/competition-policy/state-aid/state-aid-overview_en

²⁶ Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187, 26.6.2014, pp. 1-78.

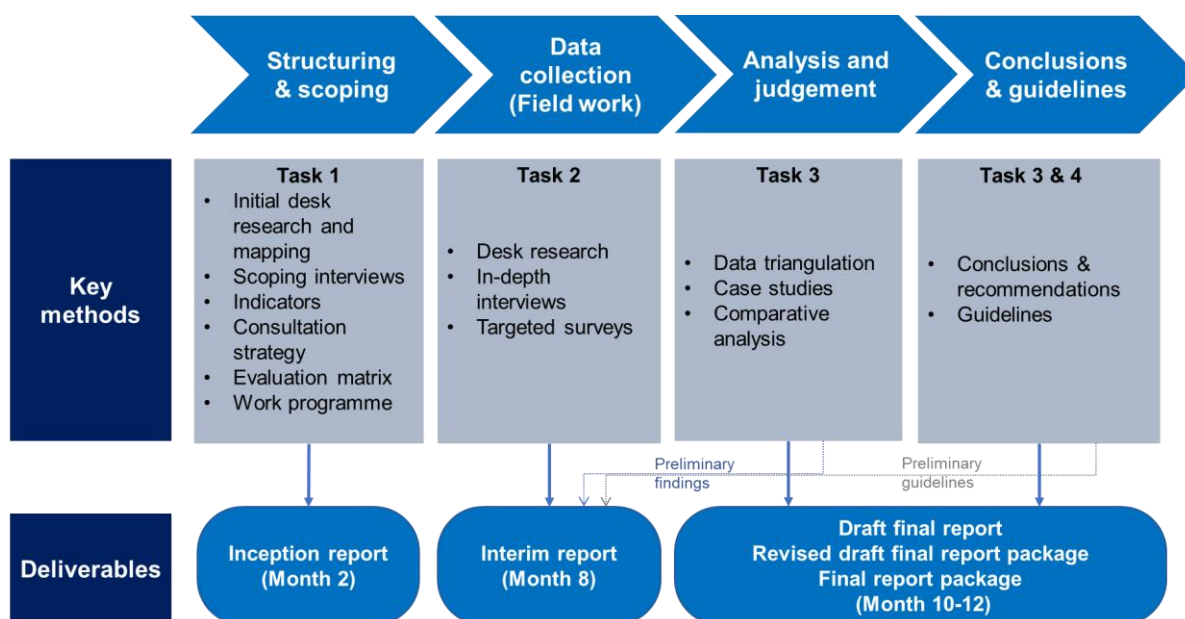
²⁷ For more information, see: <https://www.consilium.europa.eu/en/council-eu/preparatory-bodies/code-conduct-group/>

are analysed against this comprehensive list of objectives to identify both aspirations and existing best practices.

1.3 Methodology - overview and limitations

Our overall approach to the study is based on the specific objectives, scope, and context presented in the previous sections of this report. The study is composed of the following four stages: (1) structuring, (2) data collection (field work), (3) analysis and (4) reporting. Figure 3 presents the overall methodological framework of the study with an overview of the four assessment stages, the key methods considered, and the deliverables for this study.

Figure 3: Overall methodological framework of the study



A short description of the data-gathering tools and the case studies is provided below.

1.3.1. Sources and data used

The team conducted a review of academic and official publications and explored the available data from official sources and databases. We collected all relevant sources, reports and papers concerning free zone activities, which have been used for answering the RQs in the following sections of this report. Annex I provides the list of sources that has been consulted for carrying out the study. The list comprises studies and reports from international organisations (e.g. World Bank, OECD, UNCTAD, EU institutions), but also academic articles. Sources on EU free zones only appears to be quite limited. Most publicly available information is regarding free zones and EPZs located in developing countries. Nevertheless, the results and information collected, with the integration of the stakeholder consultation activities, have been used for answering and further investigating the research questions.

Furthermore, as part of this activity, the team conducted research and mapping of all free zones within the EU, including their activity status, contact details, size, and historical background (where the information is available). Through the stakeholder consultations, we complemented the data collection with information on the establishment, activities, and objectives of the free zones, their type and sector-orientation, the number of companies,

number of jobs, turnover and investments (data are shown in Annex II). In addition, through consultations with national or regional customs authorities we gathered information on the number of annual customs officers' inspections conducted in the free zone, the number of annual goods seizures, value of goods' seizures and average times of storage of goods in the free zones. For answering RQ3 and RQ6 we also produced some indicators on the contribution of the free zones in terms of GDP, business demography, FDI, and employment at regional (NUTS 2 or NUTS 3) level. To show these data, the team collected the most recent data from Eurostat for the mentioned variables.

1.3.2. Stakeholder consultation

The stakeholder consultation involved the performance of interviews and sending questionnaires, sending of data sheets to customs authorities, a limited online survey, and the performance of interviews as a part of the conducted case studies. The list of stakeholders contacted/consulted is presented in Annexes V and VI. Below, we provide a short description of the objectives of the consultation tool and the numbers of stakeholders contacted/consulted.

Table 3: Stakeholder consultation tools

Tool	Objective	Comment	Stakeholders contacted	Stakeholders who provided feedback
Interviews / Filled in questionnaires	To provide key input along all research questions and criteria	As planned, the team held interviews and received written responses from various stakeholders (see further details below), which provided input for all research questions.	231	98
Data sheets*	To fill in data gaps from the customs authorities	The information received covered more than 30 individual free zones. The information contained in the data sheets provides complementary details to the information provided by free zone authorities, allowing the research team to gather a rounder perspective of the size and activities conducted within EU free zones.	17*	12*
Online survey	To reach out to economic operators in the free zones	Despite all efforts of the team (including translation of the survey, calling free zone operators, asking free zone authorities to serve as gatekeepers and to distribute the questionnaire), economic operators largely ignored the invitation to participate in the study. Due to these reasons, their perspective was considered via the interviews / written input of free zone authorities and the WFZO, while the survey results were used only to a very marginal extent.	Over 800	5

Tool	Objective	Comment	Stakeholders contacted	Stakeholders who provided feedback
Case study interviews	To gather information for the development of the case studies and potentially fill in other gaps	As planned, the case study interviews provided valuable input for the development of the case studies and answering the research questions. They allowed a targeted selection of interviewees, which is manifested in the good response rate.	38	23

* To avoid double counting, data sheets are not counted as additional stakeholder inputs if the customs authority concerned already filled a questionnaire or took part in an interview.

Overall, we received input/response from over 120 stakeholders, including the ones contacted in the development of case studies (see Annex VII) divided as follows.

- ▶ 13 free zones authorities (14 interviewees) in Colombia, Croatia, Italy, Latvia, Malta, Moldova, Poland, Portugal, Romania, and Spain.
- ▶ 59 customs authorities in Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovenia, Spain, and Switzerland. Furthermore, 12 customs authorities provided additional information in the form of a data sheet.
- ▶ 11 tax authorities in Belgium, Bulgaria, Croatia, Cyprus, Greece, Latvia, Lithuania, Poland, Portugal, Slovenia, and Spain.
- ▶ 14 Financial Intelligence Units (FIUs) in Belgium, Czech Republic, Estonia, Finland, Hungary, Italy, Luxembourg, Malta, Portugal, Romania, Slovenia, Spain, Sweden, and Switzerland.
- ▶ 21 others (24 interviewees), including ministries, NGOs, academics, trade unions, international organisations, and economic operators;
- ▶ 5 economic operators and one free zone authority responded to our survey, out of the over 800 directly contacted.

1.3.3. Case studies

As a part of the methodology for data gathering and analysis, the research team developed 6 case studies²⁸ (presented in Annex IV). The case studies and their rationale are presented in the table below:

Table 4: Identified needs and methodological adjustments

Case study	Rationale
1. Freeports - Luxembourg High-Security Hub and the Geneva freeport	The objective of the case study is to compare two important and prominently mentioned European freeports, with a focus on anti-money laundering and tax evasion. The Luxembourg

²⁸ Originally 5 case studies were planned, but following the breakout of the war in Ukraine, a dedicated sixth case study was added.

Case study	Rationale
	High-Security Hub and Ports Francs et Entrepôts de Genève in Switzerland are chosen to be compared to one another due to the fact that both are used to store luxury goods.
2. Environmental aspects - the Barcelona and Ajman free zones	The goal of the case study is to collect further evidence to answer the question of whether free zones are contributing to the objectives established in the European Green Deal and if not, whether they have a plan to contribute to the objectives established in the European Green Deal (RQ8 and RQ9). The Barcelona and Ajman free zones are chosen to be compared to one another due to the fact that there is available information in these free zones focused on the European Green Deal. Furthermore, both free zones are freeport special economic zones, relatively large in size (square footage as well as the number of companies and employees) and are reporting comprehensively on their sustainability efforts.
3. Labour conditions in free zones: the case of Barcelona, Bogotá, Poland, and South Asia	The objective of the case study is to find evidence to support the answer to the research questions regarding the labour conditions, quality of labour and labour conditionalities applied in the free zones (RQ6 and RQ7). Zona Franca de Barcelona and Zona Franca de Bogotá are compared to one another because of their similar size (having over 200 companies). The SEZs in Poland and in two South Asian countries, India and Bangladesh, are compared to one another because they are all specialised mostly in factories and goods production, rather than services.
4. State aid aspects – Romania and Moldova	The free zones in these countries are compared due to the fact that the two countries have the same language and geographical proximity, while the recent granting to Moldova of an EU candidate status could offer some lessons learned from similar processes in Romania.
5. The role of free zones in extreme situations like the war in Ukraine	The objective of this case study is to explore the possible and current role of free zones in extreme situations like the war in Ukraine. Naturally, it focuses on adjacent countries such as: Moldova, Poland, Romania, and the Baltic countries.
6. Alternative customs provisions – the case of the Netherlands	The case study aims to illustrate customs procedures that are alternative to the ones used in free zones and to present their advantages/disadvantages. The Netherlands was selected for the case study due to the variety of customs procedures used in the country and the fact that there is no free zone in the country.

1.3.4. Methodological challenges/limitations

As expected, and discussed in the Inception stage of the project, the data-gathering process of this study has been very challenging due to the lack of readily available data (e.g. on seizures in free zones), the very large geographical scope (the EU and free zones across the world), the diverse thematic scope (among others, the study covers topics related to socio-economic factors, taxes, customs procedures, labour, trade, and the environment). Despite

these challenges, mostly addressed with the help of customs authorities, the data gathered for the study provides a sufficient evidence base to answer the research questions. In the table below, we present the **key methodological challenges/limitations and the way they were addressed**.

Table 5: Identified needs and methodological adjustments

Methodological challenge/limitation	Mitigation measure
<p>Free zone authorities and economic operators in the free zones were much less active in providing input for the study when compared to customs authorities. Altogether about 20 free zone authorities/economic operators provided their views/information.</p>	<p>The free zone authorities and economic operators were expected to be the most difficult to reach since the start of the project. Typically, businesses are difficult to reach via surveys and interview invitations, because of little awareness and experience with study processes. This is especially the case on a topic, which could be perceived as ‘sensitive’ – in this case the operation of free zones. The research team applied different techniques to address these challenges:</p> <ul style="list-style-type: none"> • using both interview invitations and an online questionnaire option; • asking free zone authorities to share the questionnaire with economic operators; • calling some stakeholders (who promised to fill in the questionnaire, but input was not received); • translating the online questionnaire to the mother tongue of the recipient; • sending the questionnaire to more than 800 economic operators directly; • inviting some free zone authorities/operators to take part in case studies on a specific topic (e.g. their positive role in alleviating the negative effects of the war in Ukraine); • having an interview with the World Free Zone Organisation and asking for their support and contacts. <p>Despite these efforts, the input of the free zone authorities / economic operators was more limited than the input received from customs authorities. To overcome these challenges, the team has filled in the data gaps via:</p> <ul style="list-style-type: none"> • the help of customs authorities who provided information (where available) on the type/value/duration of goods stored in free zones, objectives and activities in the free zones; • desk research to fill in gaps related to data on the size, activities, employment generated, active economic operators, etc. <p>Furthermore, the input received from free zone authorities/operators is largely consistent in terms of the perceptions of risks (and lack of them).</p>
<p>Incomplete data on costs and risks related to the functioning of the free zones</p>	<p>A data sheet was shared with Member State customs authorities (with the support of the EC) with a request for the following information:</p> <ul style="list-style-type: none"> • number of customs officers involved in checks in free zones;

Methodological challenge/limitation	Mitigation measure
	<ul style="list-style-type: none"> • frequency of the checks (i.e. number of customs checks per year); • response to the question if the checks related to addressing customs fraud in free zones require more / less / the same resources as compared to checks outside the free zones; • percentage of the value / number of seizures in free zones out of all seizures in the country (per zone); • total value of the goods traded in the free zones (per zone); • average times for goods kept in the free zones (per zone); <p>12 customs authorities filled in the questionnaire, which has proved useful for the research questions (particularly RQ4 and RQ5). Nevertheless, it is clear from the received answers that most of the information requested is not readily available (which is a finding in its own right).</p>
<p>Information on economic development and impacts is largely self-reported, which creates bias, while the sources on this issue does not focus on EU free zones. This hampers the development of estimations on the future developments related to EU free zones.</p>	<p>Data on revenue and business demographics could only be obtained for 9 free zones, data on investment flows for 7 zones and international trade data on 3 zones. The data comes from those authorities who filled in our questionnaire, and desk research. Moreover, we are only able to find data for a single point in time. The lack of time series data makes it extremely challenging to develop forecasts. Given the paucity of primary data, we complemented our analysis by estimating an econometric model on observational data at the NUTS3 level for Poland and Latvia.</p>

FINDINGS PER RESEARCH QUESTION

1.4 RQ1: core activities and objectives of free zones

Key findings:

- There is a variety in the objectives set by the free zones in the EU. Some free zones set **business-related objectives** (business facilitation and trade), while others declare **socio-economic objectives** (decent jobs and regional development).
- To some extent, the objectives addressed by free zones have remained unchanged in the short and long run in the active free zones. However, with the change in EU policy (e.g. the European Green Deal) and geopolitical context (e.g. the war in Ukraine and Brexit), the **needs addressed by EU free zones would need adapting to maintain their relevance**.
- Overall, it is not possible to conclude that the objectives of free zones are still fully relevant across the EU. On the one hand, the fact that there are 62 active free zones in the EU which have maintained their objectives to be the same in the short-run and long-run suggests that free zones are still **relevant** to some EU regional economies. On the other hand, the increasing number of inactive EU free zones (e.g. in Cyprus, Hungary, and France) indicates the **declining relevance** of free zones in these countries.
- Some MSs do not have free zones due to a variety of reasons, including the fact that **alternative procedures** such as customs warehousing and inward processing cover the needs of trade and **free zones failing to differentiate from the remaining territory** of MSs.

This research question presents the objectives of free zones established in the EU in the short and long run and the extent to which they are still relevant and valid in the current context. Furthermore, we present the main activities that are undertaken in the EU free zones and the extent to which they are in line with the objectives. To answer these research questions, we rely on the available data on free zone websites, policy documents, research studies and insights from stakeholder consultation.

Free zones are established for a **variety of objectives** and purposes. Generally, and historically, free zones are established to streamline customs procedures and therefore, to reduce the administrative burden for traders.²⁹ Over time, they are increasingly established to also attract local and foreign direct investment to enhance trade, employment and industrial development.³⁰ In general, free zones are established to address one or a combination of the following needs:

- ▶ invigorate regional **socio-economic growth**;
- ▶ **simplify** administrative procedures for businesses;
- ▶ provide **competitive trade conditions**;
- ▶ provide **competitive customs/tax regimes**;
- ▶ facilitate **foreign direct investment**;
- ▶ enhance integration with **global value chains**;

²⁹ De Jong, W. (2013), Establishing free zones for regional development, Library Briefing, Library of the European Parliament, available at [https://www.europarl.europa.eu/ReqData/bibliotheque/briefing/2013/130481/LDM_BRI\(2013\)130481_REV1_EN.pdf](https://www.europarl.europa.eu/ReqData/bibliotheque/briefing/2013/130481/LDM_BRI(2013)130481_REV1_EN.pdf)

³⁰ European Parliament Research Service (2020), Public economic support in the EU: State aid and special economic zones, Briefing, available at [https://www.europarl.europa.eu/ReqData/etudes/BRIE/2020/646164/EPRS_BRI\(2020\)646164_EN.pdf](https://www.europarl.europa.eu/ReqData/etudes/BRIE/2020/646164/EPRS_BRI(2020)646164_EN.pdf)

- ▶ **accelerate spillovers** from multinational corporations to local SMEs;
- ▶ boost **exports**;
- ▶ **create jobs**;
- ▶ provide a focal point for **productive cluster development**;
- ▶ **narrow** regional economic disparities;
- ▶ **offset** industrial property market failure whereby passing rentals do not meet developers' internal rate of return (IRR) for the development to proceed.

Within the last 15 years the rationale for free zone development in industrialised countries was more explicitly intended to promote foreign direct investment. Examples include the Free Economic Zone Programme in the Republic of Korea and the 22 foreign access zones in Japan. In contrast, the main rationale for the Shannon Free Zone in Ireland, established as early as 1959, was to establish a 'growth pole' in the then economically distressed southern part of the country³¹.

It is timely in the context of this study to be reviewing free zone performance against the background of 'mixed results' at best³², the fundamental reshaping of global value chains, mounting inflationary pressures, tightening of the fiscal space, and the EGD compliance. Within the economic dynamism of free zones and special economic zones, the World Bank 2017³³ study noted that three factors stood out:

1. larger zones performed better than smaller ones, i.e. the larger were more effective than the smaller ones;
2. contrary to the expectations of policymakers and zone designers, lower-tech, labour-intensive zones have been more economically dynamic than their more high-tech counterparts;
3. free zones have a non-distinct economic trajectory whereby the performance of most zones' growth has simply reflected their national average, rather than catalysing economic development.

Core activities and objectives/needs addressed by the free zone established in the Union in the short and in the long run

Following a review of the information available on the EU free zone websites, policy documents and research papers, an overview of the objectives, main activities and the available incentives in the EU free zones is provided. Table 6 presents **a summary of the objectives, core activities and main incentives for each MS with an active free zone**. The detailed objectives, main activities and incentives of each EU free zone are provided in Annex II.

³¹ As part of the modernized Union Customs Code, the Shannon Free Zone ceased to exist for customs purposes from May 2016. For more information: <https://www.ennischamber.ie/the-end-of-the-shannon-free-zone-2016/>

³² World Bank (2017) Special Economic Zones – An Operational review of Their Impacts.

³³ *ibid.*

Table 6: The objectives, main activities and incentives in EU free zones, by MS

Country	Objectives	Main activities	Main incentives
Bulgaria	Business support – logistics, storage, and services	<ul style="list-style-type: none"> • storage and keeping of goods intended for export, import and transit operations • loading/unloading operations • processing of goods - sorting, packing, labelling, marking and assembling • bank guarantees; insurance, and other financial operations • administrative, customs agency and logistic services 	<ul style="list-style-type: none"> • duty-free import and export of goods, machinery and equipment, raw materials, etc. originating from third countries • suspension from VAT, exemption from local taxes and fees • registration of enterprises with 100 % foreign participation in the territory of the zone or of mixed enterprises without restrictions on shareholding, as well as companies of local persons • all activities and transactions in the zone could be done by companies registered in accordance with the Bulgarian commerce act as well as any other national legislation • any bureaucratic formalities are avoided when carrying out import and export operations
Croatia	To promote business development and investment ³⁴	Production of goods, refinement of goods, storage of goods, wholesale, strategic business support activities, activities of the establishment of technological development centres of innovation, provision of services except banking and other financial operations, personal and estate insurance and reinsurance.	<ul style="list-style-type: none"> • incentive measures regulated by the act on investment promotion and development of investment climate³⁵ • vat suspension • benefits in payment transactions and foreign exchange operation
Czech Republic	To promote industrial activities and provide support to reduce the administrative burden	<ul style="list-style-type: none"> • real estate activities • storage and manipulation • management and maintenance of properties • customs declaration and consultation activities 	<ul style="list-style-type: none"> • customs declaration support • legal representation in customs procedures • consultation and advice on customs regulations
Denmark	No available information	Transit trade, warehousing, transshipment, logistics,	Tax-free warehousing of goods imported, for exports, in transit trade, and to be distributed

³⁴ <https://portsplit.hr/en/port-of-split/free-zone/>

³⁵

Country	Objectives	Main activities	Main incentives
		manufacturing operations, etc. ³⁶	
Estonia	To attract foreign direct investment ³⁷	Port and stevedoring operations, cargo handling, industrial park, passenger	<ul style="list-style-type: none"> • vat suspension, excise or customs duty exemptions for goods brought into the free zones for re-export • no tax on reinvested profits
Germany	To promote trade and to support industrial activities	Shipping and services, mineral oil storage and trading, cold store, car preparation, cruise terminal, support points of shipping companies and freight forwarders, central freight shop, shipyard	Exemptions from import duties, seagoing vessels free of declaration and registration obligations
Greece	To promote Greece as an international transit hub by enhancing trade flows ³⁸	Logistics (storage and materials handling), warehousing, commercial (i.e. industrial and craft items trade, oil seeds and fruits trade), fish industry and trade	<ul style="list-style-type: none"> • special tax provisions • provision of “simple” processing/repacking/labelling of products, based on non-community components, without company’s obligation of having a permanent establishment in Greece (income taxation)³⁹
Italy	To contribute to the economic development of the regions	Warehousing, commercial and logistics activities related to ports, processing, manufacturing	<ul style="list-style-type: none"> • vat suspension, duties and rights for goods imported into the EU, • exemptions from customs procedures for imports and exports
Latvia	To attract investments, develop infrastructure and production, create new jobs, and promote export growth and industrial activities	<ul style="list-style-type: none"> • provision of relevant business infrastructure, port services and industrial manufacturing • production zone, industrial zone for companies specialising in making high value-added services and products in the fields of IT, telecommunications, electronics, engineering, industrial automation, 	<ul style="list-style-type: none"> • corporate income tax reduction • property tax reduction • tax rebates for labour for some SEZs

³⁶ https://www.worldfzo.org/Portals/0/OpenContent/Files/487/Denmark_FreeZones.pdf

³⁷ <https://investinestonia.com/>

³⁸ <https://www.pcdc.com.gr/en/free-zone/>

³⁹ https://www.worldfzo.org/Portals/0/OpenContent/Files/487/Greece_FreeZones_Atlas.pdf

Country	Objectives	Main activities	Main incentives
		computer design, space technologies and others.	
Lithuania	To encourage the growth of industry and to create jobs in least-developed regions of the country by promoting investments	Manufacturing, administrative and storage facilities, R&D activities, commercial and financial activities, activities in the engineering industries, processing companies, business set-up services, consulting services and financial support to investors ⁴⁰	<ul style="list-style-type: none"> exemption from profit tax for the first 10 years of operation; 7.5 % over the next 6 years, subject to minimum investment requirements and a minimum number of jobs created (the profit tax in Lithuania is 15 %)
Luxembourg	To promote investment in high-value goods, to provide safety and security for luxury goods.	Storage, auxiliary services like art acquisitions services, art financing, art expertise, collection management, and insurance broker services ⁴¹	Suspension of VAT and customs duties for goods stored inside the hub.
Malta ⁴²	To attract investment in the manufacturing and logistics sector	Cargo management and storage, warehousing activities such as packaging, labelling and inspection	<ul style="list-style-type: none"> exemptions from customs duties exemptions from indirect taxation for imported goods
Poland	To speed up the economic development of the poorest Polish regions by attracting foreign capital and addressing structural unemployment	Retail sale of goods to authorised travellers leaving the EU in air transport, storage of goods, real estate, manufacturing, industrial production, transshipment activities, commercial activity, handling and storage, distribution or production terminals	<p>tax exemption from</p> <ul style="list-style-type: none"> corporate tax, personal income tax, and real estate tax⁴³
Portugal	To develop and diversify the local economy through the attraction of international investment, considering the condition of Madeira as one of the nine outermost regions of	Three main sectors of activities, including the industrial free trade zone, the international services and the international shipping register or Madeira	<ul style="list-style-type: none"> a reduced corporate tax rate of 5 %, applicable on the taxable income, until the end of 2027 80 % exemption from stamp duty on documents, contracts and other acts performed that require public registration

⁴⁰ <https://www.tetraconsultants.com/jurisdictions/lithuania-company-registration/free-trade-zones/>

⁴¹ <https://www.lyonandturnbull.com/news/article/le-freeport-luxembourg/>

⁴² <https://www.tetraconsultants.com/jurisdictions/register-company-in-malta/free-trade-zones/>

⁴³ EPSON (2020), Policy brief: European Special Economic Zones, Research spin-off project of "The World in Europe: Global FDI flows towards Europe (EPSON FDI)", available at <https://www.espon.eu/sites/default/files/attachments/Policy%20Brief%20SEZ%20corr%2003-12.pdf>

Country	Objectives	Main activities	Main incentives
	the EU. One of the objectives is to establish companies generating qualified jobs that are well-paid and sustainable in the future.		
Romania	To attract foreign and Romanian investors in order to develop industrial activity and promote exports, to promote international exchanges	Concession activity (public auction organised by the administration), real estate, construction, logistics, commerce, warehousing	<ul style="list-style-type: none"> • customs duties are paid only when the goods are released for free circulation in the EU, • no taxes for goods exported outside the EU, • financial operations are made in freely convertible currency
Slovenia	To offer a reliable port system, developing and promoting global logistics solutions to Europe	Cargo handling and warehousing services for all types of goods, complemented by a range of additional services for cargo, comprehensive logistics support	<ul style="list-style-type: none"> • users may undertake business activities on the basis of contracts with the founders of the zone; • users are free to import goods (customs goods, domestic goods for export) into the zone; • goods imported into the zone may remain for an indefinite period, except agricultural produce, for which a time limit is set by the government
Spain	To boost economic development in the region, to promote industrial and commercial activities related to maritime or port traffic	Authorised industrial, commercial or service provision activity, cleaning, security and maintenance services for the common facilities	<ul style="list-style-type: none"> • commercial promotion, • flexibility of leasing conditions, • simplified administrative procedures for customs intervention • specific customs and tax advantages

While the objectives of free zones differ by country, they centre around a number of themes:

- ▶ promote trade/provision of services/manufacturing/logistics;
- ▶ attract investment;
- ▶ create decent employment; and
- ▶ contribute to the economic development of regions.

Thus, **some free zones set business-related objectives (business facilitation and trade), while others declare socio-economic objectives (decent jobs and regional development)**. Only a few free zones (e.g. Madeira, Barcelona) have indicated the contribution to the European Green Deal as one of their general objectives. This is to be expected as the European Green Deal objectives were only introduced in 2019, long after the time that many of these free zones were established.

In general, EU free zones do not distinguish between the short-run and long-run objectives. Through the available information, it appears that **the objectives set out at the time of establishment remain relatively unchanged for most of the active free zones**. An

exception is the Luxembourg High-Security Hub. The Luxembourg freeport (established in 2014) originally wanted to cater to a wealthy elite of finance, business and politics, to invest in art, and to create benefits for Luxembourg by attracting the international art world. After several scandals around stolen art bunkered in freeports, the new management decided to abandon the term freeport and create a new image of the freeport as a high-security hub for not only art but also industrial products (see case study in Annex IV). Due to the change in business model, they also changed the name of the freeport to Luxembourg High-Security Hub in 2021. This is an example where the objective of the free zone is changing to adapt to the needs of providing higher security to businesses.

Overall, the stakeholder consultation confirms the findings based on the desk research. In particular:

- ▶ The free zones objectives remain relatively unchanged over time, and there is no distinction between short-run and long-run objectives. However, a stakeholder in Croatia suggested that while the purpose and objectives of the Free Zone Act remain unchanged since its entry into force, over time and under the context of various circumstances (e.g. Croatia's accession to the European Union), the focus of businesses has shifted from production within free zones to services and storage of goods. In addition, a stakeholder from Latvia claimed that due to geopolitical reasons (e.g. the war in Ukraine), there might be some different short-term objectives for the Latvian free zones, including supporting refugees and Ukrainian export/import flows. A closer look into this issue through our case study on the possible roles of free zones in extreme situations like the war in Ukraine reveals that free zones in Latvia, Lithuania and Poland have taken up new roles. Specifically, the Latvian president Egils Levits noted that Latvia could help Ukraine with the **export of grain** through the Latvian ports⁴⁴. In neighbouring Lithuania, the port of Klaipeda, which also hosts a free economic zone, has been used to transport Ukrainian sunflower oil.⁴⁵ In addition, the port has been used to transport agricultural products from Ukraine, brought in by rail and road, since May 2022. In Poland, the Łódź Special Economic Zone represents a good example of an SEZ that can support the **relocation of businesses from other countries**, in this case – from Ukraine (see case study 5 in Annex IV).
- ▶ The objective of contributing to the European Green Deal is mentioned by stakeholders in the interviews conducted with Madeira and Barcelona free zones. For more information, please refer to the answers in RQ8 and RQ9.

Validity of the objectives/needs and reasons for inactive free zones in some EU Member States

Overall, we find mixed evidence of whether **the objectives specified by each free zone and the activities undertaken in each are found to be relevant and valid in the current context**. On the one hand, within the EU active free zones, it appears that the objectives and activities are in line with the needs for their establishment. Lithuania can be taken as an example. The seven Lithuanian special economic zones (SEZs)⁴⁶ were established to address the need to attract investments due to high unemployment. The objectives of the Lithuanian SEZs are to encourage the growth of industry and to create jobs in the least-developed regions

⁴⁴ The Odessa Journal. Latvia will help Ukraine with grain exports through Latvian ports. 25 April, 2022. Available at: <https://odessa-journal.com/latvia-will-help-ukraine-with-grain-exports-through-latvian-ports/>

⁴⁵ Delfi.lt 15 000 tons of Ukrainian oil shipped through Klaipeda. 16.August.2022. Available at: <https://www.delfi.lt/en/business/15-000-tons-of-ukrainian-oil-shipped-through-klaipeda.d?id=90991973>

⁴⁶ *The number of free zones in the EPSON (2020) is higher than those in the mapping in Table 2, on page 11 of this report due to the broader definition of free zones being used in the EPSON study.

of the country by promoting (especially greenfield) investments.⁴⁷ Several SEZs (Akmenė, Kėdainiai Marijampolė, Panevėžys and Šiauliai) are, therefore, located in low-income areas. As such, it is expected that more jobs are created in these least-developed regions.⁴⁸ Poland is another good example. In Poland, there were 14 SEZs* scattered across the country that were established in the 1990s to speed up the economic development of the most disadvantaged regions by attracting new foreign capital and addressing structural unemployment. Their aim is to attract investments within most sectors, while some zones focus on industries that have a comparative advantage.⁴⁹

On the other hand, the declining trend in the total number of EU free zones between 2012 and 2022, as shown in Figure 1 in Section 1.2.1, suggests that the validity of the objectives and needs of free zones in some MSs is questionable. This is confirmed in the stakeholder consultation in this study which reveals that the **objectives and activities of free zones in some MSs are no longer in line with the original needs** that they aimed to address, sometimes **leading to their inactivity**.

- ▶ In an interview with a stakeholder from Denmark, it is stated that the opportunities of a free zone nowadays are minimised by the many opportunities in the ordinary customs system.
- ▶ In Croatia, stakeholders mentioned that it is becoming difficult for Croatian free zones to distinguish themselves from the rest of the country in terms of offering tax and customs incentives.
- ▶ In an email exchange with the Hungarian free zone authority, it is found that the Zahoney port in this Member State while having the free zone operating license, is not currently active.

During a number of other stakeholder interviews, we found that one or more free zones in Cyprus, Slovakia, Slovenia, Ireland and France are no longer active.

- ▶ One of the reasons for the inactivity of the Shannon freeport in Ireland is that Ireland was already an attractive location for foreign direct investment for national-level reasons, so it was **no longer feasible to actually differentiate Shannon from the rest of the country**.⁵⁰ In essence, the designation into freeports that Shannon as well as Cork received in the 80s **did not provide the expected economic benefits**, and an insufficient number of new businesses were set up (stakeholder consultation). Nevertheless, following Brexit and the British plans for opening freeports in the country⁵¹ raise the question of the relevance of free zones in Ireland again (as also discussed in interviews during this study).
- ▶ The reason for the inactivity of free zones in France was provided in an interview with a French authority. It is due to the fact that acting as just a **storage function is not enough to make free zones attractive**. At the same time, in the same interview, it is revealed that Brexit has allowed the UK to restore free zones without having to respect EU rules, notably on State aid. French local authorities, in particular port authorities, have expressed some concerns about this prospect and have started to think about the development of free zones especially freeports in the French Channel ports. However,

⁴⁷ EPSON (2020), Policy brief: European Special Economic Zones, Research spin-off project of "The World in Europe: Global FDI flows towards Europe (EPSON FDI)", available at <https://www.espon.eu/sites/default/files/attachments/Policy%20Brief%20SEZ%20corr%2003-12.pdf>

⁴⁸ *ibid.*

⁴⁹ *ibid.*

⁵⁰ For more information, see: The Guardian (2016). Story of cities #25: Shannon – a tiny Irish town inspires China's economic boom. Available at: <https://www.theguardian.com/cities/2016/apr/19/story-of-cities-25-shannon-ireland-china-economic-boom>

⁵¹ For more information, see: <https://www.gov.uk/guidance/freeports>

the French customs administration has not yet been involved in this process of reflection (stakeholder consultation).

- ▶ Before Slovenia joined the EU in 2004, there were two economic zones. However, these two zones **lost importance due to the closing of the airport of Maribor** and the **alignment of Slovenian legislation to the EU rules**, including rules on State aid. As such, the economic zone Maribor became inactive, and the economic zone Koper is a **free zone without tax privileges** (stakeholder consultation).

Reasons for not having free zones in some Member States

As indicated in the free zone mapping in Section 1.2.1, there are seven MSs that do not have a free zone. The reasons that MSs do not have a free zone are different but not always very apparent. As indicated in the case study on the reasons for the lack of a free zone in the Netherlands (see case study 6 in Annex IV), **alternative procedures such as customs warehousing and inward processing cover the needs of trade** and there has been **no (economic) demand shown for a free zone from the business sector**. From a customs perspective, other customs procedures provided are enough to cover the needs of the business. Therefore, both economic operators and customs can carry out all their activities by using other customs procedures and processes.

Stakeholder consultations with the authorities in Member States without a free zone provide various insights into why free zones are not needed in some Member States.

- ▶ In Finland, the **concept of free zones has not been relevant** for many years as it did not prove itself necessary or efficient. To some extent, it could have played a role in car importation/transit, but due to the changes in business patterns, this has also become obsolete even before the UCC. According to interviewees, there is no need for a free zone as the customs warehousing and temporary storage are enough to fill the needs of the customers (who often have a need for both, which is not possible in a free zone).
- ▶ In Austria, according to interviewees⁵², there is **no economic need** as no company has asked for such a free zone to be established in the last few years.
- ▶ In Belgium, interviewees have also not identified **any actual need** for a free zone. Similarly, to other views, the customs warehousing procedure (with all its different types) is considered sufficient and offers more security and less uncertainty. Temporary storage is also in use for all concerned economic operators.
- ▶ In Slovakia⁵³, **free zones are considered outdated**, at least from a customs point of view. As customs legislation changed significantly since the initial establishment of free zones (now not in operation anymore), **all benefits linked with free zones can be more easily achieved with other customs provisions**. Another reason could be that Slovakia is also an inland country, the advantages offered by freeports or free zone with a port are not there.

Despite all the above reasons and decreasing relevance of free zones in the EU, as mentioned earlier in the report, the United Kingdom's plans to establish freeports have caused some MSs to reconsider the relevance of free zones. This is why in Box 1, we provide an overview of the UK plans, qualified with the results of desk research.

⁵² From the Ministry of Finance

⁵³ Interview with the Ministry of Finance

Box 1: Freeports and their Post-Brexit Revival in the United Kingdom

Overall, there is a decreasing trend in free zones across the EU, but the opposite is the case in the UK whereby to offset Brexit-related constraints, by March 2023, twelve Freeports were announced in the following locations⁵⁴:

- East Midlands Airport
- Felixstowe and Harwich
- Humberside, including part of the port of Immingham
- Port of Liverpool
- Port of Plymouth
- Solent including ports of Southampton and Portsmouth
- Thames, including the port of London
- Teesside includes ports of Middlesbrough and Teesside International Airport.

The 2 Scottish Green Freeports are:

- Firth of Forth Green Freeport
- Inverness and Cromarty Firth Green Freeport

The 2 Freeports in Wales are:

- Anglesey Freeport; and
- Celtic Freeport.

Such a wave of new freeports has not been without its critics. For example, the Professor of Accounting at Sheffield Management School, Richard Murphy (Source: Tax Research UK. 2021. Ten reasons why freeports are a bad idea) cites several weaknesses of freeports, of which one of the most prominent reasons is that Freeports in the UK were abandoned in 2012 by the then Prime Minister, David Cameron, because there was no sufficient evidence that they worked. Other shortcomings of freeports cited by Professor Murphy include:

- Freeports tend to reduce protection for workers;
- Freeports increase the risk of criminals using the port;
- Having a border around the port increases paperwork;
- Jobs created are routinely transferred from elsewhere; and
- Jobs tend to be low quality and usually attract fewer women.

Freeport incentives in the UK include no stamp duty, full business rates relief for up to five years and enhanced tax allowances for construction and machinery investment. Designed to attract long-term inward investment and allow firms to reduce their taxable profits, the objectives of the freeports include developing supply chains, including offshore wind, clean energy, and value-added manufacturing. Furthermore, each freeport will be granted up to EUR 25 million of seed capital funding primarily to be used to address infrastructure gaps in tax and/or customs sites that are holding back investment.⁵⁵

Despite freeports being publicly framed as a post-Brexit opportunity, they, as stated, had already become redundant in the UK, prompting some Parliamentarians⁵⁶ to conclude that *'there is currently little reason to assume that UK freeports will pull foreign investment into the UK that would not have happened anyway.'* UK freeport policy has also suffered from a lack of intra-government coherence with a number of trade deals, including provisions that exclude goods produced in freeports.

⁵⁴Gov. UK. 2023. Guidance Freeports - Information and Guidance on Freeports operating in England. Available at <https://www.gov.uk/guidance/freeports>

⁵⁵Gov. UK. 2022. Guidance Freeports - Information and Guidance on Freeports operating in England. Available at <https://www.gov.uk/guidance/freeports>

⁵⁶Lowe. S. 2021. Any Port in a Storm – the Future for Freeports

1.5 RQ2: customs provisions

Key findings:

- Overall, both customs authorities and free zone authorities appear to be **satisfied with the design and implementation of the Union Customs Code (UCC)**. A minority of customs authorities highlight that the UCC does not fully address customs-related risks and that gaps remain in the degree of control that customs authorities can exercise over free zone activities, in part due to the fact that goods entering a free zone do not have to be covered by a customs declaration as this may facilitate the illegal movement of goods in and out of free zones.
- There are **discrepancies between the definitions of free zones used in the UCC and EU anti-money laundering regulation**, creating a degree of confusion as to whether anti-money laundering regulations apply to all free zones or only to freeports. The discrepancy may be addressed by the **2021 Proposal for a Regulation** of the European Parliament and of the Council on the Prevention of the Use of the Financial System for the Purposes of Money Laundering or Terrorist Financing, which aims to **extend anti-money laundering rules applying to trade in artworks to free zones and customs warehouses**.

This research question focuses on whether the UCC and other related legislation regarding free zones contribute to ensuring the proper functioning of the free zones. The question does not focus only on the appropriateness of the rules themselves but also on their implementation, including through the use of IT systems.

Fitness of the customs provisions / UCC

One of the questions of this study concerns ***the extent to which current customs provisions and rules regulating the free zones are fit for purpose***. This is an important question in light of the 2022 **interim evaluation of the implementation of the Union Customs Code (UCC)**, which found a somewhat mixed record.⁵⁷ According to the report, the Code contributed to harmonising customs rules across Member States, reducing differences in areas of customs decisions and procedures. Yet gaps remain in the harmonisation of risk management and the interpretation of rules. Moreover, according to the Staff Working Document (SWD), since the full implementation is dependent on the rollout of IT systems—not all of which are in place yet—many of the UCC benefits are not yet achieved. The interim evaluation, however, does not touch upon the issue of the nexus between the UCC and the operation of free zones across the EU. It does note that there are discrepancies between Member States insofar as how rules on free zones are simplified across the EU, but it does not provide greater details on this issue.

Overall, the **stakeholders consulted report satisfaction with the design and implementation of the UCC**, which is widely reported to have been instrumental in ensuring the smooth functioning of free zones across different EU Member States.⁵⁸ The vast majority of stakeholders appear to think that the UCC is fit for purpose regarding free zones both with regard to its design and its implementation. Both **customs authorities and free zone authorities pointed to the role of the UCC in simplifying procedures, reducing lead times, and facilitating the exchange of information** between customs and free zone

⁵⁷Commission Staff Working Document (2022). Interim Evaluation of the Implementation of the Union Customs Code. The evaluation is available at the following [link](#).

⁵⁸Fourteen stakeholders - eleven customs authorities, and three free zone authorities - explicitly expressed satisfaction with the design and UCC, and pointed to the lack of any significant gap. Four of these stakeholders also pointed specifically to simplification as one of the main benefits of the UCC. This point was reaffirmed by an additional two stakeholders, who however also highlighted the possibility that simplification of customs declaration procedures may breed risks in terms of reduced customs oversight.

authorities, and among customs authorities. More specifically, stakeholders highlighted the following benefits of the UCC:

- ▶ the UCC simplifies customs procedures for authorised economic operators (AEOs) — an issue on which there appears to be broad agreement;
- ▶ it also strengthens the effectiveness of customs control by introducing free zones as special procedures; and by clarifying that free zones fall within the customs territory of the Union;
- ▶ another important by-product of the introduction of the UCC is the harmonisation of customs rules and legislation across EU Member States;
- ▶ the UCC enables quicker/easier communication between customs authorities, other competent authorities and economic operators and helps to streamline the processes within the European Union.

At the same time, however, **not all stakeholders appear to be completely satisfied with the implementation of the code.** Three stakeholders belonging to the customs authorities group point to gaps in the degree of IT systems utilisation, including in the digitalisation of records.⁵⁹ Another three stakeholders belonging to the same group highlight that while customs procedures have indeed become substantially more streamlined, **the process of simplification may have come at the cost of reduced control for Customs Authorities.**⁶⁰ In particular, these stakeholders highlight that the absence of customs declaration obligation may facilitate the illegal movement of goods into the free zones. In addition, at least one stakeholder pointed out the risk that Customs Authorities may not be able to identify and collect customs debt from economic operators.

Concerns over the degree of control that Customs Authorities can exercise over free zones raise questions about the possible **weaknesses and gaps in the UCC legal framework.** This is a long-standing issue, which was highlighted in a 2018 report on money laundering and tax evasion risks in freeports by the European Parliamentary Research Service (EPRS), according to which the UCC is not fully aligned with other EU regulations, including the EU Anti-Money Laundering Directive (AMLD) and the Council Directive on Administrative Cooperation (DAC).⁶¹

The EPRS study points out that the UCC is not designed to function as a guarantee against money laundering and tax evasion. Moreover, **there are inconsistencies between the UCC and the AMLD.** According to the current UCC classification, freeports are considered free zones with both duty-free storage and trading possibilities for luxury goods.⁶² The lack of differentiation between freeports and free zones creates confusion in the scope of the Directive, because the 2020 iteration of the AMLD (AMLD5) introduces due diligence requirements for transactions occurring in freeports specifically.⁶³ **According to the report, whether the Directive also applies to other types of free zones, such as custom warehouses and bonded warehouses, remains unclear.**

⁵⁹ This issue was raised, in particular, by the Bulgarian, Greek, and Spanish Customs Authorities. An interview with the World Customs Organisation highlighted that IT systems in free zones tend to be more advanced than in non-EU countries, but that gaps across EU MS remain. No further detail was provided in this interview.

⁶⁰ This issue was raised, in particular, by the Estonian, Latvian and Spanish Customs Authorities,

⁶¹ EPRS (2018). Money Laundering and Tax Evasion Risks in Free Ports. The study is available at the following [link](#).

⁶² See our case study on the Luxembourg High-Security Hub and the Geneva freeport (Annex III)

⁶³ AMLD5 stipulates that “persons trading or acting as intermediaries in the trade of works of art, including when this is carried out by art galleries and auction houses as well as persons storing, trading or acting as intermediaries in the trade of works of art when this is carried out by freeports where the value of the transaction exceeds EUR 10 000” will be obliged to undergo customer due diligence requirements—in the same vein as real estate agents and notaries—and will also have to report suspicious transactions to financial intelligence units (FIUs).

A 2020 report by the Financial Action Task Force (FATF) reinforces these findings, highlighting that the lighter administrative and oversight procedures which characterise free zones favour the occurrence of trade-based money laundering, i.e. the under- and over-invoicing, phantom shipments and other falsification of the value or quantity of a shipment including multiple invoicing of goods. The FATF report, however, covers free zones worldwide and not just in the EU. The report also notes that **as of 10 January 2020, freeport operators—which are not considered financial institutions according to the DAC—have become obliged non-financial entities under the EU's AMLD5**. The same applies to other actors in the art market, including auction houses and galleries. Freeports have thus become anti-money laundering gatekeepers, who have to report suspicious transactions to financial intelligence units (FIUs) and carry out client due diligence research.

It is worth noting that Article 3(3, j) under Section 2 of the 2021 Proposal for a Regulation of the European Parliament and of the Council on the Prevention of the Use of the Financial System for the Purposes of Money Laundering or Terrorist Financing extends the definition of obliged entity to operators “storing, trading, or acting as intermediaries in the trade of works of art” which are based in free zones and customs warehouses.⁶⁴ Should the proposal be implemented, it would **extend the reach of the AMLD beyond freeports and help harmonise the definition of obliged entities across all free zone typologies—at least insofar as trade in works of art is concerned**.

1.6 RQ3: contribution to economic growth

Key findings:

- There is **heterogeneity** in the economic impacts across free zones and EU Member States. The economic contribution of free zones varies substantially between countries and free zones.
- Economic activities in free zones account **for between 0.05 % and 19 % per cent of their region’s annual GDP; up to 6 % of their investments; and over 2 % of export volumes**⁶⁵.
- Free zones can **contribute substantially to GDP, especially at the regional level**. Our findings suggest that **compared to regions without a free zone, the GDP of Latvian and Polish regions hosting a free zone is 7 % higher**⁶⁶. According to the stakeholders we consulted, **business creation** is an important impact of free zones. In several instances, free zones introduced new industries and activities in their regions and cities, stimulating a process of **regional diversification**.

Contribution of free zones to the regional/MS economies

Free zones can have several interrelated economic effects. Free zones can **create employment, attract investment, and, insofar as they are goods-oriented, contribute to exports and foreign exchange**. These effects can be direct, i.e. occurring within the zone itself, or indirect.⁶⁷ The latter typically occur through business linkages between zone-based enterprises and their suppliers elsewhere. Free zones can also lead to technology transfer and

⁶⁴ The Proposal is available at the following [link](#).

⁶⁵ However, these initial assessments do not consider possible displacement effects.

⁶⁶ It should be noted that assessing the attribution of free zones to this GDP difference would require more in-depth and robust data.

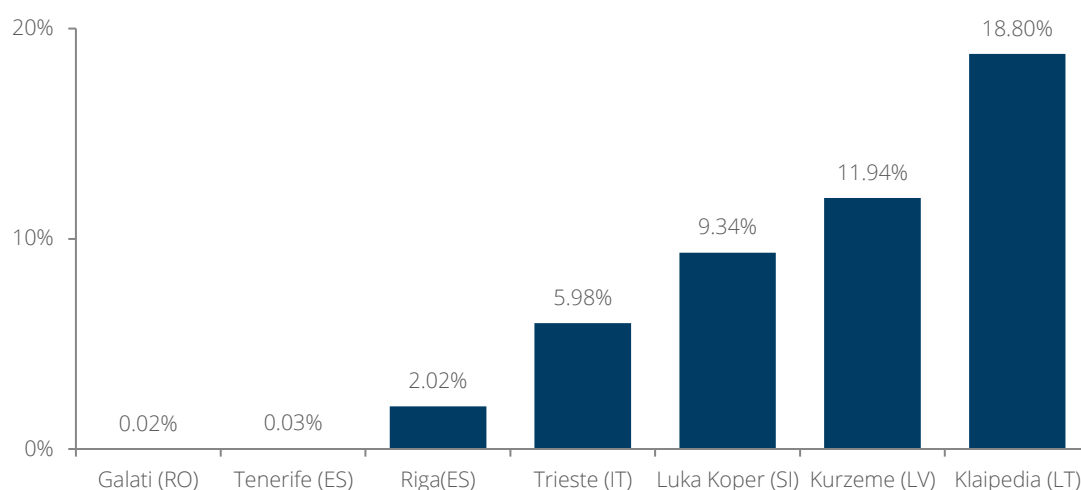
⁶⁷ UNCTAD (2019). World Investment Report 2019: Chapter 4, Special Economic Zones. The chapter is available at the following [link](#). The report covers the universe of free zones which were active in all countries in the world as of 2019, including approximately 105 free zones across EU27 economies.

productivity spillovers from multinationals to domestic firms.⁶⁸ Finally, free zones can trigger agglomeration economies, whereby several firms co-locate, creating a dense labour market and lowering costs; and helping firms join global supply chains.

Taken together, these effects can make an important **contribution to free zones’ regional and national GDP**. To assess the economic effect of free zones, we start by **contextualising the impacts of free zones at the regional level**. Our research suggests that **the magnitude of free zones’ regional contribution is heterogeneous**. According to the data we collected from free zone authorities for this study, free zones in the EU tend to account for between 0.05 % and 19 % of regional GDP. Figure 4 provides an overview of free zones’ contribution to GDP in their respective NUTS3-level regions. **Free zones with the highest contribution to their regional economy tend to be larger and host a variety of economic activities** that range from logistics to manufacturing. The largest contribution of free zones to their regional economies is concentrated around free zones which act as diversified special economic zones (SEZs), such as, for instance, the free zones in Klaipeda (Lithuania) and Kurzeme (Latvia) regions.⁶⁹

The heterogeneity of free zones’ regional contribution also emerges from the only cross-country study of free zones in the EU. Focusing on 35 regions and 51 free zones in seven EU Member States, Arbolino et al. (2022) construct a composite index of regional economic performance using principal component analysis (PCA). Their composite index ranges from 0 to 1, indicating the respective levels of “worst” and “best” performance. This suggests **substantial differences in the contribution of free zones across regions**. They find that best-performing regions tend to be those where the establishment of free zones is accompanied by **supporting industrial policies**.⁷⁰ The importance of industrial policy instruments, particularly in terms of clustering support, business incubation, and supplier development programmes, has also been stressed in the context of emerging countries.⁷¹

Figure 4: Contribution of free zones to GDP at regional (NUTS3) level, in %



Source: Own elaboration based on Eurostat data and stakeholder consultations. Notes: Shares are calculated based on the latest available year of data (2020).

⁶⁸ Technology and productivity spillovers are difficult to quantify directly. However, their extent and impact can be gauged through indirect measures, including by looking at the share of domestic value added in exports, and qualitative assessments of the evolution in the types of products and services that a free zone produces over time.

⁶⁹ These are, respectively, the Klaipėda Free Economic Zone in Lithuania, and the Ventspils SEZs in Latvia.

⁷⁰ Arbolino, Lants, and Napolitano (2022). Assessing the impact of special economic zones on regional growth through a comparison among EU countries. *Regional Studies*. Available at the following [link](#).

⁷¹ Alcorta and Tesfachew (2020). Special Economic Zones and Export-led Growth: An Industrial Policy Imperative. In Oqubay and Lin (eds.), *The Oxford Handbook of Industrial Hubs and Economic Development*. Oxford University Press. Available at the following [link](#).

We were only able to collect primary data from a limited number of stakeholders. Given the paucity of primary data, we complemented our analysis using panel data on 79 NUTS3 level regions in Poland and Latvia—which we chose because they account for a large share of the EU’s free zones—to estimate the contribution of a free zone to regional GDP for the 2000-2020 period. Full results are reported in Annex III (Table 12). In summary, however, our findings suggest that **compared to regions without a free zone, the GDP of Latvian and Polish regions hosting a free zone is 7 % higher.**⁷² This estimate takes into account each region’s size, and the level of employment, education, and wages. We also control for other time-invariant regional characteristics, and for time-varying shocks such as the Great Recession and the European Debt Crisis.⁷³

The effects we found are largely concentrated in specific regions, and they are static. The evidence is less optimistic regarding the dynamic impacts of free zones, especially at the national level. Indeed, in the sources we reviewed, **we found no evidence to suggest that free zones have a significant impact on the rate of national economic growth** (see Annex III, Table 13).⁷⁴ In a 2019 paper on a sample of 350 free zones which uses night lights as a proxy for economic activity, Frick and Rodriguez-Pose find that with the exception of a few outliers, such as Viet Nam, free zones tend to *grow at a lower rate* relative to national GDP growth.⁷⁵ Our own panel regression results on Polish and Latvian NUTS3 level data corroborate these findings, as we also fail to detect a statistically significant impact of the presence of a free zone on GDP growth (see Annex III, Table 13).

Economic theory provides a possible explanation for the discrepancy between local and national effects. The discrepancy could be related to **positive agglomeration effects in a given location coming at a cost to other areas.** Consider, for instance, the case of labour mobility. For a free zone to have a significant effect at the national level, the movement of workers from one location to another would have to raise productivity more in the free zone area than it decreases productivity in their location of origin.⁷⁶ A similar line of argument applies to capital investment in a given area, which would need to raise productivity more in that area than it would if it were to occur in a different area.

Differences between static and dynamic effects, on the other hand, tend to be explained by the **timing of the effects** arising from a free zone. While a free zone could result in an equilibrium of permanently higher growth and productivity in a given location, it is also possible that some locations revert to a lower-productivity equilibrium over time. This point is echoed by the World Bank, which, in its review of the evidence, suggests that impacts on local and regional growth tend to be temporary and difficult to sustain over time.⁷⁷ A related concern is that free zones might function as isolated enclaves with limited linkages to the rest of the economy.

The lack of evidence we report on the causal effects of free zones on economic growth is also rooted in methodological challenges and, most notably, reverse causality: a rapidly growing

⁷²This estimate is statistically significant at the 10 % level, indicating *weak* significance. Full results are available in Annex III, Table 12.

⁷³ These estimates arise from a regression model with fixed effects, where the dependent variable is the log of GDP at the NUTS3 level, and control variables include population, employment, education, and wages—all at the NUTS3 level. Our fixed effects are controls for country- and NUTS2 region-level characteristics, as well as country-year fixed effects, which control for any exogenous shock that may have hit—negatively or positively—the economies of Latvia and Poland.

⁷⁴ Arguably, methodological issues contribute to explaining the lack of evidence. Identifying the causal effect of free zones on national economic growth is extremely difficult, as a rapidly growing economy is also likely to attract substantial amounts of investment.

⁷⁵ Frick and Rodriguez-Pose (2019). Are Special Economic Zones in Emerging Countries a Catalyst for the Growth of Surrounding Areas? *Transnational Corporations*, 26(2). The paper is available at the following [link](#). For a similar study, see World Bank (2017). Special Economic Zones: An Operational Review of their Impacts. Available at the following [link](#).

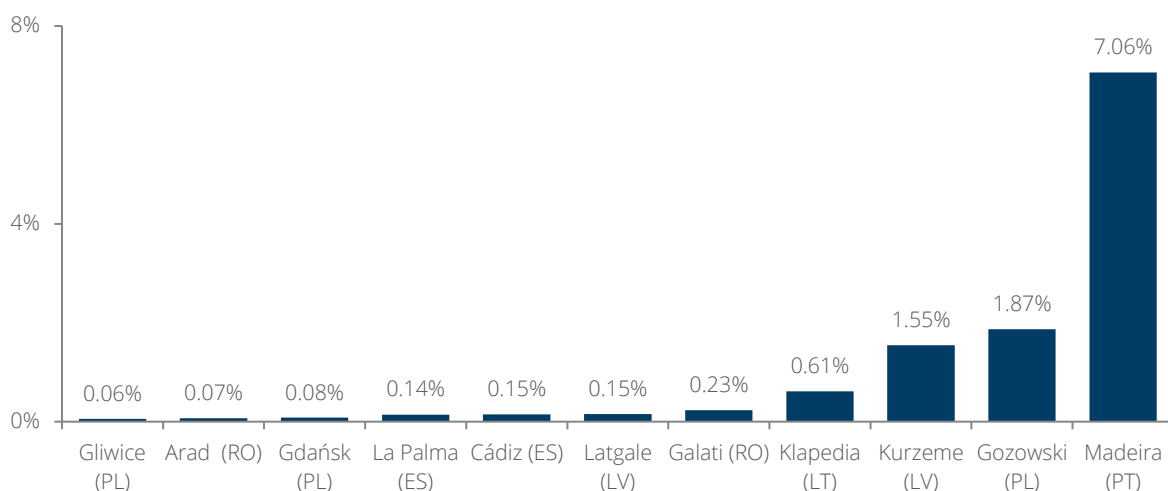
⁷⁶ For a comprehensive discussion of these issues, see Neumark and Simpson (2014). Place-Based Policies. *National Bureau of Economic Research*. The paper is available at the following [link](#).

⁷⁷ World Bank (2017). Special Economic Zones: An Operational Review of their Impacts. Available at the following [link](#).

economy is also likely to attract substantial amounts of investment. Moreover, several strands of the sources reviewed suggest that **moderating factors play an important role in accounting for the heterogeneity one observes across EU Member States**. Free zone performance seems to be related to a number of such factors including: proximity to large markets; a conducive business environment, including the rule of law; the presence of a combination of smaller, more dynamic start-up and larger firms.⁷⁸

GDP is not the only parameter to assess free zones' economic contribution. **Our stakeholder consultations point to business creation as an additional key impact**. Some free zone authorities also point to the zones having introduced new industries and activities in a given region, which offer advantages from a **regional diversification** perspective. Figure 5 provides evidence of the **contribution of free zones to their respective region's business demographics**. The Madeira free zone is a clear outlier, accounting for over 7 % of all regional businesses. Latvian free zones Liepājas and Ventspils also play an important role in shaping business dynamics in their region (Kurzeme).

Figure 5: Contribution of free zones to regional business demographics at NUTS3 level, in %



Source: Own elaboration based on Eurostat data and stakeholder consultations. Notes: Shares are calculated based on the latest available year of data (2019).

Investments generated by free zones

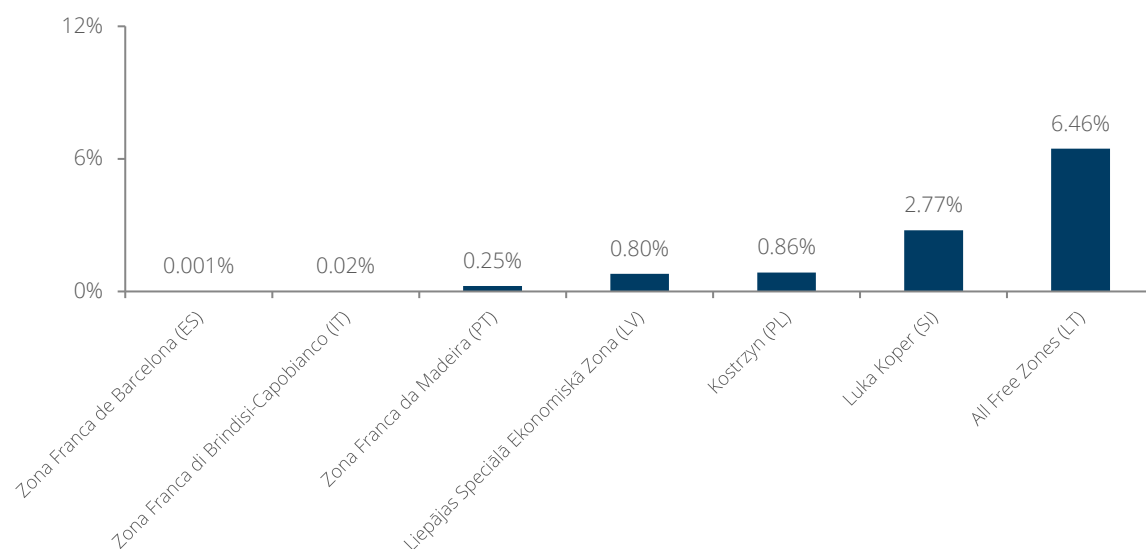
Investment attraction is considered an important objective of free zones. Internationally comparable evidence on the volume of domestic and foreign **investment generated through the establishment of free zones** is hard to find, as data on investment is only recorded at the national level. The primary data we collected through our stakeholder consultations suggests that free zones contribute to **between 0.5 % and 6 % of the accumulated FDI stock** in their respective countries (Figure 6 overleaf). Moreover, at least one stakeholder reported that investments were directed at the technological upgrading of the machinery used in their free zone, as well as in long-term infrastructural development.

The limited availability of data makes it challenging to place these effects in context. Global and EU-level FDI data provided by agencies such as Eurostat, the OECD, or UNCTAD does not distinguish between zone and non-zone investments. It is clear that free zones do contribute to FDI generation in the EU. In Poland, free zones accounted for EUR 5 billion

⁷⁸ World Bank (2017).

investment in 2017 alone.⁷⁹ **Yet when compared with trends in other non-EU regions, EU free zones appear to be lagging behind.** UNCTAD reports that free zones account for approximately 80 % of FDI in China, 90 % in Malaysia, and between 60-70 % in Viet Nam.⁸⁰ In China, which has spearheaded the use of special economic zones since the late 1980s, a 2013 paper by Wang finds an average increase of close to 60 % in per capita foreign direct investment in municipalities located in the vicinity of free zones.⁸¹

Figure 6: Contribution of free zones to FDI stock at the national level, in %



Source: Own elaboration based on Eurostat and OECD data and stakeholder consultations. Notes: Shares are calculated based on the latest available year of data (2020).

Questions on the ability of EU free zones to attract investment are echoed in our case study into state aid aspects in Romania and Moldova (Annex IV). The evidence we collect in the two countries suggests that granting incentives does not necessarily lead to the attraction of large investments within free zones.⁸² Moreover, the case study brings into question the value-add of incentives. This is particularly the case for larger corporations, which appear to be less sensitive to incentive schemes.

Value of the goods and services traded by free zones

An important question concerns the **value of goods existing in the free zones**. With a few notable exceptions, the stakeholders we consulted did not disclose information on the value of exports and imports exiting and entering EU-based free zones. In what follows, we report data on the value of exports for the cases for which we were able to collect primary data. Since data on international trade is currently not available at the regional level, we contextualise the information we gathered through the consultation process using country-level data. Section 2.5 (under RQ5) provides more information on the value of goods stored by free zones. The value of traded goods for EU free zones with available data is as follows.

⁷⁹ EPSON (2020), Policy brief: European Special Economic Zones, Research spin-off project of “The World in Europe: Global FDI flows towards Europe (EPSON FDI)”, available at the following [link](#).

⁸⁰ UNCTAD (2019). World Investment Report 2019: Chapter 4, Special Economic Zones. The chapter is available at the following [link](#).

⁸¹ Wang (2013). The Economic Impact of Special Economic Zones: Evidence from Chinese Municipalities. *Journal of Development Economics*, 101. The paper is available at the following [link](#).

⁸² See Romanian Competition Council (2011), Annual Report. Available at the following [link](#).

- ▶ The Klaipėda free zone in **Lithuania** exported goods for over EUR 594 million in 2021, corresponding to a significant share of the country's total exports in the same year—**over 3 %**. An ESPON policy brief reports that the combined exports from all of Lithuania's free zones account for approximately 6 % of Lithuania's exports—equivalent to EUR 930 million in 2017.⁸³
- ▶ Operators based in the Liepajas free zone in Latvia exported goods for approximately EUR 227 million in 2021, which represents **over 2 %** of Latvia's total exports for the same year.
- ▶ The Zona Franca de Madeira in **Portugal** exported goods for over EUR 177 million and imported over EUR 100 million in 2021. Exports exiting the zone represent a relatively small share of Portugal's total exports for 2021—**0.4 %**.

These findings suggest that **free zones in the EU are not as important to national export performance as free zones in other regions of the world**. According to data collected by UNCTAD, free zones contribute to between 10 % and 50 % of total exports for countries in Latin America, and to between 10 % and 60 % for countries such as India, Bangladesh, and the Philippines.⁸⁴

1.7 RQ4: costs, risks, and correlation with benefits

Key findings:

- While the **benefits associated with free zones vary across Member States**, free zones are recognised as an instrument to spur regional development and reduce inequalities across the EU.
- **Costs of operating a free zone have not been disclosed**, and available estimates vary, considering operating costs or tax foregone.
- The **risk categories** associated with free zones **are not univocally recognised** as concerning across EU Member States. Moreover, **where risks are recognised to exist**, such as in terms of customs or tax fraud, such risks **are not perceived as greater than outside of free zones**.
- The **costs associated with mitigating the risk categories** are considered similar in terms of resources inside or outside free zones.
- The limited availability of cost/benefit analyses and data, together with the presence of MSs without free zones and the absence of an interest in establishing new ones, **does not allow the provision of a definitive and overall conclusion on whether the benefits of free zones outweigh the costs of mitigating their related risks**. However, some examples have shown that in some free zones, there are more benefits than costs (e.g. the benefits of Lithuanian free zones are estimated to be 47 times larger than the tax losses and development costs related to them), while in others, the opposite is found (e.g. Larnaca free zone in Cyprus).

This research question explores whether the **benefits obtained from the free zones outweigh the costs and risks** associated with free zones and, if so, to what extent. Our investigation noted that **information on costs, risks, and their relation to economic benefits are seldom available** and that assessments have been performed in a scattered fashion. As noted in a 2019 UNCTAD report, there is **little systematic research on the performance** and economic impact of free zones.⁸⁵ The measurement of the impacts and

⁸³ EPSON (2020), Policy brief: European Special Economic Zones, Research spin-off project of "The World in Europe: Global FDI flows towards Europe (EPSON FDI)", available at the following [link](#).

⁸⁴ UNCTAD (2019), World Investment Report 2019: Chapter 4, Special Economic Zones. The chapter is available at the following [link](#).

⁸⁵ UNCTAD (2019), World Investment Report 2019: Special Economic Zones. available at <https://unctad.org/webflyer/world-investment-report-2019>.

performance of free zones tend to rely on case studies, given the scarce availability of cross-country data on free zones, as thoroughly discussed when answering RQ3 above.

A 2018 report from the OECD/EUIPO⁸⁶ enumerates 13 categories of potential benefits of free zones, as summarised in Table 7. The report highlights that the potential **benefits are greater for developing economies**, where free zones are instrumental in attracting foreign investments, and less so for developed ones. The use of fiscal and duty exemptions in free zones is indeed popular across all regions. The constitution and implementation of free zones are usually intended to promote regional economic development and social and economic cohesion. However, some other objectives have also been pursued by EU Member States through free zones, such as combating the phenomenon of exclusion in urban areas and promoting the social and cultural integration of their inhabitants.⁸⁷ As assessed in RQ3, free zones in the EU are indeed beneficial in supporting, among others, exports, FDI, and regional development (albeit these findings do not uniformly apply across EU free zones). Furthermore, as discussed in RQ6 below, decent employment and labour skills are fostered by EU free zones.

Table 7: Categories of potential benefits of free zones

Area	Potential benefit
Exports	Increased exports, leading to increased foreign exchange reserves, and improved balance of payments.
Local supply chain	More businesses for domestic producers who sell inputs needed by zone-based firms.
FDI	Increased currency inputs, enhanced host country's capital formation process.
Employment	More jobs.
Incomes	Wages may be lower than in developed countries but can be higher than in the host's domestic territory and can rise rapidly over time.
Technology and knowledge transfer	This is distinctive from FDI, which does not necessarily entail such transfers.
Labour skills	The employability of workers is enhanced, which has implications throughout the economy.
Regional development	Zones can be established selectively in areas that can best capitalise on an economy's strengths and/or that need new business activity the most.
Infrastructure	The development of an efficient industrial infrastructure is critical for a successful zone programme; it enables the host country to compete more effectively for FDI.
Support services	Successful zones require banking, legal, consulting, telecom, and other similar support services that, once developed for the zone(s), benefit the national level as a whole.
Controlled/partial deregulation	Zones can enable host countries to participate in the international economy without compromising national policies.
Deregulation models	Where deregulation is desired, zones enable the testing of models prior to applying them nationally.

Area	Potential benefit
Broader catalysts and demonstration effects	Overall economic modernisation, especially because export processing zones (EPZs) help to attract foreign firms that might not otherwise have invested in the country.

As already presented under RQ1, where the reasons for the lack of free zones in some EU Member States are discussed, consulted stakeholders **reported heterogenous opinions on the perceived benefits** of free zones. In some cases, **free zones ceased to exist** with the accession to the EU or with the entry into force of the UCC. In multiple cases, **companies established in the free zones requested this change of status**, due to a lack of clear benefits of maintaining it. Interestingly, several jurisdictions reported that there had been **no request for the establishment of free zones** in their territory. As a justification for this, a number of customs authorities noted that other procedures within the UCC, such as **customs warehousing and/or temporary storage, provide for more flexible and efficient arrangements**. Some interviewed authorities even concluded that free zones are obsolete nowadays. During our research and consultation, we encountered the case of Cyprus, which in recent years dismissed its free zone as it did not achieve the goal it was established for.⁸⁸

Authorities in **Member States with free zones tend to have a more positive opinion** on the benefit of free zones. Firstly, in most cases free zones exist as long as companies are active in them, which by itself suggests potential benefits for economic operators. Typically, a criterion for establishing a free zone is economic justification, which is evaluated by the authorities (e.g. Ministry of Finance and Tax and Customs Board). The requirement of economic justification implies a cost-benefit analysis before the establishment of a free zone. Interestingly, though, no information was available on whether such an assessment is periodically revised. Several authorities refer to the **benefits of free zones in terms of economic growth and job creation**. These benefits **are in line with the sources reviewed** to answer RQ3, suggesting heterogenous impacts on the economic growth of the host region and Member State. **In some cases, companies are placed in the free zone, not because of the possibilities of the customs procedures there, but because of the low cost of housing, and the security of the fences and patrolling guards, which lead to lower insurance costs.**

Costs of maintaining free zones

To evaluate whether the costs and risks related to the operation of a free zone in the EU are outweighed by the benefits thereof, a first step entails quantifying the costs of maintaining a free zone. In this section, we focused on the direct costs of establishing and maintaining a free zone, and the indirect costs of a free zone, in terms of tax revenue foregone as an incentive for economic operators. Other costs, i.e. those related to the mitigation of risks associated with a free zone, are discussed later in this section. Here, therefore, we discuss the research question on **the annual cost of maintaining EU free zones**. As expected, and anticipated, **sources on costs, risks, and their relation to economic benefits are seldom available**. A report published by ESPON **assessed the economic impact and costs and benefits of SEZs** in some EU Member States. The findings are as follows.

⁸⁸ A Free Zone operated in Larnaca from 1980 until 2011. The goals of establishing the Free Zone were not achieved as a result of the Council of Ministers, with a [decision](#) dated 9/6/2011 to abolish the status of the Free Zone and the Area turned into Aradippou Industrial and Commercial Area. Its operation is governed by the provisions of the Real Estate Property of the Republic (Lease of Property in Government Industrial Areas) Regulations of 1990 to 2017 (C.D.P. 164/90).

- ▶ **Lithuanian free zones:** a report by Invest in Lithuania⁸⁹ produced two different cost/benefit analyses of the free zones, one on value added and the other on the impact on public finances. The report examines the tax loss and development costs (site development, tax loss, etc.) of the free zones and relates them to the (additional) benefits that the Lithuanian economy gets from the economic activity of businesses in them (employment, high productivity, exports). The authors report that **tax incentives amounted to EUR 20 million in foregone public revenue in the years 2002-2017, and that development costs amounted to EUR 69 million** (80 % funded by EU structural funds), for an overall cost of EUR 89 million over a period of 15 years. In total, **the benefits of the free zones (in terms of additional value added due to the free zone) are estimated to be 47 times larger than the cost (comprising tax losses and development costs), when considering future investment in the FEZ.** The impact on public finances alone is estimated to be 6.6 times the total public costs, over the period 2002-2043.⁹⁰
- ▶ **Spain (Canary Islands, ZEC):** a study commissioned by the Consorcio de la Zona Especial de Canaria⁹¹ assessed the costs and benefits of the free zones using a different methodology. In this paper, public funds invested in the free zones are considered as costs, whereas jobs created in the free zones are considered as benefits. This methodology, instead of providing an exhaustive cost/benefit analysis, is utilised to compare the efficiency of public funds invested in the ZEC related to job creation to two other public investments (European Structural Funds 2000-2006 and the so-called “reserve for investments in the Canary Islands” (RIC)). The study found that **per EUR 1 million invested**, the EU Structural Funds created 13 jobs, the RIC created 16, and the **ZEC 55, making it the most cost-effective in job creation.** Although interesting on its own, this finding is not per se an indicator of the net benefit of the free zone (it does not account for tax loss or other costs). Its comparability with other studies, and the replication power of it across free zones is, therefore of limited added value.

None of the stakeholders contacted could provide estimates of the annual cost of operating a free zone. Customs and tax authorities in most jurisdictions maintain that such costs have not been assessed. **Only one customs authority noted that there are substantial economic costs**, e.g. the provision of the business infrastructure and other environmental costs but offered no quantification thereof. As discussed above, a report by Invest in Lithuania⁹² quantified the development costs of Lithuanian free zones to amount to EUR 69 million over a period of 15 years (EUR 4.6 million yearly). Furthermore, albeit outside of the EU, between 2004 and 2022, the Giurgiulesti International free zone invested USD 107 million (USD 5.9 million yearly).

The customs authority of a Member State without free zones explained that the move toward electronic clearance of goods led to a reduction of the customs offices across the country. The taxpayers’ cost of employing customs officers **to physically guard a potential free zone is perceived as already outweighing the** (lack of) perceived **benefit** of establishing a free zone, without considering the other costs involved in the setting up and maintenance of a free zone. To understand the potential cost in terms of staff for the Member States’ authorities in operating a free zone, Table 8 presents the number of customs officers involved in checks in selected free zones.

⁸⁹ Investuok Lietovoje (2018).

⁹⁰ ESPON (2020) European Special Economic Zones, Policy brief, November 2020.

⁹¹ Consorcio de la Zona Especial Canaria (2018).

⁹² Investuok Lietovoje (2018).

Table 8: Customs officers involved in checks on average per free zone in selected free zones

Country	Customs officers involved in checks on average per free zone	Full-time equivalents
Bulgaria	23 (three free zones)	23 (three free zones)
Croatia	18 (six free zones)	18 (six free zones)
Estonia	44 (non-specified)	44 (non-specified)
Germany	146 (one free zone)	109 (one free zone)
Greece	74 (one free zone)	32 (one free zone)
Poland	25 (six free zones)	N/A
Portugal	6 (one free zone)	6 (one free zone)
Romania	21 (six free zones)	21 (six free zones)
Slovenia	N/A	110 (one free zone)

Notes: Latvian authorities provided information, but a typo in the data sheet prevents displaying the information at this stage. In some cases, customs authorities did not provide complete information, these are marked as N/A. Source: data sheet distributed to customs authorities and authors' calculations.

The average number of customs officers involved in checks in free zones varies greatly. While further investigation is warranted, as these differences are at least partially attributable to the different sizes of free zones. To a large extent,⁹³ **most customs authorities noted that the intensity of checks and the staff required to perform them are similar to the checks outside of the free zone.**⁹⁴

When investigating the costs relating to **tax forgone due to the special regimes** in certain free zones, both tax authorities and free zone authorities in different jurisdictions noted that the **cost of such incentive is likely negative**, as a preferential tax regime **attracts companies in the country** that would have otherwise not been established there. This assessment is generally shared by free zone authorities across the EU. One such authority (Madeira) provided the following anecdotal example: when in 2011-2012 the **tax benefits were reduced, the free zone lost about 37 % of the companies established** there. Two big companies left the free zone, with a far-reaching impact on tax collection, employment, and investments, presenting a natural experiment of what the cost of not operating the free zone could be.

One of the few assessments conducted on the costs related to tax foregone due to free zones concerns the Geneva freeport. The Canton of Geneva did a study in 2014 and found that the Geneva freeport generated tax losses to the Canton of CHF 300 million annually, even though 80 % of the owners of its storage spaces were foreign. This means that the great bulk of the tax revenue losses represented by artworks stored in the Geneva Port Franc are borne by other countries that do not have tax-free storage options available.⁹⁵ The study, however, has

⁹³ The information is an average per Member States, already partially smoothening the differences between smaller and larger free zones.

⁹⁴ Only two customs authorities (out of 11) noted that more resources are needed to perform checks in the free zone compared to outside of it.

⁹⁵ See case study 1 in Annex IV for further details.

never been made public by the Canton of Geneva not even to Confederal authorities in the Country.⁹⁶

Furthermore, the EU Code of Conduct Group on Business Taxation has been conducting the monitoring of the actual effects of selected individual tax measures, with few assessments of tax measures in those free zones where business tax privileges do not apply. One such example is presented in the box below.

Box 2: Lithuania's Special economic zones and intra-group services tax measure

Lithuania's Special economic zones and intra-group services (intellectual property ((IP) component) (LT005) is a well-described example monitored by the Code of Conduct Group.⁹⁷ The LT005 measure extended the SEZ regime to certain (intra-group) service activities. Within this SEZ regime, the Group decided to monitor only the IP component limited to computer-related activities as it likely thought these could potentially lead to harmful tax practices. Indeed, intellectual property associated with software and other computer-related activities is well documented to be used in connection with harmful tax practices, within SEZ regimes or outside them (e.g., see the recent change in location of intellectual property by Google / Alphabet documented, for example, by Garcia-Bernardo et al.⁹⁸ or, more generally, Evers et al.⁹⁹).

From information available to the Group as of 26 November 2021 on the most recent available year–2019–with full data, 25 entities benefited from this regime, 14 Lithuanian and 11 foreign ones, with most of them–14–from the manufacturing sector. ***The Group's report declared that the affected taxable income amounted to EUR 55 million and the budget revenue losses due to the SEZ relief were EUR 4.7 million.***

However, the Group's report highlights that none of the companies' activities indicated in the submitted data could be attributed to computer-related activities in respect of the IP component, which the Group has decided earlier to focus on in assessing the regime's tax harmfulness. And, therefore, the Group's conclusion in 2021 was, similar to its conclusion in 2019, that the regime has not affected in a significant way the business location among the Member States.

Risk awareness and assessment

As previously discussed in answering RQ2 on customs provisions and the UCC legal framework, some weaknesses remain in the current framework that can lead to specific risks in free zones across the EU. Such risks emerge as stakeholders encompassing customs, tax, and anti-money laundering authorities consulted highlight that complete control over entries and exits from and to free zones in their countries remains unlikely. These stakeholders are, therefore, concerned that **fundamental underlying risks were not fully addressed by the introduction of the UCC**. As shown in Table 9, in terms of the types of risks associated with free zones in the EU, the majority of stakeholders that took part in the consultation activities assessed most risks in the lower scales (“to a very small extent” and “to a somewhat small extent”).

⁹⁶ The estimates for the Freeport of Geneva are reported in a [2014 report](#) from the Swiss Federal Audit Office (SFAO). The report mentions that the Geneva Canton conducted the study on tax foregone, but the results are confidential. No Confederal services have been informed of it, and even after multiple requests, the SFAO did not get access to the study.

⁹⁷ Council of the European Union (2021). [14230/21](#). Lithuania's Special economic zones and intra-group services (IP component) (LT005).

⁹⁸ Garcia-Bernardo, J., Janský, P., & Zucman, G. (2022). Did the Tax Cuts and Jobs Act Reduce Profit Shifting by US Multinational Companies? National Bureau of Economic Research.

⁹⁹ Evers, L., Miller, H., & Spengel, C. (2015). Intellectual property box regimes: Effective tax rates and tax policy considerations. *International Tax and Public Finance*, 22(3), 502–530.

Table 9: Assessment of risks by customs, tax authorities and FIUs

Aggregate	To a very small extent	To a somewhat small extent	To some extent	To a very large extent	I don't know	Total
Money laundering	12	7	4	3	10	36
Tax evasion	6	12	7	4	8	37
Terrorist financing	14	6	2	1	13	36
Circumvention of sanctions	9	9	8	5	7	38
Customs fraud	12	7	11	4	6	40
Length of goods' storage (from a taxation point of view)	9	7	4	4	11	35
State aid non-compliance	10	3	6	1	15	35

More specifically, stakeholders expressed concerns about the following categories of risk:¹⁰⁰

1. **customs fraud**, with fifteen FIUs and customs authorities reporting that they are concerned “to some extent” or “to a very large extent”;
2. the **circumvention of sanctions** was highlighted by eight stakeholders as being a concern “to some extent”, and by five stakeholders as being a concern “to a very large extent”;
3. **tax evasion**, which was highlighted by seven stakeholders as being “to some extent” a concern and by four as being “to a large extent” a concern.

A specific **VAT fraud-related risk linked to customs frauds** raised by a customs authority¹⁰¹, is the so-called ‘**carousel fraud**’¹⁰². The risk is also raised in the EC report on the assessment of the ML/CFT risks¹⁰³, which indicates that criminal networks can use free zones in complex frauds where the goods are imported into the EU from a free zone, at a diminished value, traded by a chain of shell companies inside the EU, and subsequently re-exported at a significantly higher value, by a broker company which would receive VAT reimbursements from the state treasury. At the same time, the companies participating in this chain would have failed to account for their VAT obligations. As noted by one of the interviewees, this procedure leads to failure by the shell companies to pay the State treasury the amounts of VAT due on the supply of goods within national territory, due to incorrect deduction of the amount paid by the transferee to the transferor. However, the authority that raised the issue did not provide information on how widespread such fraud is (e.g. how many times it has been uncovered), estimates of VAT evaded, or other quantification of such risk.

Fewer stakeholders highlighted other risks, including money laundering (7 mentions), terrorist financing (3 mentions), length of goods' storage (8 mentions), and non-compliance with State Aid rules (7 mentions).

¹⁰⁰ A more granular disaggregation of response by stakeholder group is presented in Annex VIII: Stakeholder consultation report.

¹⁰¹ Only the Italian Customs Authority has explicitly mentioned this risk.

¹⁰² More information on ‘carousel fraud’ is provided here: <https://www.cepol.europa.eu/newsroom/news/cepol-elesson-explains-how-carousel-fraud-works-eu>

¹⁰³ EC (2022). Commission Staff Working Document, accompanying the EC report on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Brussels, 27.10.2022. SWD (2022) 344 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022SC0344>

On the **risks associated with non-compliance with State Aid rules**, a report from UNCTAD highlighted that most European countries have either no SEZs or only customs-free zones.¹⁰⁴ The general principle underlying economic policy in the EU is to create a level playing field across the economy, rather than setting up privileged areas. To that end, the main rationale for establishing SEZs in developed economies is to reduce the distortionary effects of tariffs and regulatory ‘costs’ associated with importing. Regional development or support for underprivileged or high-unemployment areas also provides a rationale for SEZs in developed countries. In the EU context, according to a well-established administrative practice,¹⁰⁵ the establishment and functioning of free zones have to be assessed under the EU State aid rules, particularly under the provisions on EU regional aid contained in the Regional Aid Guidelines,¹⁰⁶ and the General Block Exemption Regulation (GBER),¹⁰⁷ the main objective of which is to reduce the disparities among EU countries and regions in terms of economic growth and social development. Member States do not need to notify the European Commission of measures that fulfil the conditions laid down under the General Block Exemption Regulation (GBER). This, nevertheless, does not prevent the European Commission from investigating the proportionality of such State aid. The EU rules are directed, essentially, at limiting the granting of incentives to what is necessary to achieve the legitimate goal of developing the less developed regions of a given EU Member State. For these purposes, incentives should be granted to address market failures previously identified and should also be granted in a transparent manner. Discretion in the granting of incentives should be limited and overlapping incentives, granted by several levels of government for the same purpose, avoided. In particular, the **advantages of the incentives granted in terms of regional development must outweigh the resulting distortions of competition** in the area/region. To this end, the European Commission selects each year a number of State aid measures in order to monitor whether Member States implement them in compliance with EU State aid rules¹⁰⁸.

According to a report carried out by the Romanian Competition Council in 2011 on the social and economic impact of the state aid granted to undertakings that operate in Romania's free zones, the granting of State aid to FEZ brought about a number of positive effects, namely:

- ▶ supporting the free initiative in free zones;
- ▶ realising investments in the area;
- ▶ creating new jobs, even though, overall, the number of employees decreased at the end of the analysed period;
- ▶ employing qualified personnel (over 60 % of total personnel);
- ▶ paying taxes to the public budget (the total state aid granted represents about 5.6 % of the taxes paid).¹⁰⁹

However, the Romanian Competition Council identified the following negative effects associated with FEZ and particularly the granting of State aid in FEZ:

¹⁰⁴ UNCTAD (2019). World Investment Report 2019: Chapter 4, Special Economic Zones. The chapter is available at the following [link](#).

¹⁰⁵ See, e.g. State Aids N222a/2002 Régime d'aides de la zone franche de Madère pour la période 2003-2006, N293/2007 Reduced excise duty to beer produced and consumed in Madeira, N319/2008 Reduced excise duty for rum and liqueurs produced in Madeira, N421/2006 Zona Franca Madeira, N242b/2005 Regional aid scheme for enterprises in the special economic zone of Katowice (city of Zabrze), C78/2001 Exemption from excise duty for the production of alumina in Shannon, N335/2009 Mid-Shannon Corridor Tourism Infrastructure Scheme, State aid SA.38982 (2014/N) – Latvia LIP - Regional investment aid for a large investment project by Baltic New Technologies, or Commission Decision of 4.12.2020 on aid scheme SA.21259 (2018/C) (ex 2018/NN) implemented by Portugal for Zona Franca da Madeira (ZFM) – Regime III.

¹⁰⁶ Communication from the Commission Guidelines on regional State aid 2021/C 153/01, C/2021/2594 OJ C 153, 29.4.2021, p. 1-46.

¹⁰⁷ Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187, 26.6.2014, pp. 1-78.

¹⁰⁸ European Commission (2020). State aid: Commission concludes that the Madeira Free Zone (“Zona Franca da Madeira”) scheme not implemented in line with approved conditions. Available at the following [link](#).

¹⁰⁹ Romanian Competition Council, Report on the social and economic impact of the state aid granted to undertakings that operate in Romania's free zones, 2011, at page 12. The report can be consulted at: http://www.ajutordestat.ro/wp-content/uploads/2020/02/Studiu-de-impact-AS-ZL-Rezumt-EN_689en.pdf

- ▶ Many companies relied too much on the fiscal facilities existing within the free zones and they requested for these facilities to be maintained during the following period of time without trying to identify other support measures to develop their activities.
- ▶ The effects of the State aid were temporary: 35 % of the companies that had been interviewed were determined to renounce their activities after the fiscal facilities end.
- ▶ State aid consisting of exemptions from the tax payment determines a high cost for managing the scheme compared to State aid consisting of grants.
- ▶ The economic activity within the free zones did not vary at all. The main activities carried on were storage and trade. The production didn't have an important weight in the total activities for which the Free Zones Administrations gave licenses.
- ▶ A minimum engagement of the local authorities in the development of the free zone.
- ▶ The State aid did not draw major investments in the free zones.
- ▶ The fact that the number of companies carrying on their activities within the free zones (measured by the number of concession contracts effective in 2011) is higher than the number of the companies that benefited by State aid, seems to emphasise that the existence or non-existence of some State aid measures in the free zones is not a determinant part in the companies' decision to use the free zone custom regime.
- ▶ Poor delimitation from a facility point of view (except the customs facilities) between the free zones, the deprived areas and the industrial parks.

EU State aid rules, and particularly the regional aid guidelines and the GBER, reflect the balancing exercise carried out by the European Commission between different objectives (e.g. attracting investments through free zone incentives and distortions of competition associated with those incentives). These rules apply fully across the EU and ought to be observed to reduce distortions to competition and trade. In addition, while the applicable EU State aid rules allow for the granting of State aid, the final decision as to the granting of State aid remains with the national authorities. National authorities may, therefore, decide whether to grant State aid and, if so, how much aid within the applicable thresholds allowed by the respective EU regulations and guidelines.

On the **risks associated with other illicit activities**, an OECD/EUIPO¹¹⁰ **report** investigates the links between trade in **counterfeit/pirated goods and free trade zones**. The study concludes that **an additional FTZ within an economy is associated with a 5.9 % increase in the value of counterfeit products**. It also establishes a link between the value of fake goods exported from an economy and the number of firms operating in FTZs/the total value of exports from FTZs. According to the report, businesses reap many benefits from free zones (savings in taxes and customs duties, lighter regulations), while for authorities they bring the cost of forgone revenues, but also the benefits of attracting foreign investment, job creation, and enhanced export performance. A disadvantage of the report is that it is not possible to disentangle the conclusions on free zones in general from the findings on EU free zones. In terms of the duration of the stay of goods (see Section 2.5), the report notes that there is one standard: the duration of the stay of goods in zones must be limited only in exceptional cases. These circumstances may include taking into account the nature of the goods and health and safety considerations. An earlier study by **OECD/EUIPO (2017)**¹¹¹ **explores the complex routes of trade of counterfeit and pirated products**. It concludes that China is the top producer of counterfeit goods in the analysed product categories. It also highlights the need

¹¹⁰ OECD/EUIPO (2018), *Trade in Counterfeit Goods and Free Trade Zones: Evidence from Recent Trends*, Illicit Trade, OECD Publishing, Paris/EUIPO, Alicante, <https://doi.org/10.1787/9789264289550-en>.

¹¹¹ OECD/EUIPO (2017), *Mapping the Real Routes of Trade in Fake Goods*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264278349-en>

for more analysis of the role of free zones in transshipments and mentions the growing evidence that free zones are misused by counterfeiters due to lighter regulations, the capacity to obscure the real origin of cargoes, and the ability to manipulate counterfeit products. However, **the analysis does not include any specific examples of such activities in EU free zones.** With regard to counterfeit and pirated goods, it is worth noting that in 2011 the Court of Justice of the European Union (CJEU) issued its decisions in two joined cases¹¹² specifying the conditions under which EU customs authorities may detain counterfeit goods in transit through the EU from non-EU Member States. The CJEU confirmed that goods in transit cannot be classified as “counterfeit” goods within the meaning of the Customs regulations merely because they had been brought into the EU and without evidence of an intention to put the goods on the market. Moreover, the CJEU confirmed that customs authorities can, and should, detain infringing goods as soon as they have grounds for suspecting that the goods are likely to be diverted onto the EU market.¹¹³

Throughout our interviews and in the assessment of written responses to our questionnaires, it appears that **risks related to labour and/or social conditions are not of much relevance** across EU free zones. Multiple stakeholders noted that **no labour law derogation exists** in free zones, while some reported that labour conditions and wages are higher within the free zone compared to the surrounding area. For further details, see RQs 6-7. In terms of **State aid**, most **jurisdictions did not report issues.** In some instances, **free zone authorities criticised** the current framework of **time-limited State aid derogations**, in that the risks of non-renovation **negatively affect investments** into the free zones and might lead to capital flights.

With regards to **environmental risks** related to free zones, all respondents from different stakeholder groups reiterated EU and national legislation fully apply across free zones, making such a risk impossible to distinguish from the environmental risks normally occurring in economic processes at large. While no specific risk has been identified in this context, RQs 8-9, provide details into the measures implemented by several free zones in light of the European Green Deal.

In addition, authors have identified other risks or threats related to Romanian FEZ, including competition from free zones in non-EU countries, mentioning in particular the case of Moldovan FEZ (see dedicated case study in Annex IV), as well competition between free zones within Romanian, some of them being located at scarcely 20 km distance, and the fact that the European Union legislation does not encourage the operation of FEZ.¹¹⁴

To **assess the cost of the underlying risks affecting free zones**, Table 10 presents information on the number and value of seizures by customs authorities in selected free zones.

Table 10: Number and value of good seizures in selected free zones (for the last year with available data)

Country	Total number of seizures in the free zones	Value of seizures in the free zones
Bulgaria	0 (three free zones)	0 (three free zones)

¹¹² Joined Cases [C-446/09](#) Koninklijke Philips Electronics NV v Lucheng Meijing Industrial Company Ltd and others and C-495/09 Nokia Corporation v Her Majesty's Commissioners of Revenue and Customs.

¹¹³ International Chamber of Commerce (2013), Controlling the Zone, balancing facilitation and control to combat illicit trade in the world's Free Trades Zones, pp. 27-28, at p. 27.

¹¹⁴ Elena Enache, 2012. "Free Zones In Romania - Success Or Failure?," Management Strategies Journal, Constantin Brancoveanu University, vol. 16(2), pp. 58-66, at p. 65.

Country	Total number of seizures in the free zones	Value of seizures in the free zones
Croatia	18 (17 in a single free zone)	Close to EUR 12 million
Estonia	Less than 100 (non-specified)	N/A
Germany	500 (one free zone)	EUR 37.2 million (one free zone)
Greece	57 (one free zone)	EUR 110 million
Latvia	1 (one free zone)	Close to EUR 500 000 of customs debt*
Romania	58 (six free zones)	Close to EUR 22 million
Slovenia	74 (one free zone)	EUR 15 million
Portugal	0 (one free zone)	0 (one free zone)

* Latvian authorities did not provide information on duties evaded instead of seized goods.

Some authorities did not provide complete information, missing values are marked as N/A.

Source: data sheet distributed to customs authorities and authors' calculations

No single authority could produce the respective country-wide number and values, thus limiting the understanding of the magnitude of such seizures. Interestingly, **one customs authority could not produce figures on seizures in free zones due to the fact that such information is not stored in the authority's IT systems because the control of free zones is done taking into consideration the economic operator's records.**

Measures to address risks

Customs authorities highlighted **carrying out concrete measures in their free zones to tackle the risks of customs/tax fraud or State aid compliance mentioned in the previous question.** These include

- ▶ **Electronic risk analysis on AEOs** based within free zones, including using customs documentation and other relevant databases.
- ▶ **Pre-audit and approval of AEOs.** Some Customs Authorities choose to implement stricter rules than those foreseen in the UCC, including by carrying out pre-audit and approval of authorised economic operators. Once approved, AEOs may be obliged to notify all entries and exits of goods, and to keep records on all movements of goods which are kept within a free zone's premises (e.g. sales, repair, exhibition).
- ▶ **Physical checks**, including random checks, the use of x-rays and sniffer dogs at the entrance of free zones.
- ▶ **Cooperation with:**
 - ▷ Customs Authorities, FIUs, Ministries of Culture (in the case of freeports storing works of art);

- ▷ Port Authorities, the Police, officers in charge of veterinary and phytosanitary controls, including within the framework of the Naples II Convention.
- ▶ **Awareness-raising measures** were also highlighted, including thematic papers and analyses directed at free zone entities to draw their attention to the possibility of money laundering and terrorist financing.

While those measures have been implemented in multiple Member States, **no information on the costs of such measures has been disclosed**. Nevertheless, most jurisdictions do not report issues in performing their duties in free zones. Only two customs authorities out of the 12 that provided a data sheet stated that the checks related to addressing potential risks in free zones require more resources than similar checks outside the free zone. All other **authorities maintain that the same amount of effort is needed for checks inside and outside a free zone**. This is consistent with the clarification provided by virtually all consulted stakeholders that such risks are not confined to free zones and can happen under any customs regime.

To conclude, in answering RQ4, **precise and conclusive quantification of costs and benefits, and its consequent comparison, was not fully possible within the scope of this study**. A summary of the available information collected is presented in Table 11.

Table 11: Summary of collected evidence on costs and benefits of specific free zones

Country	Costs	Benefits
Lithuania (1) ¹¹⁵	Tax incentives amounted to EUR 20 million in foregone public revenue in the years 2002-2017; development costs amounted to EUR 69 million (80 % funded by EU structural funds), for an overall cost of EUR 89 million over a period of 15 years.	In terms of additional value added due to the free zone, benefits are estimated to be 47 times larger than the cost, when considering future investment in the FEZ
Lithuania (2) ¹¹⁶	Lithuania's Special economic zones and intra-group services, with regard to the intellectual property component. The taxable income as of 2021 amounted to EUR 55 million, and the budget revenue losses due to the SEZ relief were EUR 4.7 million.	N/A
Moldova (Giurgiulesti International Free Zone) ¹¹⁷	Public investments amounting to USD 107 million between 2004 and 2022 (USD 5.9 million yearly).	N/A
Spain (Canary)	Public investments	- European Structural Funds 2000-2006: 13 jobs created;

¹¹⁵ Investuok Lietovoje (2018), as referred in ESPON (2020) European Special Economic Zones, Policy brief, November 2020.

¹¹⁶ Council of the European Union (2021). [14230/21](#). Lithuania's Special economic zones and intra-group services (IP component) (LT005).

¹¹⁷ Information as of 2022 based on a general presentation of GIFF (available at: https://giff.md/en/wp-content/files_mf/16662567152022OctGIFFOverview.pdf).

Country	Costs	Benefits
Islands, ZEC)¹¹⁸		<ul style="list-style-type: none"> - Reserve for investments in the Canary Islands” (RIC): 16 jobs created; - Public investment into the free zone: 55 jobs created.
Switzerland (Geneva Freeport)¹¹⁹	Generated tax losses to the Canton in the Geneva freeport are CHF 300 million annually.	N/A

Despite the lack of more definitive and general conclusions on the costs and benefits associated with free zones, Annex IX provides a preliminary estimation of the tax revenue and foregone taxes linked to the establishment of free zones in a selection of EU countries (Portugal, Latvia, Lithuania, and Slovenia). No estimate can be provided for the other countries covered by this study due to the unavailability of data. As explained in Annex IX, this methodology suffers from substantial limitations including the lack of opportunity cost considerations and the narrow focus on a small set of tax instruments. Our estimates suggest that the comparison between revenue from taxes levied on free zones and potential revenues foregone through the use of tax incentives is not clear-cut. In the case of the Portuguese Free Zone of Madeira, for which estimates of tax revenue and foregone taxes are publicly available, the balance is positive and amounts to approximately EUR 8 million in 2020. For other free zones, we employed a simple methodology (see Annex IX) in which actual tax revenue is compared to tax revenue which would have accrued to tax authorities in a counterfactual scenario in which a given free zone had not been established. Our estimates suggest that the balance is negative in the case of the Latvian Free Zones of Liepajas and Ventspils and, to a lesser extent, in the case of the Port of Koper (Slovenia) but decidedly positive in the case of the Lithuanian Free Port of Klaipeda. Should one decide to incorporate tax revenue arising from personal income taxes levied on FTEs employed in these free zones, however, the balance would turn positive across the board.

1.8 RQ5: risks associated with storage and confidentiality clauses

Key findings:

- The risks with (unlimited in time) storage are pertinent mostly when the goods stored increase their price in time, which is the case that can best be observed in luxury freeports. Those risks include: **hiding wealth from the public and public authorities, increased money laundering, and tax evasion risks**. The risks are well-described in the reviewed sources, but the perception of these risks related to the length of goods storage (from a taxation point of view) is shared only to some extent by the customs/tax/free zone authorities consulted in the study due to the existing customs controls.

¹¹⁸ Consorcio de la Zona Especial Canaria (2018), as referred in ESPON (2020) European Special Economic Zones, Policy brief, November 2020. The study estimates a ratio of job created to public funds invested, showcasing that the free zone is the most efficient public investment for job creation in the island.

¹¹⁹ Swiss Federal Audit Office (2014), Ports francs et entrepôts douaniers ouverts - Évaluation des autorisations et des activités de contrôle.

- Both customs/tax authorities and free zone authorities believe that, **in general, there is sufficient access to information available on the goods stored in free zones**. However, the input from stakeholders and the data gathering process of this study shows that **data on the overall value of goods is not readily available and easy to extract by customs authorities**, as it is only gathered on a case-by-case basis by the authorities. Furthermore, tax authorities do not have direct access to information on the goods stored in free zones – the information is typically communicated by customs authorities in electronic format “where necessary”.
- **Free zones in the EU are not exempt from any measure under the EU or the national frameworks, including those pertaining to combatting money laundering and terrorist financing**. Some free zones in the EU carry out periodical inventories to determine the possible risks in terms of tax evasion.
- There could be a further increase in **transparency** via automatic exchange of information and actual checks from the customs authorities in freeports. The legal and beneficial owner can be checked by authorities only upon request, for example, for national purposes, or through EU instruments like Council Directive 2011/16/EU on administrative cooperation in direct taxation¹²⁰ (‘the DAC’)
- Another issue to be considered is the risk of tax avoidance because customers of freeports can take advantage of **differences in value added tax rates across the EU**.

This research question assesses the extent to which the fact that goods can be stored **in free zones with no time limit entails risks** (mainly in terms of taxation). Furthermore, it aims to identify if free zones disclose the value of goods stored on their premises or if there are **privacy and confidentiality clauses** in place. To answer these questions, the study focuses on the case of **freeports** and draws conclusions from a comparison between the Luxembourg High-Security Hub (LHSH, formerly Le Freeport) and the freeport in Geneva (Ports Francs et Entrepôts de Genève), as these risks are exacerbated in the case of high-value goods held in freeports¹²¹. Nevertheless, the study also reviews storage/privacy risks associated with other free zones, i.e. beyond the mentioned freeports.

Risks related to the lack of time limits for storage

In principle, one of the main uses of free zones is the “processing, manufacturing and storing of goods for longer or unlimited storage periods”¹²². In this regard, one of the research questions was **if the fact that goods can be stored in free zones with no time limit entails risks (mainly in terms of taxation)**. As evidenced by many studies, this fact represents a **risk mostly when the goods stored increase their price in time, which is the case that can best be observed in luxury freeports**. A freeport is a duty-free warehouse and can be established within the EU under the ‘free zone’ procedure (European Parliament 2019¹²³). When traditional freeports, which used to store goods in transit, faced competition from the newly established open customs warehouses after WTO 1995, this gave rise to the **development of a new business model that transformed traditional freeports into ‘luxury**

¹²⁰ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, *OJ L 64, 11.3.2011, pp.1-12*.

¹²¹ See for example, EC (2022). Commission Staff Working Document, accompanying the EC report on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Brussels, 27.10.2022. SWD (2022) 344 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022SC0344> and US Department of the Treasury, Study of the Facilitation of Money Laundering and Terror Finance through the Trade in Works of Art, February 2022, available at: https://home.treasury.gov/system/files/136/Treasury_Study_WoA.pdf

¹²² WCO (2020). Practical Guidance on Free Zones. December 2020. Available at: http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/activities-and-programmes/free-zone/wco-fz-guidance_en.pdf?la=en

¹²³ European Parliament (2019), Report on financial crimes, tax evasion and tax avoidance. European Parliament resolution of 26 March 2019 on financial crimes, tax evasion and tax avoidance, P8_TA-PROV(2019)0240 (2018/2121(INI)) [https://www.europarl.europa.eu/cmsdata/162244/P8_TA-PROV\(2019\)0240.pdf](https://www.europarl.europa.eu/cmsdata/162244/P8_TA-PROV(2019)0240.pdf).

freeports' (Helgadottir 2021¹²⁴). Luxury freeports are high-security storage spaces where, by virtue of special legal exemptions, **art and other luxury goods can be stored for unlimited periods of time and traded without tax and duty payments** (Zarobell 2020¹²⁵; Adam 2017¹²⁶; Segal 2012¹²⁷, Economist 2013¹²⁸). 'In other words, though Luxury Freeports emerged on the basis of the regulatory exemptions that make traditional freeports possible, they are a very different kind of entity, the key function of which is to store wealth in tax-free conditions' (Helgadottir 2021).

The Luxembourg and Geneva freeports are quoted frequently for helping to **hide wealth from the public and public authorities**: '...works of art, jewellery, and gold stashed in freeports — warehouses that serve as repositories for valuables. Geneva, Luxembourg, (and Singapore) all have one: in these places, great paintings can be kept and traded tax-free — no customs duty or value-added tax is owed — and anonymously, without ever seeing the light of day' complains economist Gabriel Zucman in his 'The Hidden Wealth of Nations' (2015 pp. 44-45)¹²⁹. Weeks (2020)¹³⁰ places the Luxembourg Freeport "within a larger context of **increased recent demand for "collectable assets" and in relation to the world's other fine-art freeports**—which are currently found in Geneva, Singapore, Shanghai, Monaco, and the U.S. state of Delaware." According to Weeks (2020), there is a growing demand for discreet, tax-free storage space offered in freeports, especially if the works of art are intended as an asset in which to invest, rather than as a museum exhibit.

An **EPRS** (2018)¹³¹ study explores the issue of **money laundering and tax evasion risks in freeports**:

"The goods in freeports (sic) or under customs warehousing procedures are technically 'in transit' even though in most freeports of this kind, there are no time limits. This system allows **the stored goods to gain value and it allows for tax-free sales**. Goods can enter a freeport, stay there indefinitely and trade an unlimited number of times without ever having been taxed. Goods entering freeports are not subject to customs duties. Goods sold in the freeports are not subject to value added tax. No withholding tax is collected on capital gains, though sellers may need to report to the tax authority in the country where they are tax resident. Critics have raised concerns that freeports could be used to hide illegally acquired assets, to launder money or evade tax. Operators of freeports generally reject the suggestion, saying that customs officers in the various jurisdictions have access to inventory data of what is stored in the freeports. This is to some extent true, but **with the exception of Luxembourg, there is not one country that obliges freeport operators to carry out the type of customer due diligence that binds financial institutions under anti-money laundering laws**. Therefore, it is relatively simple to hide the UBO's identity behind another layer, which can be an offshore firm, a trust or foundation, a lawyer, a gallery, or a combination of these." (EPRS, 2018, p.14)

¹²⁴ Helgadóttir, Oddný (2021), The Emergence of New Corporations: Free zones and the Swiss Value Storage Houses, in: B. Unger, L. Rossel, J. Ferwerda (eds), *Combating Fiscal Fraud and Empowering Regulators. Bringing Tax Money Back into the COFFERS*. Oxford University Press 2021 Ch 10, pp. 180-193

¹²⁵ Zarobell, John (2020) Interview with Yves Bouvier, Arts 2020, 9, 97; MDPI Basel Switzerland, doi:10.3390/arts9030097, https://mdpi-res.com/d_attachment/arts/arts-09-00097/article_deploy/arts-09-00097.pdf?version=1600659151

¹²⁶ Adam, G. 2018. *Dark Side of the Boom: The Excesses of the Art Market in the 21st Century*. Lund Humphries.

¹²⁷ NYT 2012 -Segal, D. 2012. "Swiss Freeports Are Home for a Growing Treasury of Art." The New York Times, July 21. <http://www.nytimes.com/2012/07/22/business/swiss-freeports-are-home-for-a-growing-treasury-of-art.html>

¹²⁸ Economist (2013), Über-warehouses for the ultra-rich. Nov 23rd 2013.

¹²⁹ Zucman, G. (2015). *The Hidden Wealth of Nations. The Scourge of Tax Havens*. September 2015, University of Chicago Press.

¹³⁰ Weeks, Samuel. 2020. "A Freeport Comes to Luxembourg, or, Why Those Wishing to Hide Assets Purchase Fine Art" *Arts* 9, no. 3: 87. <https://doi.org/10.3390/arts9030087>

¹³¹ EPRS (2018), *Money laundering and tax evasion risks in freeports*, European Parliamentary Research Service, Author: Ron Korver, Ex-Post Evaluation Unit, PE 627.114 – October 2018.

Another study that looks into the issue of freeports was performed under the COFFERS project (Helgadóttir, 2019)¹³², raising a similar concern – in many cases art and luxury objects **‘were stored for very long periods of time, even as they were technically treated as ‘in transit’.** Tax exemptions therefore applied, even when goods were deposited for decades and traded hands numerous times in transactions that normally would incur VAT (Helgadóttir, 2019, p.6).

The stakeholders that took part in the consultation activities **share to some extent the perception of risks related to the length of goods storage (from a taxation point of view) and privacy issues**, which are described in the reviewed sources. Customs authorities that provided an answer to this question¹³³ identified risks to a different extent (from “to a somewhat small extent” to “to some extent”), but none identified it as a risk “to a very large extent”. Free zone authorities did not identify issues with the length of goods storage either. The limited input from tax authorities/FIUs suggests¹³⁴ that by and large free zones are not considered a separate risk category across MS as many countries do not have specific tax regimes in free zones and due to the limited number of suspicious transactions reported (see Table 6 of the report for an overview of free zones that provide tax incentives). The main reasons for this perception are the existing EU regulations, which are applicable to the whole territory of the Union, including its free zones, and the types of checks performed by different authorities (see below). Interestingly, according to the received information from Luxembourgish authorities, Luxembourg’s customs are monitoring all entries and exits and **have so far not encountered any abuse schemes since the creation of the LSHH.**

Another question that was explored relates to the ***volume of high-value goods in free zones and can and do all free zones store high-value goods.*** This is a challenging question, as the Staff Working Document (SWD) accompanying the EC report on the assessment of the ML/CTF risks¹³⁵ notes that due to privacy and confidentiality clauses, free zone owners/operators do not disclose the value of goods stored on their premises, as declared by customers, so it is impossible to give estimates of the value of the stored goods worldwide. The fact that free zone owners/operators do not disclose to the general public the value of goods stored in their premises was also confirmed by operators that were consulted in this study. However, the input received from customs authorities, tax authorities, and free zone authorities¹³⁶ suggests that such information can be demanded from authorities on a case-by-case basis. In other words, **the information on the value of goods stored in free zones can be obtained, but it is not provided systematically.**

Free zones can store high-value goods, but in practice only Luxembourg specialises in this segment. In other words, based on the input received from stakeholders, **storing high-value goods is not present in all EU free zones.** Particularly, free zones that are focused on logistics and services do not aim to store high-value goods. Another key reason for that is that focus on high-value goods requires particular security arrangements. As mentioned above, the specific value is very difficult to determine, but in the **Luxembourg High-Security Hub (LSHH)**, it is estimated to be between **EUR 5 and EUR 15 billion** (see the relevant case study in Annex IV). Estimates of the total value of goods stored in free zones and the average time for goods to be kept **vary significantly across EU free zones**, as shown in the table below (the data covers 8 Member States and fourteen free zones).

¹³² Helgadóttir, O. (2019). The art of offshore: tax avoidance and unseen artworks in the new luxury freeports. COFFERS D4.7 APRIL 2019

¹³³ From Greece, Germany, Croatia, Spain, Poland, Italy, France.

¹³⁴ Input received from Bulgarian, Estonian, Maltese, Polish, Portuguese, Slovenian, Luxembourgish tax authorities/FIUs.

¹³⁵ EC (2022). Commission Staff Working Document, accompanying the EC report on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Brussels, 27.10.2022. SWD (2022) 344 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022SC0344>

¹³⁶ Countries for which input was provided: Greece, Romania, Latvia, Poland, Italy, Spain, Bulgaria, Malta.

Table 12: Value of goods stored (per year) in free zones and average time (Source: data sheets provided by customs authorities and own calculations)

Country	Total value of the goods stored in the free zone/s (specify currency)	Average times for goods kept in the free zone/s
Bulgaria	EUR 15 million (2 free zones)	Ranges from 2 months to 8 years (around 3 months overall)
Croatia	Ranges from 2 million to several billion for one of the free zones (data for 2021, for six free zones)	Ranges from 1-2 days to 6 months (2021) estimate
Germany	EUR 4 billion (2021, estimate)	7.7 days container good / 50 days motor vehicles (2022)
Greece	N/A	5-10 days (2021)
Luxembourg	EUR 5-15 billion (no official estimates ¹³⁷)	No official data but considering that the LSH was only established in 2014, so far, the goods could not have been stored for more than 8 years
Poland	approx. EUR 80 million (for three free zones, 2022 data)	Between 1 week (foods according to the shelf-life date specified on the product — rotation of goods approx. every 7 days) and 1 year (2021) estimate. Overall, around 3 months on average (e.g. cigarettes, alcohols, jewellery goods, electronics)
Portugal	N/A	One year on average
Romania	N/A	30 days
Slovenia	N/A	From a few days (e.g. perishable goods, containers, cars etc.) to a few weeks (e.g. loose and bulk cargo, liquid cargo, etc.)

As shown in the table, only four Member States have provided data on the value of the goods stored in the free zone(s). Considering the significant variety of free zones in terms of size and activities, it is not surprising that **the estimates of the values of goods in free zones also vary from several million to several billion euro**. What has become clear in the process of data gathering for this study is that **data on the overall value of goods is not readily available and easy to extract by customs authorities**. In some cases (in a few Croatian free zones), there was data only on the turnover (i.e. tonnage) of the goods. Another important aspect (raised by a Greek customs authority) is that free zones have at their disposal the

¹³⁷ As described in Case study 1, there are no estimates on values stored at the LSH, but if one relates it to freeport storage space, if it stores one-sixth of Geneva freeport, the values could be up to EUR 15 billion. At the lower end of the estimates is the insurance value for the area, which was EUR five billion in 2018 (Thomas Mayer, Der Standard 7.2.2018). In 2022, only the Russian assets were about EUR 210 million, which were frozen at the freeport (Hansen 2022).

information contained in the consignment notes and bill of lading used when the goods enter free zones; however, the value of the goods is unknown to the customs at this stage. The **value is known by the customs when the goods are exiting** and cleared by customs or exported. Finally, even if not comprehensive, the above data shows that the estimated value of **the goods in the luxury freeport of Luxembourg is very likely to be higher than most (if not all) EU free zones.**

The **average times for goods kept in the free zone(s) also vary not just between MSs and free zones, but also between the types of goods kept.** For perishable goods, the duration is naturally very short (up to a week), while for other cargo the duration varies, but it is typically around 3 months. On a few occasions, the goods could be stored for more than a year. Overall, considering these estimates, the free zones that provided data do not seem to be taking advantage of the possibility of storing goods indefinitely. Unfortunately, there has been no data on the duration for which goods are stored in the Luxembourg High-Security Hub (LHSH), but **overall, it seems that risks related to the duration of storage would be mostly applicable to freeports** (not just in the EU, but worldwide), because they store goods (e.g. art) that accumulate value through the years.

Tax risks related to indefinite storage, as shown in the case study, stem from the fact that the major purpose of luxury freeports is that luxury goods from within the EU and outside the EU can be permanently stored free of value added tax and import duties. Although a lot of efforts have been undertaken by the EU to harmonise VAT rates (see e.g. Council Directive (EU) 2022/542 of 5 April 2022), there are still large differences, ranging from 17 % VAT tax rate in Luxembourg, 20 % in France (which is slightly below the EU average of 21 %), to 27 % VAT tax rate in Hungary in 2022¹³⁸. Much larger differences occur for art, where the EU requires only a minimum VAT of 5 %. In France, the value-added tax (VAT) rate on artworks purchased directly from artists is 5.5 %, compared to 8 % in Luxembourg, while Hungary charges 27 % (see Taxud.c.1(2021)¹³⁹ and case study 1). Since pieces of art, or whole collections could have high values, **not having to pay value added tax can save the owners a lot of tax payments.** Considering that the precise values, origin, and movements of goods could not be provided for this study, it is unfortunately not possible to quantify the amount of VAT loss due to the operation of freeports.

Access to information, transparency, and control

As mentioned above, customs/tax authorities and free zone authorities¹⁴⁰ acknowledge that there are risks in all customs procedures, but express **confidence in the existing customs procedures** related to the goods in free zones. Starting with the **controls in place**, authorities highlighted the following tools that they have at their disposal:

- ▶ information contained in the consignment notes, bill of lading used when the goods enter free zone (see Articles 214 UCC and 178 UCC-DA);
- ▶ information on the ownership when the goods are exiting free zone and cleared by customs or exported (see Article 248 UCC);

¹³⁸ See Taxud.c.1(2021) – EN. VAT rates applied in the Member States of the European Union. Situation on 1st January 2021. Available at: https://taxation-customs.ec.europa.eu/system/files/2021-06/vat_rates_en.pdf (p.14).

¹³⁹ *ibid.*

¹⁴⁰ The list and findings below are based on input provided by customs/tax authorities in Bulgaria, Greece, Germany, Croatia, Poland, Romania, Lithuania, Latvia, Luxembourg, Malta, Italy, Slovenia, France, and Portugal and free zone authorities from Italy, Portugal, and Moldova.

- ▶ information about the goods held in the free zone at any time due to the obligatory storage bookkeeping (see Articles 214 UCC and 178 UCC-DA);
- ▶ analytical databases and customs operating systems and records kept by the free zone operator (see Articles 214 UCC and 178 UCC-DA);
- ▶ the possibility to carry out inspections in the free zones (see Article 46 UCC);
- ▶ an obligation for art intermediaries to keep the documentation relating to the ownership, the fiscal position, and the value of the goods. This is part of the Anti-Money Laundering Requirements in particular FATF Recommendation 1 (risk-based approach), 10 (Customer due diligence), and 11 (Record Keeping)¹⁴¹.

As confirmed by customs, tax and free zone authorities, in addition to the checks at entry and exit of the goods from the free zone, **authorities indeed have access to information about the goods held in the free zone at any time due to the obligatory storage bookkeeping.**

Furthermore, customs authorities¹⁴² apply risk analysis measures on the entry and exit of goods from the free zone, depending on the customs procedure. All **exits** from the free zone have to be communicated in advance to the customs authorities, which verify that all the paperwork is in order and that all duties and indirect taxes due are paid before they allow the goods to leave the free zone. Periodically customs control of records of freezone users are performed at their premises (e.g. in Slovenia). Tax authorities also have the possibility to carry out inspections, based on risk assessment. As confirmed by authorities¹⁴³, the exit of goods from the free zone to the customs territory of the EU is possible only upon the presentation of the appropriate customs document (e.g. transit declaration). As confirmed via the interviews with customs authorities and free zone authorities, the customs authorities have access to information about the goods held in the free zone at any time due to the obligatory storage bookkeeping. At the same time, authorities (4 customs authority and 3 tax authorities/FIUs) noted that **tax authorities do not have direct access to information on the goods stored in free zones**. As explained by customs/tax authorities and FIUs the information is typically communicated by customs authorities in electronic format “where necessary”, i.e. for tax purposes (to tax authorities) or criminal investigations (to FIUs). Some of the procedures and checks are described by the input provided by the Latvian and Lithuanian authorities in the box below.

Box 3: Control procedures in the Latvian and Lithuanian free zones (based on stakeholder consultations)

Latvia: an inventory of goods in the Latvian free zones is determined on 22.08.2017 by a Regulation of the Cabinet of Ministers No.500 ‘Regulations of customs warehouses, temporary storage and free zones’. In line with the inventory, goods are recorded in the information system, which ensures the preservation of the record register information about each record or correction of the record, its type, date and time, system record number, as well as the person making the record. The State Revenue Service (SRS), after evaluating the information provided by the merchant, can decide to approve or refuse to approve the merchant's inventory of goods, if the requirements of the mentioned regulations regarding the content of the inventory of goods and the created software are not met. Once a month, free zone authorities submit a report to the SRS on the non-EU goods imported, exported and registered in the free zone in the previous month, within the deadline specified in the confirmation, indicating the number of the customs document or the number of the goods transport waybill, according to which the goods have been brought into and out of the free zone, or provides SRS officials with online access to

¹⁴¹ See www.responsibleartmarket.org for an overview over anti-money laundering obligations of the art sector and all legal AML requirements for art in 10 countries including France, Germany, Luxembourg, Netherlands and Switzerland.

¹⁴² For example, customs authorities from Poland, Croatia, Lithuania.

¹⁴³ For example in Italy, Slovenia, and Luxembourg.

the goods accounting system. The number of control measures carried out in the Latvian free zones and the amount of taxes additionally calculated in the budget is relatively low, **which indicates that there are no significant risks of non-payment of taxes in the free zones**. In order to prevent violations of customs regulations and the risk of illegal movement of goods subject to sanctions, the Customs Administration carries out risk profiling and enhanced control of risk goods.

Lithuania: a company operating in a free zone is obliged to have and register the status of the company in the Register of Legal Entities. The tax authority conducts a continuous analysis of the activity of the free zone companies, selecting the riskiest companies due to the possible incorrect application of benefits. While controlling the companies operating in free economic zones, the authority assesses whether there are any abuses of the corporate tax relief established for the companies operating in the zone. The authority cooperates with the Ministry of Economy and Innovation regarding the application of incentives for FEZ companies.

Based on the information presented above, it can be concluded that **information on the goods stored in free zones, is reported to customs/tax authorities**. However, as mentioned earlier in this section, the information on the value of goods stored in free zones is not provided systematically to customs/tax authorities. Furthermore, as noted in the EC report on the assessment of the ML/CFT risks¹⁴⁴, Council Directive 2011/16/EU on administrative cooperation in direct taxation¹⁴⁵ ('the DAC') does not have provisions on automatic exchange of information, including on beneficial ownership, between tax authorities on assets held in free zones, which may make tax evasion more likely, for example, for taxes related to capital like capital gains, wealth taxes and inheritance taxes. Also as noted in the EC report, under DAC5¹⁴⁶, tax authorities of Member States can request information from free zone operators if they are obliged entities under EU AMLD framework, including information on beneficial ownership, but they must have a prior indication that the taxpayer is using the free zone in the first place. As a part of this study, no systematic data has been provided on how/if this mechanism has been applied¹⁴⁷. Furthermore, the input received from customs/tax authorities/FIUs/international organisations suggests that since free zones in the EU are not considered extra-territorial to the Member States, **they are not exempted from any measure under the EU or the national frameworks, including related to combatting money laundering and terrorist financing**. For example, in Croatia, national legislation implemented DIRECTIVE (EU) 2018/843 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, through the Anti-Money Laundering Act and the FT (OG 10/2017) and (OG 39/2019). These apply to the Croatian free zones as according to the Free Zones Act (OG 44/96, 78/99, 127/00, 92/05, 85/08, 143/13 and 58/20), free zones are part of the territory of the Republic of Croatia. This has also been confirmed by the Polish and Luxembourg¹⁴⁸ customs authorities and the Bulgarian, Estonian, Lithuanian, Luxembourgish, and Slovenian tax authorities/FIUs.

Customs and tax authorities¹⁴⁹ noted that **Ultimate beneficial ownership (UBO) information is available in accordance with AML/CFT regulations** due again to the fact that free zones are not extra-territorial to the Member States. The High-Security Hub service operator has to check the UBO in terms of whether the client is on diverse international lists (see 5th AML

¹⁴⁴ EC (2022). Commission Staff Working Document, accompanying the EC report on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Brussels, 27.10.2022. SWD (2022) 344 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022SC0344>

¹⁴⁵ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, OJ L 64, 11.3.2011, pp. 1-12.

¹⁴⁶ Council Directive (EU) 2016/2258 of 6 December 2016 amending Directive 2011/16/EU as regards access to anti-money-laundering information by tax authorities. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32016L2258>

¹⁴⁷ Two tax authorities confirmed the mechanism is applied – Bulgaria and Lithuania.

¹⁴⁸ The law of 25 March 2020 implementing EU Directive 2018/843 and amending the law of 12 November 2004 on the fight against money laundering and terrorism financing, as amended entered into force on 30 March 2020.

¹⁴⁹ Replies received for Greece, Poland, Luxembourg, Latvia, Bulgaria, Estonia, Lithuania, Slovenia, Malta.

Directive). As noted by EPRS (2018)¹⁵⁰, when compared with other freeports, only in Luxembourg does the Direct Tax Office have ‘access upon request’ (i.e. there is no automatic exchange) to UBO data held by licensed freeport operators. Drawing again a comparison with Switzerland (and the U.S.), the case study shows that disclosure of ultimate beneficial ownership (the name of the ultimate, physical owner or UBO), is not required in the Geneva freeport¹⁵¹.

Nevertheless, **identifying the Ultimate Beneficial Ownership of freeport tenants is still in its infant stage**. The interviews for the case study on freeports (see Annex IV) and the recent study assessing ML/CFT risks suggest that “implementing the new measures may require significant work on the part of licensed operators to adapt their practices so that they can determine the UBOs of the goods brought in by their clients, especially since so far freeports have been attractive to some clients precisely because they allowed shielding their ownership of goods”¹⁵². As highlighted by EPRS (2018)¹⁵³, unless direct tax authorities have prior information, the chances of a foreign UBO who stores their assets in a freeport becoming known to their own tax authorities as a result of exchange of information agreements between tax authorities seems almost negligible.

The assessment of the ML/CFT risks¹⁵⁴ mentions that while a declaration of value is needed for goods stored in a freeport or customs warehouse, this generally takes the form of a self-declaration by the owner or a representative and in most cases is not checked. In this regard, **actual checks on the ground while the goods are stored in the LSH have been very rare** (a first check of the operator’s stock has been performed on 28 October 2022), due to insufficient resources.

1.9 RQ6 and RQ7: decent employment and labour rights conditionality

Key findings:

- Overall, in the free zones operating in the EU Member States, firms operate in compliance with the **ILO labour standards, EU regulations and national labour provisions**. According to our desk research and consultation activities, we have not observed any particular decent work deficits in free zone employment in the EU territory.
- EU free zones **contribute to job creation** in the EU regions, yet, according to some sources, free zone establishment can be linked to **job displacements**.
- Most of the free zones are active in the promotion and commitment of initiatives for good quality employment and in particular in the investment in a **skilled labour force**.
- There are **no observed cases of conditionality of labour standards rights to exporters from third countries**. Firms operating in the EU free zones have to comply with national labour standards and might have in place their own corporate programmes to ensure compliance with human rights along their value chain.

¹⁵⁰ EPRS (2018), Money laundering and tax evasion risks in freeports, European Parliamentary Research Service, Author: Ron Korver, Ex-Post Evaluation Unit, PE 627.114 – October 2018.

¹⁵¹ Under pressure from the latest FATF evaluation, Switzerland will start setting up a UBO register for corporations (FATF Recommendation 24). It starts to initialise a project for a legal draft till the next FATF evaluation 2027 (based on interview information). Whether this will apply to art intermediaries is to be seen.

¹⁵² EC (2022). Commission Staff Working Document, accompanying the EC report on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Brussels, 27.10.2022. SWD (2022) 344 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022SC0344>, p. 262

¹⁵³ EPRS (2018), Money laundering and tax evasion risks in freeports, European Parliamentary Research Service, Author: Ron Korver, Ex-Post Evaluation Unit, PE 627.114 – October 2018.

¹⁵⁴ EC (2022). Commission Staff Working Document, accompanying the EC report on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Brussels, 27.10.2022. SWD (2022) 344 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022SC0344>

This section provides an overview of the findings and information that have been collected in relation to decent labour creation, quality of labour and conditionality of labour rights. More specifically, the two research questions addressed in the following pages are:

- RQ6: to what extent have the EU free zones contributed to fostering decent employment in the country/region of their location?
- RQ7: do the free zones in the Union make the elimination of duties, customs, etc., conditional on compliance with international standards on labour rights in the exporting countries?

Through these two research questions, we analyse the state of play of employment conditions in the free zones and we identify whether there are any infringements or gaps in labour rights standards. In particular, the following aspects have been taken into account:

- health and safety measures,
- decent labour conditions,
- gender equality,
- consideration of vulnerable groups,
- skills development, training, education, professional growth,
- evidence of conditionality for exporting countries to labour standards when exporting to free zones.

Job creation in free zones

According to our desk research and findings of RQ1 and RQ3, **free zones are often created with the intent to stimulate employment, create direct/indirect job positions** and boost economic growth in more socio-economically depressed areas and regions. The main purpose and benefit linked to the introduction of the free zones are the creation of direct employment and income generation followed by a consequent improvement of the socio-economic conditions of the area. According to our desk research, in 2017, the Rēzekne SEZ employed 2.7 % of the city's population, which corresponds to 0.29 % of the population of Latgale region. The SEZ in Liepāja counted 2.6 % of Liepāja population employed that is 0.8 % of the Kurzeme region. In total, the Rēzekne SEZ and Liepāja SEZ comprehend 0.33 % of total Latvian employment and 0.14 % of the total population. In Lithuania, the share of employment located in the national SEZ corresponded to 59 % on average in 2017. In the Canary Islands, the SEZ has around 17 employees per company, which is significantly higher than the average of five employees per company elsewhere in the Canary Islands. This higher employee count also translates into a 67 % increase in productivity per employee compared to the Canary Islands average¹⁵⁵. Finally, in Polish SEZs, employment jumped from 61 000 in 2003 to 247 000 in 2012. The creation of jobs within the SEZ not only resulted in new workplaces in the SEZs counties but also to the establishment of new jobs in the neighbouring counties¹⁵⁶. This latter

¹⁵⁵ According to an ESPON (2020) study, the Canary SEZ has been more effective in terms of job creation when compared to other funding initiatives. More specifically, the European Structural fund (2000-2006) offered EUR 680 million of public investment leading to the creation of 9 000 jobs; the Reserve for Investments in the Canary Islands provided EUR 9 billion between 1994 and 2007 creating 147 000 jobs. Finally, the Canary Island SEZ created 4 500 jobs during 2012-2016 with EUR 82 million. The SEZ impact has likely been quite strong in the economy of the Canary Islands, due to the nature of their economy, which is predominantly dependent on tourism. The Canary Islands also benefit from one of the most advantageous taxation regimes in Europe i.e. 4 % of corporate income tax.

¹⁵⁶ ESPON - European Special Economic Zones Research spin-off project of "The World in Europe: Global FDI flows towards Europe (ESPON FDI)"

finding is derived in the study of Cizkowic et al. (2015)¹⁵⁷ based on a spatial panel model estimation, which observes that SEZs create employment spillover effects to neighbouring counties through spatial induced effects. The explanation can be that Polish SEZs economic operators are mainly foreign companies that attract workers also outside the hosting county offering higher wages and therefore, inducing employees to commute from other areas. In Table 13, we provide more recent data on the number of jobs in EU free zones.

Table 13: Number of direct jobs in the free zones

Country	Free zone	N. of jobs
Bulgaria	Free zone Plovdiv	14
Italy	Porto franco di Trieste	direct jobs 5 000, (indirect ones 2 142)
Latvia	Riga freeport	4 872 (2015)
Latvia	Liepāja SEZ	2 657 (2022) 2 052 (2015)
Latvia	Ventspils freeport	3 045 (2002) – 2 667 in port terminal and 378 manufacturing 2 782 (2015) 3 291 (2020) -1 082 in port terminal and 2 209 in manufacturing
Lithuania	Klaipeda SEZ	Over 5 000
Lithuania	UAB Ad rem lez – Part of Klaipėda SEZ	Over 500
Luxembourg	Luxembourg Le Freeport	21
Poland	Kostrzyn SEZ	49 781
Portugal	Madeira	Over 3 500
Romania	Free zone Curtici Arad	175
Romania	Free zone Galati	100-200
Slovenia	Luka Koper d.d.	Approx. 3 000
Spain	Zona Franca Barcelona	137 000
Spain	Zona franca de Las Palmas de Gran Canaria	200 (2015)
Spain	Tenerife free zone	300 employees, 1 person employed in the free zone authority

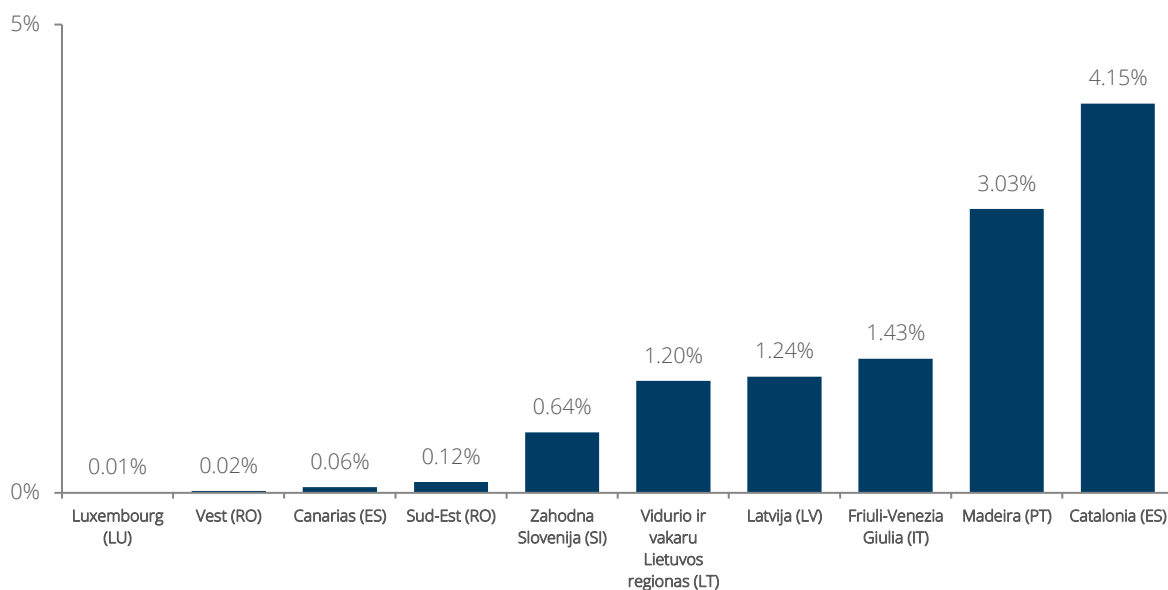
Notes: data have been collected through stakeholder consultations and free zones websites.

In Figure 7 we provide an overview of the contribution of free zones to their respective region's employment levels (NUTS 2), calculated using data presented in the table above and data provided by Eurostat. Among most free zones for which we have data on employment, the contribution to regional employment in 2020 is up to 4 %.¹⁵⁸ For example, the Freeport in Luxembourg counts the 0.007 % of employment, the Zona franca de Las Palmas de Gran Canaria contributed to 0.06 % of the Canary Islands employment, and the Lithuanian SEZs count around 1.2 % of total employment. The Riga SEZ, Liepāja SEZ and Ventspils SEZ combined, employed around 1.24 % of the employed population in Latvia. In Friuli-Venezia-Giulia (Italy), the Trieste freeport contributed to 1.43 % of the regional employment, the Madeira free zone counted 3 % of employment of the Autonomous Region of Madeira, and the Barcelona Free Zone accounts for more than 4 % of the Catalonia employment.

¹⁵⁷ Cizkowic et al. (2015). The Effects of Polish Special Economic Zones on Employment and Investment: Spatial Panel Modelling Perspective. MPRA Paper No. 63176, posted 23. March 2015.

¹⁵⁸ At the NUTS2 level, Latvia is not further subdivided into regions. Data for the whole country is therefore used in Figure 7.

Figure 7 Contribution of free zones to regional employment at NUTS2 level, in %



Source: own elaboration based on Eurostat data and stakeholder consultations. Notes: Shares are calculated based on the latest available year of data (2021).¹⁵⁹

Even higher, the Kostrzyn SEZ is clearly an outlier, accounting for over 10 % of the Lubuskie voivodeship (not shown in the figure) of their respective NUTS2 regions' total employment. This is in line with our stakeholder consultations, where a number of stakeholders pointed out that in some countries free zones have been constituted with stimulating economic growth in disadvantaged territories, such as:

- ▶ regions with poor industrial diversification,
- ▶ regions with high levels of poverty and unemployment (such as Kostrzyn SEZ, Poland),
- ▶ rural regions;
- ▶ local economies dependent on tourism and seasonal jobs – such as islands and coastal territories (such as Madeira free zone, Portugal).

Risk of job displacement

Overall, we found that free zones can be of benefit in terms of job creation and growth for several European regions. However, some sources and evidence underlined the opposite view, which argues that **free zones are likely to create disinvestments and job displacements**, displacing economic activities from one place to the other. The UK Government, which in 2021 announced the establishment of eight new freeports to boost the economy across the country, conducted a consultation to collect feedback from stakeholders on the benefits of freeports. Part of the questions addressed to stakeholders focused on the perceptions of displacement effects that lead to a reduced number of job opportunities in the areas outside the freeports. Replies on this were quite even: 37 % of respondents declared that free zones bring low risk of displacement, 31 % declared that there are medium risks of displacement and finally 32 % of respondents argued that there is a high risk of displacement. Most of the local businesses declared that the risks of displacement could be from low to medium, instead, risks of job displacement are perceived as high and very high by individuals.

¹⁵⁹ In some instances, we were not able to verify whether data provided to us by stakeholders referred to the latest available data or to a past date. In those cases, we assumed that data provided to us by stakeholders referred to the latest available year. The same applies to Figure 7.

Finally, ports authorities provided different opinions on the displacement of activities. Results also found that free zones are certainly linked to jobs and economic activities displacement, but the level of risk can probably depend on the geographic distribution of free zones, their size and the closeness to other economic competing areas. Respondents also provided some recommendations for mitigating the effects of displacement. Among the responses, the main proposals are: providing a fair allocation of freeports (for example, in poorer areas), a clear governance structure and management, a good collaboration between government and local authorities and a clear connection between the freeports policies and the national industrial strategies¹⁶⁰.

During our consultation activities, two respondents also raised the same issue, underlining that free zones can be linked to the risks of disinvestments and displacements of jobs, which do not really create new employment and ultimately lose tax revenues. In fact, according to some researchers, free zones simply transfer economic activities from one region to another, and therefore failing to create new businesses¹⁶¹.

According to the sources, when we focus on EU countries, **workers employed in free zones or EPZs tend to earn higher wages in comparison with the rest of the country**. However, this can be different when looking into non-EU countries and less developed countries, such as in Asia, Africa, or South America. In the Lithuanian SEZs, average wages are 9 % higher than in the rest of the manufacturing industry in the country, due to the higher productivity of the SEZs companies¹⁶². Firms that are active in Canary Island SEZ, pay 16 % higher wages compared with the territorial average also thanks to the beneficial tax regime and income tax (only 4 %) applied in the territory¹⁶³. Interviewees suggested that in the Madeira free zone workers have salaries above average national levels. According to their website¹⁶⁴, in 2015 the Madeira's International Business Centre was responsible for 10 % of the salary mass paid in the Autonomous Region of Madeira and excluding public sector, salaries in the free zone are higher than the average of the region. Higher salaries can also depend on the type of economic activities that characterise the Madeira IBC, such as IT and professional services, consultancy, biotechnology and telecommunications.

Considering the information shown above, we can conclude that wages in the EU free zones tend to be higher than the local average, however, when looking into this data, it is important to keep in mind the nature of each free zone, SEZ or EPZ, the type of companies (if goods or services oriented) and the type of sectors.

As concerns the average wages inside the free zones beyond the EU, we found different results depending on the countries. In some cases, it is found that minimum wages are lower inside the free zones because national labour laws are sometimes not extended inside the economic free zones (e.g. in Costa Rica, Pakistan and Panama). In other cases, free zones attract workers with higher wages or more incentives as a way of preventing unionisation inside the SEZs (e.g. in Bangladesh, further information is in Annex IV). Wages started from a lower level in other countries, such as Korea and Haiti, but tended to increase over time¹⁶⁵.

¹⁶⁰ UK Government, Department of International Trade and HM Treasury, Freeports consultation. Published in 2020, available at: <https://www.gov.uk/government/consultations/freeports-consultation>

¹⁶¹ McLoughlin, E. (2020). Overview of Freeports or Free Zones, Library & Research Service, Houses of the Oireachtas.

¹⁶² ESPON - European Special Economic Zones Research spin-off project of "The World in Europe: Global FDI flows towards Europe (ESPON FDI)"

¹⁶³ ESPON - European Special Economic Zones Research spin-off project of "The World in Europe: Global FDI flows towards Europe (ESPON FDI)"

¹⁶⁴ Available at: <https://www.ibc-madeira.com/pt/inicio.html>

¹⁶⁵ Aggarwal, A., (2007). Impact of Special Economic Zones on Employment, Poverty and Human Development, *Working Paper, No. 194, Indian Council for Research on International Economic Relations (ICRIER), New Delhi*.

Decent labour conditions

When assessing the condition and the quality of employment in free zones and SEZs in general, the impacts are double-sided: when it comes to **labour rights**, zones often suppress basic labour rights in developing countries. On the other side, when focusing on EU Member States, zones comply with ILO standards, including Conventions n. 87¹⁶⁶ and n. 98¹⁶⁷.

Globally, a standard criticism underlines that companies operating in the zones are often allowed to ignore **health and safety measures** for their employees; on the other side, some more developed zones offer good working standards, sometimes better than in the rest of the national territory. Finally, in many cases women are segregated in zone industries with poorer labour conditions and lower wages, while in other cases, zones are an opportunity for **women employment** and higher wages. The outcomes derived from the free zones' establishment vary depending on the region and territory, and ultimately free zones perform and apply regulations in different ways.¹⁶⁸

A large part of the sources across the world emphasises the poor working conditions that characterise free zones labour. Workers inside free zones are often victims of labour rights violation, working overtime, job insecurity (short-term contracts), low health and safety standards, and lack of freedom of association. Furthermore, higher wages and incentives for employees inside the free zones are often translated into overtime and more physically intensive work (further information is provided in Annex IV). In some other cases, it is also shown how actually free zones do not have more issues in terms of poor labour conditions, but they just reflect the state of play of labour rights inside the whole hosting country. Findings are mixed and can differ across geographical region, country or sector¹⁶⁹.

In 2017 the ILO hosted the Tripartite Meeting of Experts to promote decent work and protection of fundamental principles and rights at work for workers in export processing zones (EPZs). The meeting proposed some actions and guidance: governments from all countries should reinforce labour inspections inside zones, promote collective bargaining, improve working conditions and social protections, ensure health and safety standards and finally governments should ratify Conventions and embed their provisions into their country's legislations. Also, workers' organisations and unions are called to provide support to workers and in particular to vulnerable groups (such as women, youth, refugees and migrants). Finally, stronger collaboration and coordination between organisations, ILO, UNCTAD, WTO, OECD, and World Bank is needed for ensuring decent work conditions in global supply chains¹⁷⁰. Following this meeting, in 2019 several workers' delegates made a complaint to the ILO against the Government of Bangladesh, claiming a lack of compliance of the regulations applicable in EPZs with international labour standards and non-observance of ILO Conventions on labour inspections (N. 81), freedom of association (N. 87) and collective bargaining (N. 98)¹⁷¹ (for further information, see Annex IV).

When it comes to EU countries, no major issues or infringements have been identified in the labour conditions of the companies located in EU free zones. EU Member States have mostly ratified and applied ILO fundamental conventions and principles regarding child

¹⁶⁶ ILO Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87).

¹⁶⁷ ILO Right to Organise and Collective Bargaining Convention, 1949 (No. 98).

¹⁶⁸ "Special economic zones. Performance lessons learned, and implications for zone development", World Bank (2008).

¹⁶⁹ Aggarwal, A., (2007). Impact of Special Economic Zones on Employment, Poverty and Human Development, *Working Paper, No. 194, Indian Council for Research on International Economic Relations (ICRIER), New Delhi*.

¹⁷⁰ ILO, (2017). Conclusions adopted by the Tripartite Meeting of Experts to promote Decent Work and Protection of Fundamental Principles and Rights at Work for Workers in Export Processing Zones (EPZs) (Geneva, 21-23 November 2017) Available at: https://www.ilo.org/tokyo/helpdesk/WCMS_605081/lang--en/index.htm

¹⁷¹ https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_771787.pdf

labour, non-discrimination, forced labour and freedom of association and the right to collective bargaining in their legislation and practice and the same regulations are applied in the free zones.

European free zones and SEZs do not show any particular challenges in terms of health safety and working conditions. On the contrary, in **several developing countries Export Processing Zones are well-known for not ensuring basic labour rights to their workers and creating unsafe workplaces.** Poor quality of labour, extensive working hours, anti-union discrimination and lack of health and safety measures are just a few examples of issues occurring in free zones and EPZs located in countries outside the EU. In developing/outside EU countries, national labour policies and legislation are often not applied inside the free zones territories and in many cases national labour authorities are not allowed to conduct inspections in firms and industries located inside special economic zones.¹⁷²

Considering the scarcity of data related to employment and labour in European free zones, we conducted desk research on EU free zones in order to assess their contribution and commitment to the improvement of the **quality of labour** and **social responsibility**. In the following paragraphs, we present some examples of statutes, agendas, and initiatives promoted by free zone authorities or organisations for the achievement of better labour environments and social responsibility:

- ▶ In Spain, the **Zona Franca de Barcelona**¹⁷³ is committed to promoting decent work and economic growth ensuring gender equality in line with the UN Sustainable Development Goals. For this purpose, a Women's Council has been established aiming to promote women's visibility and equal rights. In terms of health and safety standards, the Zona Franca promotes measures for preventing risks at work, and it is committed to introducing training for firms and employees.
- ▶ Again, in Spain, the **Zona Franca Santander** describes in its responsibility policy¹⁷⁴ the commitment and initiatives aiming to create and develop a territory characterised by: the promotion of diversity and equality; professional development; motivating work environment and a good work-life balance. Moreover, health education, health promotion and appropriate evaluation and management of risk situations are conducted in the zone.
- ▶ **Rēzekne Freeport Authority (Latvia)** promotes the principles of responsibility, competency and motivation of the labour force. The Freeport represents a potential job basin of attraction for graduates coming from higher education institutes of engineering and economics that characterised the area (Rēzekne Academy of Technologies and the State Border Guard College). The companies and employers active in the Freeport have access to support programmes for the training of employees or future applicants co-financed by the EU with the aim of improving labour force skills.¹⁷⁵
- ▶ In Lithuania, the **Klaipeda free zone** is also a pool of higher education institutions for the following sectors: maritime, mechanical engineering, metal processing, logistics, food technologies and international business education.¹⁷⁶
- ▶ The **Liepaja SEZ** highlighted how employees of the free zone companies are also picked from the surrounding towns and rural areas, and the free zone authority is involved in packages with local institutions for incentivising the return of citizens working abroad.

¹⁷² ILO (2014). Trade Union Manual on Export Processing Zones.

¹⁷³ Zona Franca de Barcelona, available at: <https://zfbarcelona.es/en/actualidad/blog/el-consorci-de-la-zona-franca-de-barcelona-fully-committed-to-the-sdgs/>

¹⁷⁴ Responsibility policy Zona Franca Santander, available at: <https://zonafrancasantander.es/en/commitment/>

¹⁷⁵ Rēzekne SEZ: <http://rsez.lv/index.php/en/kapec-rsez-en>

¹⁷⁶ Klaipeda FEZ: <https://www.fez.lt/>

- ▶ **Madeira IBC** is the only one so far providing a brochure with their notes on Labour Law with information on the working hours and days, maternity and paternity leave, retribution and termination of job contracts. The specifications are referred and in line with the Portuguese Public Contract Code.¹⁷⁷
- ▶ In the **Canary Islands**, the free zone allows the establishment of companies in the territory under specific employment requirements. For opening their activities in the zone, companies need to be able to create at least five jobs within the first six months following the registration.¹⁷⁸
- ▶ The **Luka Koper d.d.** free zone in Slovenia, which is a public limited company, is committed to its social responsibility by offering know-how and skills to its employees. Furthermore, the company supports the activities of the University of Primorska (Koper) and the Faculty of Maritime Studies and Transport of the University of Ljubljana. The zone management also includes the following requirements and standards: occupational health and safety management system ISO 45001, the SEVESO directive, which deals with major accident hazards.¹⁷⁹
- ▶ The **Lodz SEZ** cooperates with the local municipality and University for implementing educational programmes for students, such as training, traineeships and apprenticeship.
- ▶ The **World Free Zone Organisation** - members of the WFZO can obtain certificates as a “Safe Zone”¹⁸⁰ award model based on international standards for compliance management, integrity, safety and security.

Through our desk research we found some debates on the labour conditions and unionism inside the Polish Special Economic Zones. The reviewed sources provide cases of past bad working conditions (such as overtime work hours and poor health and safety standards), which led to labour conflicts in the Polish Special Economic Zones. Maciejewska (2012, 2016) provides some studies focusing on working conditions that characterised foreign factories, typically for electronics production, in the Polish SEZs between 2011-2013. However, through our work on the case study on labour matters and especially stakeholder consultations with local trade unions (see Annex IV), there is no evidence that these challenges are still ongoing. On the contrary, based on our findings it seems that today some Polish SEZs are likely to offer better employment contracts, due to the existence of additional formalities applicable in SEZs enterprises with respect to non-SEZs firms.

Throughout an ongoing consultation, inputs from multiple categories of stakeholders regarding the research questions on labour were collected. Overall, responses have been quite homogenous and similar across stakeholders and across Member States. **Responses from the stakeholder activities confirm the results collected during the desk research and did not find any major challenges in employment or working conditions inside the EU free zones.** Overall, authorities and trade unions confirmed that in the free zones, the same labour provisions apply to the national territory in terms of employment and safety at work, as prescribed by the EU law (RQ6).

Free zones declared their commitment to extending the diversification of industry and sectors, attracting companies which prioritise skilled labour force and that offer only long-term job contracts. In general, the intent of free zones is to create diversified, qualified and stable employment, which can subsequently provide economic growth in more deflated regions.

¹⁷⁷ Madeira IBC: <https://www.ibr-madeira.com/images/eBrochures/LabourLawOverview-pt/docs/LabourLawOverview-pt.pdf>

¹⁷⁸ Zona Franca Tenerife: <https://zonafrancatenerife.es/tenerife-free-zone-consortium/benefits/>

¹⁷⁹ Luka Koper (Port of Koper): <https://www.luka-kp.si/en/>

¹⁸⁰ WFZO, Safe Zone certificate, available at: <https://www.worldfzo.org/Services/Support/safe-zone>

During our interviews, respondents confirmed that some free zones also offer training and courses for creating a skilled and qualified pool of workers or alternatively they offer programmes in support of the acquisition of knowledge and vocational qualifications and cooperation with industrial schools. In these special economic zones, we observed that **free zones are committed to the creation of skilled and qualified labour in diversified sectors** (5 replies from CAs¹⁸¹). In one case¹⁸², we also observed the entity's commitment to facilitating the employment of vulnerable groups and for gender equality.

Box 4: Barcelona Free Zone commitment to social responsibility

The desk research and stakeholders' consultation provided a few examples of more developed and progressive free zones that are becoming more committed to sustainability and CSR values. A main example is given by the Barcelona Free Zone, which is fully implementing and including the UN's Sustainable Development Goals (SDGs) as part of its business and industrial approach. In particular, the free zone is carrying out initiatives in line with some priority SDGs on labour and employment:

1. **SDG 5 Gender Equality**: creation of the Women's council for giving more visibility to women in the businesses
2. **SDG 8 Decent work and economic growth**: support to start-ups
3. **SDG 4 Quality education**: promotion of dual training in partnership with companies in the industrial estate
4. **SDG 17 Partnership for the goals**: collaboration with public institutions for social development initiatives

Furthermore, the Barcelona Free Zone is committed to creating an employment environment with high standards of health and safety through continuous improvements in health and safety measures, preventing risks at work offering safe workplace conditions and training.¹⁸³ *Further information on the Zona Franca Barcelona is included in Annex IV.*

Labour conditionalities

Regarding RQ7 on the customs and trade conditionality of labour standards with exporting countries outside the European Union, we **did not find evidence of EU free zone practice on the arrangements with other exporting countries**. We did not observe any data on the implementation of such provisions by EU free zones. Trade between free zones and third countries also materialises when there are no free trade agreements in place meaning that goods from third countries can be imported into free zones free of import duties and other taxes (e.g. excise), even when there is no free trade agreement. There is not a specific relation between the use of a free zone in the EU and the free trade agreements between the EU and beneficiary countries, more specifically, it is not the import of goods that is duty-free but the entrance to the free zone, independently from the country of origin. Only after leaving the free zone to free circulation, import duties on goods still have to be paid. The rate of the import duties will then depend on the geographic origin of the good and on the presence or not of a free trade agreement which allows benefitting from rates lower than the average. In conclusion, free zones allow the entrance of goods—duty-free—independently from the country of origin or the presence of a free trade agreement. However, overall there is a growing inclusion trend of labour provisions in trade and investment agreements between third countries and the EU, more specifically on corporate social responsibility in the trade and investment agreements.¹⁸⁴

¹⁸¹ From Portugal, Poland, Tenerife, Barcelona, Slovenia.

¹⁸² From Spain.

¹⁸³ Available at: <https://zfbarcelona.es/en/sustainability/sdgs/>

¹⁸⁴ ILO (2017), Promoting decent work and protecting fundamental principles and rights at work in export processing zones.

Furthermore, the EU introduced the Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+) scheme for developing countries (see the textbox below) that provides them with trade concessions obliging them to implement provisions and international conventions on human rights and labour rights.¹⁸⁵ Also, firms operating in EPZs might have developed their own mechanisms to ensure compliance with human rights—including labour standards—in view of the international framework on business and human rights and the forthcoming EU Directive on Corporate Sustainability Due Diligence.

Box 5: EU Generalised Scheme of Preferences (GSP) and conditionality on labour standards

Introduced in 1971, the **EU Generalised Scheme of Preferences (GSP)**¹⁸⁶, is part of the EU's commitment to sustainable development in the trade sector. The scheme consists of unilateral trade agreements removing import duties for selected developing countries for mitigating and decreasing poverty and unemployment, with the conditionality of provisions on labour and human rights, but also environmental protection and good governance.

The scheme comprises the following:

- **Standard GSP:** it comprises a partial deduction of customs duties
- **Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+):** this scheme is addressed to low-income countries that introduce provisions on labour rights and human rights
- **Everything But Arms (EBA):** this agreement allows duty-free and quota-free access to all goods (except arms) to the EU market.

Hence, goods and products that are produced in a free zone that is part of a beneficiary country can benefit from the removal of import duties if they comply with specific requirements.¹⁸⁷

With regard to RQ7, stakeholders' responses were limited to confirming that activities carried out by free zones companies are fully compliant with national and EU regulations as well as ILO's international conventions, following the same procedures and supervision and finally, subject to any international trade policies introduced at the EU level. However, we did **not observe any free zone provisions regarding the existence of customs conditionality with labour standards with the exporting companies and countries**. More specifically, during our stakeholder consultation activities, only one respondent (one free zone authority from Latvia) underlined that the elimination of duties (VAT zero rate, no customs duties on excise goods) is conditional on the national law and relevant EU regulations on exporting countries' compliance with international standards on labour rights. However, according to the consulted customs authority, customs relief in free zones in Latvia are not related to exporting countries' compliance with international standards on labour rights.

¹⁸⁵ European Parliament (2017), Labour rights in Export Processing Zones with a focus on GSP+ beneficiary countries.

¹⁸⁶ Available at: https://policy.trade.ec.europa.eu/development-and-sustainability/generalised-scheme-preferences_en, The complete list of GSP beneficiary countries is available here: https://trade.ec.europa.eu/doclib/docs/2019/may/tradoc_157889.pdf

¹⁸⁷ European Parliament (2017), Labour rights in Export Processing Zones with a focus on GSP+ beneficiary countries.

1.10 RQ8 and RQ9: contribution of the EU free zones to the European Green Deal (EGD)

Key findings:

- Several European Free Zones report **activities and management approaches that improve their sustainability and are aligned with specific objectives of the Green Deal**.
- In particular, the reported activities within the free zones contribute to zero pollution, resource-efficient building and renovating, clean and renewable energy, sustainable and smart mobility, clean and circular economy and preservation and restoration of ecosystems and biodiversity.
- Several free zones report **plans and strategies relevant to the EGD**, as well as national sustainability policies and international targets such as the Sustainable Development Goals (SDGs).
- Several free zones that do not specifically have EGD-related plans, are also taking measures to improve their sustainability.
- Besides direct green measures, such as plans for hydrogen implementation and solar panels, **the digital transition is highlighted by the consulted stakeholders as a key tool for improved sustainability** of operations. Several free zones have also implemented ISO 14001-certified environmental management systems.
- Some free zones also offer **financial incentives**, such as tax reductions or service discounts for sustainable companies.
- No expenses were identified resulting from non-compliance with the EGD. This appears to result from the fact that **the analysed free zones act in accordance with the national and regional rules on environmental sustainability**, and as such, they should not be subject to, e.g. punitive costs.

RQ8 assesses the extent to which the analysed free zones are aligned with the **objectives established in the European Green Deal**, and if not, how far these free zones are from fulfilling such objectives. In addition, the research question aims to identify if there are any potential costs resulting from the lack of compliance. RQ9 looks forward, assessing what the free zones' **future plans to contribute to the European Green Deal** are and what concrete actions are envisaged. Ultimately, RQ9 aims to assess **how the functioning of free zones should change** in order to become more relevant to the current needs and coherent with the EU policies. To answer these questions, the study draws from desk research, stakeholder consultation and from a more thorough examination of the free zones of Barcelona and Ajman in a case study (see Annex IV).

The following relevant EGD objectives are considered in the study¹⁸⁸.

- ▶ **Supplying clean, affordable and secure energy:** further decarbonisation of the energy system to reach the climate objectives of 2030 and 2050. Measures include prioritisation of energy efficiency, development of a power sector that is based mainly on renewable sources, phasing out coal and decarbonising gas, while ensuring a secure and affordable energy supply for consumers.

¹⁸⁸ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions. The European Green Deal. COM/2019/640 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019DC0640>

- ▶ **Clean and circular economy:** transformation of industry value chains to support circular design and production of all projects, with a focus in particular on resources intensive sectors such as textiles, construction, electronics and plastics.
- ▶ **Sustainable and smart mobility:** a 90 % reduction in transport emissions by 2050, to achieve climate neutrality, and significantly reduce air pollution and the overall environmental footprint of transport activities.
- ▶ **Zero pollution:** creation of a toxic-free environment by preventing the generation of pollution in the air, water and soil, as well as measures to clean and remedy existing pollution.
- ▶ **Fair, healthy and environmentally friendly food systems:** ensuring access to healthy, affordable and sustainable food while tackling climate change, protecting the environment and biodiversity, and ensuring a fair economic return in the supply chain. This includes significant reductions in the use of pesticides and fertilisers, the loss of nutrients, and the increase in total farmland used for organic farming.
- ▶ **Resource-efficient building and renovating:** doubling the annual energy renovation rates by 2030 and fostering energy-efficient renovations. This includes prioritising the application of the 'energy efficiency first' as a horizontal guiding principle, integrating renewables, utilising waste heat, increasing resource efficiency in construction, ensuring high health and environmental standards, coupling green and digital transitions, and ensuring that energy-performing and sustainable buildings are available and accessible for medium and low-income households.
- ▶ **Preservation and restoration of ecosystems and biodiversity:** restoring degraded ecosystems at land and sea across Europe by 2030 through the biodiversity strategy.

Current alignment of free zones with the EGD

As with labour and anti-money laundering (reviewed in the previous research questions), free zones in the European Union apply the same environmental legislation and standards as the EU regions in which they are hosted. Several European Free Zones report that they are **implementing measures to improve the sustainability of their operations and the operations of their companies**. Some of the measures implemented by European Free Zones correspond with specific EGD objectives, while others have a broader scope. Measures relevant to specific EGD objectives are discussed below.

Under the objective of **zero pollution**, the EGD aims to create a toxic-free environment. It includes both prevention of the generation of pollution and measures to clean and remedy pollution. Several measures identified as relevant to this objective are also relevant to the objective of **preserving and restoring ecosystems and biodiversity**. Examples include:

- ▶ Implementation of **modern technologies and smart solutions** to develop the efficient economic operation of the port in the Freeport of Riga, while preserving the unpolluted environment and protecting nature diversity. Additionally, **conducting groundwater monitoring** in the territories leased for commercial activities as well as unused territories. Monitoring and measurement stations are also in place for **PM10 particles and volatile organic compounds**, as well as **air quality**.¹⁸⁹

¹⁸⁹ Website of the Freeport of Riga; The Freeport of Riga Development Programme 2019-2028. <https://rop.lv/en/green-port>, last accessed 28/09/2022.

- ▶ Measures for **solid, liquid and semi-solid waste** in the Madeira Free Trade Zone, including mandatory areas for separation and storage of the various waste types for buildings, and mandatory proper means for retaining and storing **environmentally harmful waste residues** (e.g. solvents, used mineral and vegetable oils) for companies. Furthermore, requirements to store residues that could result in **soil contamination** within impermeable and covered storage areas, under strict safety conditions to avoid accidental leakages. As for the rest of the Portuguese territory, companies with **higher levels of particles and other atmospheric contaminants emissions** must comply with regulations and adopt the necessary reduction measures accordingly. Construction of industrial buildings and installation of equipment and machinery must observe all applicable requisites and regulations concerning **noise pollution**.¹⁹⁰
- ▶ Purchase of new Rubber-Tyred Gantry (RTG) Cranes fitted with white noise safety alarms that are considerably quieter than beeper alarms, and retrofitting older RTGs with the same, thus **reducing noise pollution** at the Malta Freeport. Furthermore, installing full cut-out light fittings on lighting towers to provide optimal illumination of an operational area, while addressing **light pollution concerns** such as glare, light spillage and sky glow.¹⁹¹
- ▶ Setting out **annual reduction targets for dust emissions** and **prevention of instances of sea pollution** outside the port water area in the Port of Koper. Furthermore, implementation of **yearly noise reduction improvement programmes**, including measurements and controls of noise levels, as well as communication and information to shipping companies and local communities, and cooperation in the preservation and management of ecosystems to strengthen ecosystem services, **reduction of pressure on ecosystems**, improving the capacity of key actors to tackle environmental vulnerability and including an **integrated management approach** involving local communities in the management system. There are also plans to introduce ecological areas and to organise systematic **separate waste collection**.¹⁹²
- ▶ **Reduction of emissions** by building new shore power systems for larger freight vessels in the Port of Cuxhaven.¹⁹³
- ▶ Installation of **air quality monitoring stations** in Bremerhaven¹⁹⁴ and in the Port of Piraeus¹⁹⁵.

The objective of **energy and resource-efficient building and renovation** aims to improve the energy efficiency (and affordability) of buildings through construction and renovation. Some of the analysed free zones combine the construction of more energy-efficient buildings with measures relevant to the EGD objective of **clean, renewable energy**, which includes prioritising energy efficiency and ensuring secure renewable energy. Examples of such measures include the following.

- Constructing industrial buildings with **good thermal behaviour** and **durable construction materials** in compliance with relevant legal requirements and encouraging

¹⁹⁰ Website of the Madeira Free Zone. <https://www.ibc-madeira.com/en/industry-and-warehousing/environmental-policies.html>, last accessed 28/09/2022.

¹⁹¹ Website of the Malta Freeport Terminals. <https://www.maltafreeport.com.mt/about-us/corporate/corporate-social-responsibility/>, last accessed 28/09/2022.

¹⁹² Luka Koper Group and Luka Koper, d. d. Annual report 2021.

¹⁹³ Niersachen Ports. Sustainability Report 2021.

¹⁹⁴ The Senator for Science and Ports. Environmental Report 2022. Ports of Bremen/Bremerhaven.

¹⁹⁵ Piraeus Port Authority. 2020 Corporate Responsibility and Sustainable Development Report.

the use of **renewable energy technologies** and **eco-efficient equipment** in the Madeira Free Trade Zone.¹⁹⁶

- Installing **solar collectors** on the roofs of the Freeport of Riga buildings.¹⁹⁷
- Building an automated and modern production plant / research and development centre for **battery modules**, as well as solutions for **energy storage and production processes**, in the Pomeranian Special Economic Zone.¹⁹⁸
- Investing in new, **more energy efficient** mobile harbour crane and **replacing conventional lamps** with LED lamps in Thessaloniki.¹⁹⁹
- Implementing improvement programmes to **reduce electricity and fuel consumption** through measures such as the renovation of electrical installations and switching stations, installing electricity consumption measuring equipment, implementing energy audits, classification of port facilities into energy classes, and replacing some of the equipment and switching to electrically powered systems in the Port of Koper.²⁰⁰
- Installation of a 443 kWp **photovoltaic power plant** and construction of a **green roof** on top of a new office building in the Port of Piraeus.²⁰¹
- In the Cadiz Free Trade Zone, “a more sustainable and cleaner industrial model” aims to **identify the best ideas in marine sustainability**, developing them into reality. The technological business incubator, named IncubAzul, is housed in a **new building made from recycled sea containers** and using **solar energy and natural light**.²⁰²

The Freeport of Riga has also contributed to several of the abovementioned objectives through its participation in the Latvian-Swiss project Remediation of Historically Polluted Areas in the Sarkandaugava territory in 2009-2018, which contributed to the **improvement of soil, ground, underground and surface water quality** in the area (thus contributing to both zero-pollution objective and the objective of preserving and restoring ecosystems and biodiversity). It also implemented the project “Development of Infrastructure on Krievu Island for the Transfer of Port Activities from the City Centre”, which has resulted in a reduced burden on the environment on the right bank of the river Daugava. This project has included **environmentally friendly technologies for cargo handling** (including covered conveyor belts in one of the terminals, partially closed storage process and a dust fence around the storage areas), **provision of shore-side electricity** at the berths in the new terminals of the Krievu island, and **biotechnical measures** for the improvement of the habitat capacity in the nearby nature parks and reserves.²⁰³

The objective of **clean and circular economy** aims to transform industry value chains to support circular design and production. It has a particular focus on resources intensive sectors such as textiles, construction, electronics and plastics. **Industrial free zones are particularly well placed for the circular transition due to the existing connections and physical proximity of companies.**

¹⁹⁶ Website of the Madeira Free Zone. <https://www.ibc-madeira.com/en/industry-and-warehousing/environmental-policies.html>, last accessed 28/09/2022.

¹⁹⁷ Website of the Freeport of Riga; The Freeport of Riga Development Programme 2019-2028. <https://rop.lv/en/green-port>, last accessed 28/09/2022.

¹⁹⁸ FDI Intelligence (2021). Global Free Zones of the Year 2021 – Honourable mentions. Available at: <https://www.fdiintelligence.com/content/Rankings%20and%20awards/global-free-zones-of-the-year-2021-honourable-mentions-80296>, last accessed 28/09/2022.

¹⁹⁹ Port of Thessaloniki. Sustainability Report 2019.

²⁰⁰ Luka Koper Group and Luka Koper, d. d. Annual report 2021.

²⁰¹ PPA 2019. Action Plan for a Sustainable and Low-carbon Port of Piraeus.

²⁰² <https://www.incubazul.es/en/el-proyecto/>

²⁰³ Website of the Freeport of Riga; The Freeport of Riga Development Programme 2019-2028. <https://rop.lv/en/green-port>, last accessed 28/09/2022.

- In the Free Zone of Barcelona, the EcoCircularZF project guides and facilitates the companies operating in the free zone to embrace this approach, e.g. through identifying the opportunities available, promoting contact between the companies, and assessing synergies and their viability. This allows to **reduce waste management costs, profit from underused resources, and reduce both energy and water consumption** as well as **production costs**.²⁰⁴
- The Free Zone of Madeira hosts the facilities of the MadeBiotech company. This R&D company focuses on biotechnology and process engineering to develop sustainable processes for the **valorisation of natural resources**. It is notably collaborating with the University of Madeira on a scientific research project—MarineBlueRefine—which aims to **valorise the waste from the fish industry**.²⁰⁵

Some free zones also contribute to the objective of **sustainable and smart mobility**, which aims to significantly reduce transport emissions by tackling all emission sources. Examples of this include the consideration of the scale of environmental impacts associated with transportation, handling and storage of cargo in the Bourgas Free Zone in Bulgaria²⁰⁶, and the provision of **public transport for the employees** in the Barcelona free zone.

Beyond measures related to individual EGD objectives, free zones have also implemented measures to ensure the **overall sustainability of their operations**. Several Free Zones, including Barcelona, Riga, Malta, and Madeira, have designed their environmental management in compliance with ISO 14001 standard requirements. ISO 14001 sets out the environmental management system criteria, mapping out a framework that an organisation of any activity or sector can follow to set up an effective environmental management system.²⁰⁷

In addition, EU free zones **are subject to the same environmental assessment requirements as the rest of the EU territory**. As foreseen by the Environmental Impact Assessment²⁰⁸ and the Strategic Environmental Assessment Directives²⁰⁹, free zones can be required to assess their environmental impact before they develop major projects or programmes, for example, transport infrastructure, integrated chemicals installations or other industrial installations. This assessment should notably assess the direct and indirect significant effects of the project on a number of factors such as biodiversity, land, soil, water, air and climate.

Some free zones outside the EU are also taking measures to improve their sustainability. As an example, China and India are developing **guidelines and policies** for green zones, while the Republic of Korea and Thailand are systematically developing **eco-industrial parks**. Jilin City, as a partnership between the EU And China, has been developed to become the first low-carbon Special Economic Zone. The Republic of Korea is also investing in low-carbon cities and **low-carbon special economic zone initiatives**. As an example, the Incheon Free Economic Zone (IFEZ) set a new low-carbon, green vision with its “Low Carbon IFEZ 30” Plan and a GHG mitigation target.²¹⁰ The World Free Zones Organisation, wanting to encourage achievements on environmental soundness, has developed a Green Free Zone Certification Programme Procedure²¹¹. This certification scheme *“aims to be a global certification scheme to engage Free Zones towards contributing to achieve the national and international climate*

²⁰⁴ The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

²⁰⁵ Sociedade de Desenvolvimento da Madeira S.A. Madeira Manual de Boas Práticas Ambientais.

²⁰⁶ Bourgas Free Zone website. <http://www.freetradezone-bourgas.com/infoen/26>, last accessed 28/09/2022.

²⁰⁷ <https://www.iso.org/iso-14001-environmental-management.html>

²⁰⁸ See: <https://eur-lex.europa.eu/eli/dir/2014/52/oj>

²⁰⁹ See: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32001L0042>

²¹⁰ Farole, T. and Akinci, G. (eds.) 2011, Special Economic Zones Progress, Emerging Challenges, and Future Directions. World Bank. Available at: <https://documents1.worldbank.org/curated/en/752011468203980987/pdf/638440PUB0Ext00Box0361527B0PUBLIC0.pdf>

²¹¹ Green Free Zone Certification Programme Procedure. Guidance on Programme Criteria & Evidence Package Assessment. Version 1.0. Available at: <https://www.worldfzo.org/Services/Support/Green-zone>.

action objectives as outlined by the Sustainable Development Goals". The certification scheme includes a rating system for assessing "the maturity of the free zones in the actions carried out towards reaching environmental soundness", but as discussed with stakeholders, as of yet, no European free zones have been certified.

The EGD **case study** examines the Barcelona and Ajman Free Zones, for their respective sustainability efforts and measures. Both zones have an **ISO 14001-certified environmental management system**, and both provide specific **incentives and schemes** to encourage sustainable operations for their companies and engage in environmental awareness activities.²¹² Both Free Zones are also committed to the United Nations Sustainable Development Goals.²¹³

Box 6: Case study extract – Circular economy

The Barcelona Free Zone (Zona Franca Barcelona) reports several specific measures on circular economy. All non-hazardous waste is recovered, and the free zone has implemented measures to reduce printing. The Barcelona Free Zone Consortium (CZFB) promotes a long-term circular economy project EcoCircularZF, which identifies opportunities for improving the management of resources in the zone. It detects which actors should collaborate and facilitates relations for the development of the detected synergies. It had 35 companies from 10 sectors participating by 2021.²¹⁴

In the Ajman Free Zone (AFZ), annual reporting is conducted on the amount of waste generated and the amount of waste recycled. Between 2017 and 2020, a small reduction in general waste creation and an increase in waste recycling has been recorded.²¹⁵ The AFZ plans to further increase the amount of recycled waste through a Waste Recycling Plan, which includes, e.g.:

- an increasing rate of recycling waste to 50 % of public waste in the free zone by the end of 2025;
- increasing ratings of recyclable materials by the end of 2025;
- developing regulations, laws and policies to raise the business partners' commitments;
- reducing the rationalisation rate of paper consumption in the free zone by 30 % by the end of 2025;
- reduce the operational costs of transporting waste.

In the stakeholder interviews, representatives of certain Free Zones further elaborated on their respective activities. Several Free Zones emphasised that their sustainability actions are coherent with European and national policies, including the EGD. In terms of specific objectives, several Free Zones mentioned being involved / planning to be involved in **alternative fuels and energies, particularly hydrogen and solar energy**. Only two Free Zones mentioned that they are not actively contributing to EGD objectives. However, they would be open to such projects or activities.

Financial incentives supporting sustainable activities were identified in three Free Zones. In Madeira²¹⁶, companies contributing to the improvement of the environment can receive a further tax deduction of 50 % on CIT. Additionally, a strategic plan is currently being developed to offer additional incentives for environmentally friendly practices for services and shipping activities sectors. The Port of Cadiz has launched a Comprehensive Improvement Plan for the fiscal area, optimising and modernising facilities, adapting them to sustainability criteria, with the aim of offering quality equipment to operators and ranging from the modernisation of infrastructures to changes in mobility, the implementation of clean energy and the installation of charging stations for customers and employees.²¹⁷ The Port of Thessaloniki participates in

²¹² <https://afz.ae/en/sustainability-awards>; <https://www.zawya.com/en/economy/free-zones-play-critical-role-in-sustainable-development-ihaud0s5>

²¹³ Ajman Free Zone Sustainability Report Year 2020; The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

²¹⁴ The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

²¹⁵ Ajman Free Zone Sustainability Report Year 2020.

²¹⁶ Sociedade de Desenvolvimento da Madeira S.A. Madeira Manual de Boas Práticas Ambientais.

²¹⁷ Port of Cadiz Bay. Memoria de sostenibilidad 2020.

the Green Award Network²¹⁸ as an Incentive Provider, offering a 15 % discount on port charges to Green Award-certified ships visiting the Port of Thessaloniki.²¹⁹

As a summary, we can conclude that **the European free zones can implement various measures that contribute towards the objectives of the EGD**. This positive contribution is the result of policy choices from the free zones authorities as it is not mandatory for free zones to have a specific positive effect on the environment. Based on the identified measures, different objectives receive different degrees of emphasis and attention. Energy efficiency, pollution, and to an extent also the preservation of biodiversity and ecosystems receive notable attention from the free zones. Sustainable mobility comes up particularly for freeports, in the context of energy-efficient shipping, but several free zones also take action to provide sustainable transport within and to the given free zone, by improving public transport and/or providing electric vehicles. The only analysed EGD objective for which no corresponding measures were identified is “fair, healthy and environmentally friendly food systems”. This is not entirely unexpected, as free zones do not play a key part in the supply chain of food products. However, as potential storage and transit points, they do have a role to play in minimising food waste.

Regarding **research and innovation**, some free zones also report initiatives to attract companies focused on sustainable technologies (e.g. Cadiz as discussed above, see also the section on future contributions below). Financial incentives are also used in some free zones to encourage sustainable commercial activities and facilitate sustainable behaviour.

While it is not possible to assess whether each measure discussed below is specifically motivated by the existence of the free zones (i.e. whether such actions would have been implemented without the free zone), a number of **common specific features can be identified and help increasing free zones’ contribution to the EGD’s objectives**.

- ▶ Free zones have experience with providing financial or tax incentives to achieve specific objectives and can redirect them to pursue environmental objectives. For example, Madeira’s Industrial Free Trade Zone (IFTZ) already provides incentives to foster sustainable investments in its territories, granting companies a 50 % deduction on their corporate income tax if they contribute to the improvement of the environment.
- ▶ Free zones offer a unique combination of features, which combined together, can contribute to attracting international investments and therefore stimulate sustainable investments within these territories. Such features are notably the geographic proximity to key transport hubs, the provision of relevant business infrastructure and services such as catalyst tools to develop green innovations (e.g. the IncubAzul High-Tech Incubator in the Free Zone of Cadiz), the experience in building and facilitating public-private partnerships (e.g., to attract renewable-energy companies in the free zone of Seville)
- ▶ The strategic position of free zone authorities, which often act as a link between private and public actors can facilitate the decision-making and implementation of environmental projects within these areas. Through their experience with local and national stakeholders, they can act as promoters of change and facilitators across stakeholders they interact with.

The free zones **did not identify any expenses that they currently had to pay, due to lack of compliance**. Several interviewees observed that all their operations are in line with the

²¹⁸ Green Award is a voluntary quality assessment certification scheme for ships that “go above and beyond the industry standards in terms of safety, quality and environmental performance”. (<https://www.greenaward.org/sea-shipping/>)

²¹⁹ Port of Thessaloniki. Sustainability Report 2019.

local, national and European environmental legislation. Consequently, they would not incur fines or other punitive costs.

Additionally, requirements for restricted ozone depletion substances (ODS) are similar for free zones and the rest of the EU territory: banned substances in the EU cannot enter free zones located in the EU territory.²²⁰ Nevertheless, **exceptions to customs rules are allowed** for authorised ODS transiting less than 45 days in free zones under the re-export rule. In this case, the licencing requirement is not required for the import/export of ODS, unless the imported good is later released for free circulation in the EU.²²¹ Importers and exporters' reporting obligations still apply to ODS products and equipment transiting through free zones. The evaluation of the EU Ozone Regulation conducted in 2020 **did not identify significant illegal activities** based on the analysis of reported data, stating that the "licensing system and border controls by Member States have been **recognised internationally as effectively enforcing the existing trade rules on ODS**".²²²

It is difficult to quantitatively assess **to which extent free zones contribute to the EDG objectives**, due to the lack of universally applicable targets and indicators. Many of the measures discussed above contribute to the goal of climate neutrality by 2050 and can also support the aims of a fair and prosperous society and protecting the health and wellbeing of citizens and the environment. However, to assess the distance to reach these goals, a more standardised monitoring system would be required.

Plans and possibilities for free zone contribution to the EGD in the future

Regarding future plans, we identified several free zones with **strategies that include specific environmental measures relevant to the EGD and its objectives** (including in particular zero pollution, clean and renewable energy, preservation and restoration of ecosystems and biodiversity, and sustainable and smart mobility). These are presented below.

The Freeport of Riga, as discussed above, aims to maintain **an environmental quality management system** that meets the ISO standard. The Special Objective 14 under the Freeport of Riga Development Programme 2019-2028 (p. 55)²²³ also lists the following performance indicators and criteria (however, specific quantitative targets are not provided):

- ▶ the port environmental aspect monitoring programme has been established and introduced;
- ▶ remediation of the historically polluted port areas has been completed;
- ▶ infrastructure for the acceptance of ship-generated waste compliant with the market demand is provided;
- ▶ service for the supply of ships with lng (liquefied natural gas) is available in the port;
- ▶ coastal power supply for ships is available in the port;
- ▶ the number of pollution incidents related to port operations is decreasing;
- ▶ the number of complaints from the residents of Riga neighbourhoods affected by the port operation is decreasing;

²²⁰ See: https://wedocs.unep.org/bitstream/handle/20.500.11822/28382/7745FreeTradeZ_EN.pdf?sequence=1&isAllowed=y

²²¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32009R1005>

²²² Available at: https://climate.ec.europa.eu/system/files/2020-03/swd_2019_406_en.pdf

²²³ Available at: https://rop.lv/sites/default/files/2020-10/Att_progr_2019_EN.pdf

- ▶ the port has become a member of the EU port environmental protection initiative Green Port network.

The Freeport of Trieste plans to continue its efforts in **improving the energy performance of infrastructures and port activities** as detailed in its Action Plan for a Sustainable and Low carbon Port of Trieste²²⁴ as well as in the three-year operational plan of the freeport.²²⁵ It intends to build on the Energy Environmental Planning Document of the Port System to gradually achieve radical long-term innovations such as the **transition to alternative fuels and more sustainable energy sources**. The freeport notably intends to pursue the following objectives:

- ▶ energy optimisation of buildings and assets;
- ▶ gradual conversion of the fleets towards e-mobility;
- ▶ strengthen checks on ship emissions;
- ▶ electrification of the docks, with the perspective to electrify the entire operating system of the port.

In the Port of Koper, plans have been set to install **solar PV plants** in the port with a capacity of approximately 6 Mega Watt peak (MWp), in order to generate up to 20 % of electricity for own consumption. By 2030, solar PV plants should be installed with a capacity of approximately 10 MWp, representing about 38 % of the current electricity consumption of the entire port. Furthermore, a conceptual design has been established to invest in infrastructure for **ships to connect to the electricity grid**. The port is also exploring the possibility of replacing the current fleet of cars and vans with **electric vehicles**.²²⁶

In Sevilla, the Free Trade Zone is working to **attract companies linked to renewable energies**. The Andalusian company Alener Solar will deploy a commercial hydrogen plant with an initial investment of EUR 4.4 million. The Ministry of Finance is supporting the process with EUR 1.65 million. The Free Trade Zone also aims to improve logistics with a new cargo terminal and expanded railway connections.²²⁷

In the Zona Franca Barcelona, analysed as part of the EGD case study, the strategic project plan is based on the three pillars of long-term economic sustainability, economic development of the territory, and urban integration and environmental sustainability. Under the third pillar, the free zone has the objectives of 1) achieving selected SDGs where possible, 2) integrating with Barcelona's urban environment, and 3) becoming the Circular Economy benchmark. The strategic lines under these objectives include **developing the circular economy programme** and extending it beyond the free zone, **increasing energy efficiency** and integrating into the urban environment. In practice, the plans include, e.g. introducing green areas, improving mobility, and measures for energy efficiency and circular economy development.²²⁸ Comparably, the Ajman Free Zone's sustainability targets are set in alignment with the objectives of Ajman Vision 2021, UAE Vision 2021 and the National Agenda. Relevant themes include **energy management, water management, and waste management**.²²⁹ Both the Ajman and Barcelona Free Zones have also set certain future targets that are relevant to

²²⁴ <https://www.porto.trieste.it/wp-content/uploads/2020/08/All.2-Piano-dAzione-per-un-Porto-Sostenibile-ENG.pdf>

²²⁵ Available at:

https://www.porto.trieste.it/wpcontent/uploads/2022/01/Piano_Operativo_Triennale_2022_2024_AdSP_MAO_low_quality_con_osservazioni_CP_Sindaco_Monfalcone.pdf

²²⁶ Luka Koper Group and Luka Koper, d. d. Annual report 2021.

²²⁷ EuropePress. La Zona Franca de Sevilla apuesta por atraer empresas vinculadas a las energías renovables. 16/11/2022. Available at : <https://www.europapress.es/andalucia/sevilla-00357/noticia-zona-franca-sevilla-apuesta-atraer-empresas-vinculadas-energias-renovables-20221116140050.html>

²²⁸ The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

²²⁹ Ajman Free Zone Sustainability Report Year 2020.

specific EGD objectives, including clean, renewable energy, sustainable mobility, circular economy and preservation and restoration of ecosystems and biodiversity.

Alternative fuels in general, hydrogen, solar plants, offshore power initiatives, as well as **digitalisation** were specifically mentioned by the consulted stakeholders. Three free zones noted that they do not have a specific plan or strategy for contributing towards the EGD objectives.²³⁰ However, two of them²³¹ mentioned planned activities that contribute to sustainability overall (the development of a **green industrial park** and the implementation of a **new sewage system**, respectively). Five interviewed customs authorities²³² also emphasised the role of **digital transition** in increasing the sustainability of their own operations (e.g. digital registries, AI, visual recognition software, X-rays, and long-distance supervision).

Opportunities to use free zones to **develop the offshore industry** in specific territories were also mentioned by the consulted stakeholders. Business representatives in the Netherlands identified the added value of creating a free zone in the north of the country—provided the zone is situated in a coastal area—to store goods used for the maintenance of offshore installations as well as deliver the necessary supplies to such installations. In the Cádiz free zone, partnerships with industries are already taking place to develop an industrial hub for offshore wind energy. Finally, developing synergies between free zone and offshore wind farms are also considered in Ireland as well as in Great Britain. Regarding the future **functioning of the free zones**, the plans of the free zones and their priorities reflect the current priorities, with emphasis on objectives such as energy efficiency, zero pollution, and biodiversity preservation. There appears to also be increased attention to sustainable and smart mobility. Based on this analysis, it appears that many EU free zones are changing their priorities and taking measures to be more environmentally sustainable and thus coherent with the EGD priorities. However, the change is taking place at different speeds and scales in different free zones. Thus, the contribution to the EGD goals requires ensuring that all free zones are on board, with clearly developed plans for their sustainability activities with clear indicators, and that those who have planned sufficient measures have both the will and the resources to execute them successfully.

²³⁰ RO, PL, HR.

²³¹ PL, RO.

²³² GR, EE, PL, IT, BG.

CONCLUSIONS

There are more than 5 000 free zones worldwide, and more than 1 000 were established in the last decade²³³. Yet, in the EU there are **currently 62 active free zones in only 18 EU Member States**. In total, there is a decreasing trend of free zones in the EU, which is shown by 78 free zones in 2007, 80 free zones in 2012 and 62 active free zones at present. The main reason for the diverging global and EU trends is likely related to their **relevance**. There are other existing customs procedures in the EU (e.g. customs warehousing and inward processing) that cover the needs of trade in the MS without a free zone. Furthermore, free zones in the EU are struggling to differentiate themselves and offer advantages related to the rest of the EU territory. Looking at their **effectiveness**, the research shows that free zones bring socio-economic benefits (GDP, employment), with larger free zones hosting operators belonging to a variety of different industries being more effective insofar as they account for a larger share of GDP. However, the contribution of EU free zones to investment and export promotion does not match that of free zones in other regions of the world. The **efficiency** of free zones in the EU also partially reveals their declining numbers as they are associated with various risks (tax, customs, money laundering). Despite the general agreement that these risks are managed via the existing regulations, several consulted stakeholders shared the opinion that the benefits of free zones do not necessarily outweigh the costs/risks. **Coherence** also contributes to explaining the declining trend in EU free zones since they have to apply the same environmental, labour, tax, AML/CTF regulations as the rest of the EU territory, unlike free zones beyond the EU, which can allow exemptions from national rules.

The sections below provide further insights per assessment criterion.

Relevance

EU free zones set **business-related objectives** (business facilitation and trade), **socio-economic objectives** (decent jobs and regional development) and many variations of these objectives. EU free zones carry out **diverse activities**, ranging from providing storage, real estate services to logistics, cargo handling stevedoring, to other types of production and financial services. There are also **diverse incentives** being offered by these free zones, focusing on providing tax incentives, unlimited storage duration of goods, exemptions from customs procedures for imports and exports, among others. **The evidence regarding the relevance of these free zones is mixed, making it difficult to draw a definitive conclusion.** The fact that there are 62 active free zones in the EU that have maintained their objectives to be the same in the short-run and long-run suggests that free zones are still **relevant** to some EU regional economies. At the same time, the declining total number of free zones in the EU and more so in some MSs suggest that the **objectives and activities of free zones in some MSs are no longer valid in the current context.** The reduced validity of free zone objectives is also reinforced by the fact that a number of EU free zones have become **inactive** in recent years (e.g. in Cyprus, Hungary, Ireland, Slovakia, Croatia and France). With the change in EU policy (e.g. the European Green Deal, EGD) and geopolitical context (e.g. the war in Ukraine, Brexit), **the needs addressed by EU free zones may need to be adapted.**

²³³ UNCTAD (2019).

Many of the free zones' measures are **relevant** to the EGD and the associated regulations and strategies. The open question remains on the level of ambition across the EU free zones, considering the EGD objectives regarding, e.g. carbon neutrality and zero waste. Considering the increasing urgency of climate action and other environmental measures, and the lack of data to assess how far away the free zones generally are from fulfilling the EGD objectives, it is conceivable that voluntary activities by the free zones may, at some stage, become insufficient in light of the EGD objectives. At this point, legal and economic incentives for compliance may become necessary. In this context, guidance and incentives provided by the free zones to the companies would also be relevant.

Effectiveness

Free zones in the EU are an important tool to support regional GDP – they may account for **up to 19 % of their region's annual GDP**. The magnitude of the economic effects, however, is highly heterogeneous across EU Member States and free zone typologies. Free zones with the highest contribution to their regional economy tend to be larger and host a variety of economic activities, ranging from logistics to manufacturing. According to the stakeholders we consulted, **business creation** is an important impact of free zones. In several instances, free zones introduced new industries and activities in their regions and cities, stimulating a process of **regional diversification**. However, the contribution of EU free zones to investments and export promotion lags behind that of free zones in other regions of the world. This reflects the diversified nature of EU economies; wherein free zones are likely to play a more marginal role than in emerging countries. Moreover, a consensus exists that the economic performance of free zones is conditional on their embeddedness in a conducive business and investment environment and on the existence of supporting industrial, trade, and innovation policies.

The evidence collected in the study also suggests that **the effectiveness of free zones in accelerating the rate of economic growth** (unlike the static contribution to the GDP observed above) **is very limited**. Neither our desk research, panel estimations, nor stakeholder consultation activities provided evidence that this is the case. This is due to a combination of timing—with free zones providing an initial boost to economic activity, which wanes over time—and limited linkages between free zones and the rest of the economy.

The UCC is widely considered to be **effective** in ensuring the proper functioning of free zones. This is especially due to the impact of the current rules on **simplification and harmonisation**. A minority of customs authorities highlight that the UCC does not fully address customs-related risks and that gaps remain in the degree of control that customs authorities can exercise over free zone activities, in part because goods entering a free zone do not have to be covered by a customs declaration. Some issues were reported on the alignment between **UCC and AMLD5** because there is a degree of confusion as to whether anti-money laundering regulations apply to all free zones or only to freeports. The discrepancy may be addressed by the 2021 Proposal for a Regulation of the European Parliament and of the Council on the Prevention of the Use of the Financial System for the Purposes of Money Laundering or Terrorist Financing, which aims to extend anti-money laundering rules applying to trade in artworks to free zones and customs warehouses.

The fact that goods can be stored in free zones with no time limit entails risks related to taxation and money laundering. This is particularly relevant to high-value goods, as the ones stored in freeports, because they can constantly increase their value and change owners

with no taxes paid. The risks are well-described in different publications, but the perception of these risks related to the length of goods stored (from a taxation point of view) is shared only to some extent by the customs/tax/free zone authorities consulted in the study due to the existing customs controls. Both customs/tax authorities and free zone authorities believe that, in general, there is sufficient access to information available on the goods stored in free zones. However, **tax authorities do not have direct access to information on the goods stored in free zones**—the information is typically communicated by customs authorities in electronic format “where necessary”. Free zones in the EU are not exempted from any measures under the EU or the national frameworks, including those related to combatting money laundering and terrorist financing. What could further increase the **effectiveness** of these measures is automatic exchange of information and actual checks from the customs authorities in free zones, and currently there is insufficient information for such activities. The results of the study also show that data on the value of goods is not readily available and easy to extract by customs authorities as it is only gathered on a case-by-case basis by the authorities, which hinders the **effectiveness** of risk-mitigation measures. Another issue is that free zones which store high-value goods in a country benefit from lower tax rates in comparison to other EU Member States.

Among free zones for which we have data on employment, **the contribution to regional employment in 2020 is up to 4 %**. Free zones in the EU offer employment with good conditions, wages, and freedom of trade union association and therefore they are **effective** in creating good labour conditions. Some free zones are committed to social responsibility for providing good quality of labour and they invest in creating a skilled labour force. The **effectiveness** in creating employment is improved through training and education programmes. Looking at the employment and contribution to the local economies, clearly luxury freeports do not provide huge benefits (in terms of the number of people employed and storage turnover), which lowers their socio-economic **effectiveness**.

There are **no observed cases of conditionality of labour standards rights to exporters from third countries**. Firms operating in the EU free zones have to comply with labour standards, but they do not extend to third countries. The study results show that EU free zones are not **effective** in establishing conditionalities of labour standards to exporting firms/free zones that are operating abroad.

Efficiency

The evidence gathered indicates that free zones might be **efficient** in providing benefits against the perceived risks. While evidence has been presented on the existence of specific risk categories (including customs and tax fraud, non-compliance with State aid rules, anti-money laundering, terrorist financing, and circumvention of sanctions), **the vast majority of risks are understood to exist equally outside of the free zones**. Furthermore, the costs associated with mitigating such risks are not—in most cases—dissimilar from the ones encountered outside of free zones. Nevertheless, the lack of hard evidence and the existence of dissenting opinions from stakeholders limits our capability of drawing conclusions on the efficiency of free zones. The limited availability of cost/benefit analyses and data, together with the presence of Member States without free zones nor interest in establishing new ones, does not allow the **provision of a definitive conclusion on whether the benefits of free zones outweigh the costs of mitigating related risks**. Such an analysis can be performed only on

an in-depth case-by-case basis using rigorous data and a standard EU methodology, which is currently missing.

Coherence

Overall, in the free zones operating in EU Member States, firms operate in **coherence** with the **ILO labour standards, EU regulations and national provisions**. This means that the same labour legislation is applied both inside and outside free zones in the territory of the EU. According to our desk research and consultation activities, we have not observed any particular decent work deficits in free zone employment in the EU territory.

Similarly, **looking at environmental aspects**, it should be noted that free zones, regardless of their legal status, are not isolated from global challenges. The sustainability goals and aims codified in the EGD influence the free zones in various ways. As an example, the aims for the greening of ports under the sustainable and smart mobility strategy²³⁴ and the sustainable blue economy approach²³⁵ affect both the EU free zones and ports adjacent to them, creating pressure, for example, for the provision of shoreside electricity or low-emission fuels for vessels. Several of the stakeholders consulted for this study also emphasised that their activities are **coherent** with the applicable environmental legislation, whether regional, national or at EU-level.

As all stakeholders observed, free zones in the EU are not exempted from any measure under the EU or the national frameworks, including those related to **combatting money laundering and terrorist financing**.

EU added value

Considering the findings on relevance, effectiveness, efficiency, and coherence presented above, naturally comes the question to what extent there is a need for the EU to coordinate certain aspects of free zones. Even if the number of free zones in the EU is decreasing, **the analysis shows that free zones can play a beneficial role in regional economies**. Furthermore, they are facing and can contribute to solving global issues (e.g. the green transition and the war in Ukraine) and the risks associated with them (e.g. money laundering, tax evasion) that affect the functioning of the EU as a whole, i.e. are not inherent to free zones and may materialise in the EU in places other than free zones. Thus, **there is clearly an EU added value in coordinating certain aspects of the free zones at the European level**. Some lessons learned in this regard are presented below:

- ▶ Guiding the contribution of free zones to the European Green Deal
- ▶ As mentioned in the analysis of relevance, the voluntary activities by the free zones may, at some stage, become insufficient regarding the EGD objectives, which may require legal and economic incentives for compliance. The guidance developed as a part of the

²³⁴ <https://data.consilium.europa.eu/doc/document/ST-14012-2020-INIT/en/pdf>
²³⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2021:240:FIN>

study could provide free zones with some good practice examples in this regard (see Annex VII).

- ▶ The role of free zones in promoting offshore wind energy and support in extreme situations like the war in Ukraine

To ensure their continued **relevance**, free zones might need to add some new objectives so that they can contribute to the European Green Deal or support new supply chains like in the case of **offshore wind farms**. At the same time, some free zones may have to take on new objectives to assist in emergency situations like the war in Ukraine. To do that, they could make use of **streamlined emergency customs provisions**, which are to be regulated at the EU level. Some Member States are currently considering re-establishing some free zones, following geopolitical changes like Brexit as it enables them to take advantage of a different State aid regime. This process **may lead to mushrooming of free zones, which is why a rigorous cost-benefit analysis, ideally following a commonly agreed methodology, would be needed.**

Redefining luxury freeports could take advantage of possible **cultural aspects**. They could help with the storage problems of museums and make sure that more art is temporarily exhibited. Given that the public sector tends to cut budgets in culture, this can be a task to develop further in the future, and it could even be seen as an **efficiency** measure. At the same time, it should be noted that there is no information that cultural centres (e.g. like Paris and London) resort to free zones to store art. In addition, the duration of storage in free zones and the related tax revenues forlorn, would likely counter the temporary efficiency argument about displaying/storing art.

- ▶ Digitalisation of customs systems in free zones

The stakeholder input and the provided information by customs authorities show that **different authorities have various information systems**. The level of detail of the information (e.g. on storage time and value of goods) and the extent to which it is easy to access by customs and tax authorities differ across the EU. In other words, the level of digitalisation and the related quick access to information differs across MSs.

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ANNEX II: OVERVIEW OF THE EU FREE ZONES

In this Annex we provide the table with an overview of the EU free zones. We mapped all EU free zones, using the information available on their website and integrated it with the information collected during the interviews. The Excel file below contains information on indicators such as:

- ▶ Establishment and description of the free zone, its activities, objectives and advantages
- ▶ Type of free zones and sector orientation
- ▶ Year of establishment
- ▶ Size of the zone
- ▶ No. of companies
- ▶ No. of jobs



Free zones-basic
data-cleared for pub

ANNEX III: PANEL REGRESSION ESTIMATION

Introduction and data description

Given the limited availability of primary data for answering part of RQ3 on the contribution of free zones on economic growth, we complemented our work with an empirical **regression model with fixed effects** using a **panel data on 79 NUTS 3 regions in Poland and Latvia** for the period **2000-2020**. The aim of the model is to estimate the contribution of free zones to regional GDP in the selected countries Latvia and Poland, due to their large share of the EU's free zone.

To implement the research, we collected data for different variables for the years 2000-2020 using the national statistics offices of the two countries: Statistics Poland²³⁶ and the Official Statistics portal of Latvia²³⁷. The database contains data at NUTS 3 level for the following variables:

- ▶ Population (total, thousands)
- ▶ GDP per capita
- ▶ Number of companies/Business demography
- ▶ Wages (average)
- ▶ Employment (total, thousands)
- ▶ Education (higher/tertiary education)

Methodology and model estimation

For the model estimation we used a panel regression model with fixed effects, where the dependent variable is, alternatively, the log of GDP, employment, and wages, at the NUTS3 level, and control variables include population, employment, education, and wages—all at the NUTS3 level. Our fixed effects are controls for country- and NUTS2 region-level characteristics, as well as country-year fixed effects, which control for any exogenous shock which may have hit—negatively or positively—the economies of Latvia and Poland.

The model has the following functional form:

$$y_{ijt} = \beta_1 \text{FreeZone}_{ijt} + \beta_2 X_{ijt} + \alpha_{it} + \alpha_j + \varepsilon_{ijt},$$

Where:

y captures regional performance in country i and NUTS3 level region j ;

X is a vector of control variables (which includes the variables above, excluding relevant variables depending on the dependent variable of interest), the α terms capture fixed effects at the country-time and NUTS2 regional level;

and ε is our idiosyncratic error term.

Our main variable of interest is *FreeZone*, a dummy variable which takes the value of 1 if a NUTS3 region hosts a free zone; and 0 otherwise. With this estimation, we are able to isolate

²³⁶ Statistics Poland is available at: <https://bdl.stat.gov.pl/bdl/start>

²³⁷ Official statistics of Latvia is available at: <https://stat.gov.lv/en>

the effect of a free zone’s presence at the regional level—controlling for all other time-invariant and time-varying regional level characteristics.

We also estimate our panel regression model on the annual growth rate of our dependent variables of interest. This takes the following form:

$$\Delta y_{ijt} = \beta_1 \text{FreeZone}_{ijt} + \beta_2 X_{ijt} + \alpha_{it} + \alpha_j + \varepsilon_{ijt},$$

where the only relevant difference, besides the form of the dependent variable, is the inclusion of the value of GDP at initial period in our vector of control variables.

Results

Results from the first estimating equation is reported in Table 14 below. We are interested in the coefficients reported in the first row of Table 14. They suggest that NUTS3 regions which host a free zone in Poland and Latvia during the 2000-2020 period tend to have, on average, a 7.4 % higher level of GDP and to have a 5.8 % higher level of wages relative to free zones that do not host a free zone. These results are statistically significant at the 10 and 5 percent level respectively. These two levels indicate, respectively, weak and strong statistical significance. We do not find any difference between NUTS3 regions that do and do not host free zones in terms of the level of employment.

Table 14: Panel regression results: static estimations

	GDP	Employment	Wages
Free Zone	0.0747*	-0.108	0.0582**
	(0.0419)	(0.0774)	(0.0289)
Population	1.312***	0.734***	0.0420
	(0.0675)	(0.141)	(0.0507)
Wages	0.621***	-0.612*	
	(0.113)	(0.338)	
Employment	-0.0361		
	(0.0256)		
Education	0.00000598***	0.00000677*	-0.000000483
	(0.00000103)	(0.00000389)	(0.00000194)
Observations	1501	1501	1586
R ²	0.97	0.88	0.97

*Note: All models include country-time and region fixed effects (not shown in the table). Standard errors are shown in parentheses and are clustered at the NUTS3 regional level. Significance levels are as follows: * p<0.10, ** p<0.05, *** p<0.01. Three stars reflect strong statistical significance; one star reflects weak statistical significance. R² is shown its overall form, including both within and between components; it falls between 0 and 1, and it indicates the extent to which our model captures the variance in the data.*

Table 15 reports results from our second estimating equation, which focuses on growth rates. Our coefficients of interest are again reported in the first row. These results provide evidence that there are not statistically discernible differences between NUTS3 regions in Poland and Latvia over the 2000-2020 which do and do not host free zones in the rate at which GDP, employment, or wages grow. These results suggest that there is no statistically significant relationship between the presence of a free zone at the regional level and the rate of growth of GDP, employment, or wages.

Table 15: Panel regression results: dynamic estimation

	GDP growth	Employment growth	Wage growth
Free zone	-0.00127 (0.00203)	0.000315 (0.00369)	-0.000464 (0.000619)
GDP (initial period)	-0.0267*** (0.00679)	-0.00598 (0.00992)	-0.00405** (0.00192)
Population	0.0331*** (0.00836)	0.00379 (0.0118)	0.00422 (0.00270)
Wages	0.0576*** (0.0172)	0.0270 (0.0191)	
Employment	-0.00578* (0.00350)		
Education	0.000000183 (0.000000146)	0.00000114*** (0.000000310)	0.000000152* (8.87e-08)
<i>Observations</i>	1501	1501	1422
<i>R</i> ²	0.69	0.80	0.83

Note: All models include country-time and region fixed effects (not shown in the table). Standard errors are shown in parentheses and are clustered at the NUTS3 regional level. Significance levels are as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Three stars reflect strong statistical significance; one star reflects weak statistical significance. R^2 is shown its overall form, including both within and between components; it falls between 0 and 1, and it indicates the extent to which our model captures the variance in the data.

ANNEX IV: CASE STUDIES

CASE STUDY 1: FREEPORTS - LUXEMBOURG HIGH-SECURITY HUB AND THE GENEVA FREEPORT

Introduction

This case study aims at comparing two important and prominently mentioned European freeports: Luxembourg High-Security Hub and Ports Francs et Entrepôts de Genève. The rationale for selecting the two freeports is to make a comparison between freeports of an EU Member State (Luxembourg) and a non-EU Member State (Switzerland), with a focus on money laundering and tax evasion. Another objective of the case study is to provide further evidence to answer several research questions as indicated in the main report.

Freeports are comparable to free zones because they are regional territories – zones - that, allow tax and duty-free storage of goods. Originally meant as warehouses for transit goods, the old traditional freeports at harbours and airports transformed into new luxury freeports, duty-free warehouses, so to speak, and herewith also became free zones where one cannot only store but also trade luxury goods such as pieces of art, jewellery or wine tax and duty-free. Freeports are under free zones procedures according to the UCC²³⁸ but also do long-term or permanent storage of goods, so they act as warehouses. Freeports allow for permanent high valued goods storage without having to pay taxes and duties. To give a practical example: If one buys goods from a supplier based outside the EU, one must next to import and export duties generally [pay value-added tax at the point of import](#). So, for example, a French person has to pay 5.5 % value added tax for art to the French government if they buy a painting from an American in France and a Hungarian has to pay 27 % if they buy the same painting from an American in Hungary. This can be expensive and the domestic tax authorities might also want to know where the French or Hungarian's money came from. If, instead, the American stores the painting as a transit good, tax and duty-free in a freeport and sells it there to the Hungarian, no taxes and import duties are due as long as the painting stays in the freeport. The Hungarian who buys the painting at the freeport can either keep it there tax-free, lend it out once in a while to museums tax-free, or they can sell it to the French person who would have to pay 5.5 % value added tax. Alternatively, they can sell it to a non-EU resident. In this case, no value added tax has to be paid, because if one sells goods to customers outside the EU, one **does not charge value added tax**²³⁹.

The rationale for choosing the freeports

Freeports have often been the subject of **research**. The two freeports selected for this study are quoted frequently for helping to hide wealth from the public and public authorities *"...works of art, jewellery, and gold stashed in freeports—warehouses that serve as repositories for valuables. Geneva, Luxembourg, (and Singapore) all have one: in these places, great paintings can be kept and traded tax-free—no customs duty or value-added tax is owed—and anonymously, without ever seeing the light of day"*, states economist Gabriel Zucman in his 'The Hidden Wealth of Nations' (2015 pp. 44-45). A study of the European Parliament on money laundering and tax evasion risks in freeports also mentions (next to Monaco), Geneva and Luxembourg as important European freeports for investments in arts (Korver 2018).

²³⁸ See <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32013R0952>

²³⁹ See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02006L0112-20190116> for value added tax regulations within and outside the EU

Furthermore, freeports have been covered in **media reports**. Over the years, freeports hosted an increasing amount of luxury goods such as diamonds, pearls, vintage cars, antiques, and bottles of top wine. With a volume large enough to store 3 million wine bottles, Geneva Free Port is considered ‘the world’s largest wine cellar’. Similarly, Le Freeport Luxembourg, since 2021 renamed ‘Luxembourg High-Security Hub’, has a wine cellar that holds 400 000 bottles (Shillito 2022). Furthermore, a large number of rough diamonds are reported to transit through freeports.²⁴⁰

With this, freeports in general, and these two freeports in particular, offer opportunities for parking laundered money, hence for ‘integration’, the final phase of money laundering. Goods can be traded anonymously on the spot and do not have to leave the vicinity. According to media reports, money evaded from taxes, blood diamonds, stolen Jewish art from the Nazis, and Ancient Egyptian artefacts, all appeared in scandals related to freeports (Maertens 2021).

Considering the critical research results and the high media attention, a comparison of the two freeports seems promising for several reasons.

- ▶ First, the Geneva freeport is the oldest still existing European freeport and was used as a role model for the Luxembourg freeport (see Korver 2018)²⁴¹.
- ▶ Second, parallels and differences between two prominently mentioned luxury freeports in two different countries and how they adapted to new international regulations and criticisms are worth studying. A freeport can be considered a duty-free warehouse and can be established within the EU under the ‘free zone’ procedure (European Parliament 2019). When traditional freeports faced competition from the newly established open customs warehouses after WTO 1995, this gave rise to the development of a new business model that transformed traditional freeports into ‘luxury freeports’ (Helgadottir 2021). Luxury freeports are high-security storage spaces where, by virtue of special legal exemptions, art and other luxury goods can be stored for unlimited periods and traded without tax and duty payments (Zarobell 2020; Adam 2017; Segal 2012). “In other words, though Luxury Freeports emerged on the basis of the regulatory exemptions that make traditional freeports possible, they are a very different kind of entity, the key function of which is to store wealth in tax-free conditions” (Helgadottir 2021).
- ▶ Third, studying parallels and differences in two freeports that are differently regulated (Luxembourg freeport by the Fifth Anti Money Laundering Directive (EU) 2018/843, which had to be implemented by Member States in 2020, and Geneva not) might allow observing changes in behaviour and risks of money laundering.

Description of Geneva and Luxembourg freeport

Le Freeport Geneva

In Switzerland, there are two categories of customs warehouses: duty-free warehouses, better known as ‘freeports’, open to individuals and (since the 1990s) ‘open customs warehouses’ only for private use by the warehouse operator. In today’s UCC classification, one would call freeports a free zone with both duty-free storage and trading possibilities for luxury goods.

²⁴⁰ <https://www.thecollector.com/geneva-free-port-the-worlds-most-secretive-art-warehouse/>

²⁴¹ Freeports existed already in the eighteenth century in Italy (e.g. Livorno, Genoa), France (e.g. Nice, Villefranche) and also in the UK (Dublin). Already then their benefits for commerce were mentioned: ‘showing that two or three freeports in each kingdom will much improve our maritime commerce, and that the riches, strength, and safety of the king and his subjects will be exceedingly increased thereby’ Dublin, Anonymous (1701). But these freeports all disappeared (see Battur 1845, Bessi 1971, Anonymous 1701 quoted in Stapelbroek no year).

Geneva is the oldest still existing freeport catering for art and other valuables. The Geneva Freeport dates from 1888 and in 1970, there were about forty freeports in various parts of the country (Swiss Federal Audit Office, Annual Report 2014). But until the 1990s, they were just traditional freeports—duty-free warehouses meant to avoid multiple taxation for goods in transit. Initially, such warehouses were used to facilitate international trade by enabling foreign goods to be stored temporarily on the national territory without being cleared. Import duties and other taxes (e.g. value added tax) were thus collected only once the goods got cleared by customs for final import (Lalive 2020). Today's luxury freeport can be seen as a new business model, especially for arts.

General Statistics

- ▶ **Ownership:** the Geneva freeports is a public freeport, where the Canton of Geneva is the freeports' majority shareholder, owning 87 %. Les Ports Francs et Entrepôts de Genève S.A. PFEG (Geneva freeport) is a publicly majority owned business corporation (société anonyme d'économie mixte) specialised in storage and logistics. PFEG administers the freeport and warehouses at the airport and rents out storage space and space for showrooms and offices. The corporation runs the freeport according to national and international law in close cooperation with the customs (PFEG 2021). Clients can store goods either according to the free zone arrangement (régime dépôt franc sous douane) or according to Swiss arrangement to store goods and imports without customs (en régime Suisse).
- ▶ **Size:** the Geneva Freeport spans 150 000 square metres and rents out space to 230 tenants (as of May 2021, Reynauld 2021).
- ▶ **Employment:** PFEG paid CHF 4.3 million in salaries in 2021. The average annual Swiss salary in 2021 was CHF 65 000, so presumably there should be around 60-70 FTEs employed at Geneva Freeport. The workforce includes individuals from the federal customs service (l'OFDF), two minimum and up to 45 when needed (interviews 5 and 6²⁴²), and employees from 7 service operators, including the PFEG. The four smaller service operators employ 1-2 persons each, and the three big service operators employ 5-10 persons each (interview 5). In addition, personnel for security, cleaning, and administration should be accounted for.
- ▶ **Service Operators:** goods can only be accessed and leave the freeport through Licenced Operators. Each entry and exit of goods must be declared to customs by them. A minimum of two members of the federal customs (l'OFDE) are physically present at the freeport. Next to le Port Francs et Entrepôts de Genève, there are six service operators. The biggest service operator at Geneva freeport is the art services and logistics company, Natural Le Coultre, which rents almost a quarter of the freeport's space for its business (SFAO 2014, Helgadottir 2021). This company was sold by Yves Bouvier in 2017 to the Parisian art logistics shipping operator Andre Chenue, who kept the original name of the company. Another big service operator is Rodolphe Haller, a transport enterprise of the 1930s, which rents 18 000 m² of storage room at Geneva Freeport both without and with customs (regime Suisse, regime sous douane).²⁴³
- ▶ **Values stored:** the amount and values stored at Geneva freeport are high but mainly guesstimates. The freeport is supposed to fill "one of the world's great museums", to have "thousand Picasso's and six times more paintings than the Museum of Modern Art in New

²⁴² The interviews were anonymous, hence only presented with numbers in this case study.

²⁴³ <https://rodolphehaller.com/>

York” (Maertens 2013). Values stored ‘exceed 100 billion Swiss Francs’ (see Helgadottir 2021 and Renault 2021 for an overview of very vague estimates from insurers or newspapers).

- ▶ **Turnover from renting:** rents cost about CHF 50 per m² (interview 2) per month; this would make about CHF 90 million of annual turnover. The balance sheet of PFEG shows CHF 2.5 million of income from renting out 76 261 square metres (see below), which would mean only CHF 32 per m² per year and less than CHF 3 per month. One explanation could be that the rest of the turnover (about 90 %) is realised by the service operators and not by the freeport management.
- ▶ **Income:** the freeport generates between CHF 10-12 million income for the Canton.²⁴⁴ According to the annual report of Ports Francs et Entrepôts de Geneve (PFEG) in 2021, the balance sheet which amounted to CHF 155 million, profits (le résultat net de l'exercice) were about CHF 1 million (CHF 953 000). As mentioned, the income from renting out space of 76 261 square metres for 84 years was CHF 2.5 million in 2021. The rest was for rent of space for the airport. PFEG paid CHF 4.3 million in salaries and CHF 550 000 in income tax.

The New Business Model

The late 1990s proved challenging for the traditional Swiss freeport model. As part of the founding of the WTO in 1995, Open Customs Warehouses, a new kind of tax and duty-free storage site, were promoted with the aim of facilitating free trade and harmonising trade practices across borders. Open Customs Warehouses quickly spread all over Europe, including Switzerland, where they were in direct competition with the traditional freeports (FATF/OECD 2010; Swiss Federal Audit Office 2014 quoted in Helgadottir 2021). Open Customs Warehouses are open around the clock, and there is no regular on-site customs office but only the possibility of irregular checks. With this, they were tough competitors for traditional freeports.

The idea to transform traditional freeports into luxury freeports in the 1990s is attributed to the international art dealer Yves Bouvier. He can be considered the founder of the new business model of luxury freeports, which started in Geneva and then spread over to Singapore (2010), Monaco (2013), Luxembourg (2014), and other countries. He was the biggest private shareholder in Geneva Freeport and through one of his companies, EurAsia SA, he owns the Singapore freeport and is a majority shareholder of about 70 % of the freeport in Luxembourg (Korver 2018, interview 2). His new business model for freeports, used their competitive advantage against Open Customs Warehouses (OCWs). While only Open Customs Warehouses staff is permitted on the premises and all stock is kept in the name of the warehouse keeper even if it belongs to a third party, and the warehouse keeper is responsible for meeting all laws and standards, freeports can give access to the premises to all tenants. The freeport keeper was not responsible for the information the tenant gives to the customs, or for compliance of the tenant with laws and regulations. While in Open Customs Warehouses, exhibition and sale of goods were expressly forbidden, freeports can offer showrooms to their tenants, and can rent out discrete and anonymous storage space to them. Clients and service providers can enter during office hours and sell and buy goods there without these goods having to leave the freeport, hence tax-free. Open Customs Warehouses were required to keep inventories of all goods, while freeports were not. The procedure for opening up new Open Customs Warehouses was also more stringent than it was for freeports, for which the

²⁴⁴ <https://www.swissinfo.ch/eng/russian-war-in-ukraine-renews-pressure-on-swiss-free-ports/47671636>

process was less strict, but also largely discretionary and not standardised (see Helgadóttir 2021 for an excellent overview of the differences between Swiss Free Ports and Open Customs Warehouses). These differences explain why SFAO (2014) considered freeports as a much higher risk for money laundering and tax evasion than OCWs.

Luxembourg High-Security Hub

Le Freeport, which opened in 2014, is built on Luxembourg's only airport, ranking as Europe's fifth-busiest cargo airport. Le Freeport offers a suspension of VAT and customs duties during the period the goods are inside it. In 2021, Le Freeport dropped the term freeport and changed its name to 'Luxembourg High-Security Hub', LSHH, after the scandals and heavy criticisms of freeports in the last years. From the very start, Luxembourg Freeport made efforts to be a transparent entity, where the 5th AML Directive was already pre-anticipated, and as such different from the Geneva freeport in Switzerland. But it involves the same founder and business idea and the clean image got damaged through an open letter of a member of the European Parliament to the EU Commission president in 2019, by calling Luxembourg freeport a 'fertile ground for money laundering and tax evasion' (Andrew Verity 2019). Yet, the LSHH has taken steps to improve its reputation through a policy of transparency and by enlarging its business model.

- ▶ **Ownership:** the land of the freeport is owned by the Luxembourg State and is rented out to a private company, Luxembourg High-Security Hub - Management Company S.A. The majority owner of the freeport LSHH (about 70 %) is Yves Bouvier. Contrary to Geneva Freeport, Luxembourg freeport is privately owned and only located on public land.
- ▶ **Size:** the size of the Hub is estimated between 11 400 square metres (customs, Ecorys survey), 22 000 square metres²⁴⁵ (homepage of service operator Fortius), and 25 000 square metres (March 2021 Chamber of Commerce²⁴⁶). The difference in size can be explained by the total storage room rented out (11 400 square metres) and space for office rooms and exhibition rooms (the rest of the 22 000 or 25 000 square metres). Luxembourg Freeport is, therefore, much smaller than Geneva freeport. With estimated 150 000 square metres Geneva freeport is about six times bigger than the Luxembourg High-Security Hub).
- ▶ **Employment: the freeport employs 20 people and 3 customs officers are operating in its premises.** There are **licensed service operators (see next point) and** companies that offer auxiliary services like art acquisition services, art financing, art expertise, collection management, and insurance broker services.²⁴⁷ The Anti-Fraud Administration' (L'Administration d' l'enregistrement, des domaines et de la TVA, AED) is in charge of the special tax suspension regime inside the free zone and verifies the procedures in terms of compliance in relation to the anti-money laundering and terrorism financing laws. The Administration de Douanes Accises (ADA) is responsible for the customs aspect.
- ▶ **Service Operators:** only licensed operators are allowed to be active at the freeport (correctly speaking the 'license' is an 'agreement' according to the UCC (interview 4). As of July 2022, Luxembourg High-Security Hub has five licensed operators of which four can be found on its homepage. These are MT Art Services, Securing Wealth Strategy S.A., Brinks and Fortius. The fifth not to be found on homepages is MUDAM, the Contemporary Museum of Modern Art Luxembourg, which uses the freeport only for storing its own museum collection. The biggest service operator is Fortius, which rents about 11 000 square

²⁴⁵ <https://www.mtartservices.com/>

²⁴⁶ <https://www.cc.lu/toute-linformation/actualites/detail/en-toute-securite-1>

²⁴⁷ <https://www.lyonandturnbull.com/news/article/le-freeport--luxembourg/>

metres²⁴⁸, half of the Hub’s total space. Fortius, formerly Fine Art Logistics Natural Le Coultre, was established in 2014 as the Luxembourg subsidiary of the Swiss group Natural Le Coultre for the storage, handling and logistics of works of art and collectables. With Yves Bouvier’s sale of the Swiss Natural Le Coultre group in 2017, its Luxembourg subsidiary Fortius became an independent company still owned by Yves Bouvier.²⁴⁹ The licensed operators are subject to anti-money laundering laws.²⁵⁰ Luxembourg aimed at being ahead of EU standards, by exceeding the requirements of the UCC for free zones and stricter AML requirements (reporting duties for art dealers since 2015 (interview)).

- ▶ **Values stored:** the biggest service operator, Fortius, has about 40-50 tenants, so that the total number of tenants is lower when compared to the 230 tenants in Geneva. There are big clients with private rooms but also customers with only one or two paintings. Apart from the 400 000 bottles of fine wine stored (Shilito 2022), Le Freeport has four bullion chambers, space for in total 750 000 bottles of wine, and airport landing bays designed for armoured vehicles.²⁵¹ There are no estimates on values stored at LSHS, but if one relates it to freeport storage space, if it stores one-sixth of Geneva freeport, the values could be about EUR 15 billion. At the lower end of the estimates is the insurance value for the area, which was EUR 5 billion in 2018 (Thomas Mayer, Der Standard 7.2.2018). In 2022, EUR 210 million of Russian assets were frozen at the freeport (Hansen 2022).
- ▶ **Turnover:** storage of one picture costs about EUR 20-30 per month. The average square metre price for storage is about EUR 70 (interview 2) times 11,400 m² of storage room. This results in a possible monthly turnover of about EUR 800 000 and about EUR 9.5 million turnover annually.
- ▶ **Income: the freeport creates income for art experts, logistics, security guards and to Luxembourg in the form of income taxes, and value added taxes on the freeport services they provide.** There was a parliamentary enquiry about the income of the freeport and its benefit. The Ministry of Finance said that VAT duties (which have to be shared with the EU) and financial interest in the freeport are very small.

Based on the information above and the analysis further presented in the next sub-sections, we provide a key comparison table of the two freeports.

Table 16: Descriptive features of the reviewed freeports

Element	Geneva	Luxembourg
Year of establishment	1888	2014
Size	150 000 sq.m	Approx. 22 000-25 000 sq.m
Tenants	230	40-50 (Fortius)
Employment	Est. 60-80	Approx. 20
Customs authorities	two minimum, up to 45 when needed	3 customs officers

²⁴⁸ <https://fortius.lu/en/warehouse-luxembourg-high-security-hub/>

²⁴⁹ <https://fortius.lu/en/fine-art-logistics-natural-le-coultrre-heritage/> The lawsuit of Russian billionaire Dmitry Rybolovlev against Yves Bouvier for fraud, mismanagement, breach of trust, money laundering, took place in several countries. In 2015 Bouvier was arrested in Monaco. The ‘Monacogate,’ the largest corruption scandal in Monaco’s history, led to an early retirement of the public prosecutor of the case for being influenced by Rybolovlev. Bouvier was found not guilty in Switzerland in September 2021, but tax evasion might still be an issue. He stresses that he is now a Singapore citizen <https://news.artnet.com/art-world/yves-bouvier-declares-total-victory-dmitry-rybolovlev-2010315>.

²⁵⁰ <https://lux-hsh.com/luxembourg/>

²⁵¹ <https://www.theguardian.com/business/2019/jul/06/inside-the-luxembourg-free-port-storing-riches-for-the-super-rich>

Element	Geneva	Luxembourg
Value of goods stored	CHF ~100 billion	EUR ~5-15 billion ²⁵²
Turnover of the freeport	CHF 2.5 million per month from renting / CHF 30 million per year from renting The freeport generates between CHF 10-12 million for the Canton	About EUR 800 000 per month from renting / about EUR 9.5 million turnover from renting annually
Requirement for the information on goods stored	All artworks stored at the Freeport must now be recorded by storage companies in an inventory listing each item's description, value, size, date and place of storage, country of origin, and the name and address of 'the person with the right of disposal' over it. The inventory must be kept on a computer database in storage companies' offices and be readily available for inspection by customs authorities. The information must be kept for five years.	In line with AMLD5 ²⁵³ , art dealers have become non-financial obliged entities for money laundering. The service operator has to check the UBO in terms of whether the client is on diverse international lists.
Access to information by tax authorities / FIUs	No information available to conclude (due to unavailability of interviewees)	Access upon request (e.g. if a foreign tax authority asks the Luxembourg direct tax authorities (LTA) about the storage of a specific foreign person, access to that information is granted to the LTA)
Licensing of operators	10 years	An unlimited agreement for service operators, provided that they continue to fulfil the requirements of UCC
5 th AML Directive	Not applicable, but recent amendments in the Swiss Anti Money Laundering Act AMLA	Implemented pro-actively
Possible loopholes	<ul style="list-style-type: none"> ○ Since it is not an EU MS, Switzerland did not follow the 5th AML Directive regarding stricter threshold limits for art dealers, auction houses and other entities transacting in art and who are treated as non-financial obliged entities ○ Disclosure of ultimate beneficial ownership (the name of the ultimate, physical owner or UBO), is not required. ○ Rules introduced more recently are not retroactively applicable to goods that have been stored in freeports for decades. 	<ul style="list-style-type: none"> - So far, there has been one physical check on the goods in storage (interview input). - The challenge will be to convince art dealers to comply with AML rules. Service operators at freeports do not feel prepared for AML procedures - Customs/tax authorities usually make checks on goods and not persons, which makes the hiding of a UBO possible

²⁵² As described further above in the case study, there are no estimates on values stored at the LSH, but if one relates it to freeport storage space, if it stores one-sixth of Geneva freeport, the values could be up to EUR 15 billion. At the lower end of the estimates is the insurance value for the area, which was EUR five billion in 2018 (Thomas Mayer, Der Standard 7.2.2018). In 2022, only the Russian assets were about EUR 210 million, which were frozen at the freeport (Hansen 2022).

²⁵³ Anti-money laundering (AML V) - Directive (EU) 2018/843, available at: https://ec.europa.eu/info/law/anti-money-laundering-aml-v-directive-eu-2018-843_en

Insights into answering the research questions

RQ1 Purpose and Objective of the Freeports

Geneva freeport wants to be a major actor in the Genevan economy as a cosmopolitan and high-value exchange location, especially known for art, but also for fine jewellery.²⁵⁴ The Swiss SFAO (2014) lists the purpose of free zones and open customs warehouses in writing.

Luxembourg freeport originally wanted to cater to a wealthy elite of finance, business, and politics, to invest in art, and to create benefits for Luxembourg by attracting the international art world. After several scandals around stolen art bunkered in freeports, the new management decided to abandon the term freeport and to create a new image of the freeport as a high-security hub for not only art but also for industrial products, especially Luxembourg's strong (bio)pharmaceutical industry and for precious metals for the finance industry. While the storage of precious stones, especially in cooperation with banks, seem to be quite successful, and the storage of jewels and other high-valued goods works well, the pharmaceutical idea has not yet really developed (interviews 2 and 4).

Luxembourg freeport very much stresses **safety and security** as the purpose of the freeport. Luxury goods of very high value and in larger quantities might have difficulties finding an insurance company willing to insure them.

The major purpose of both freeports is that luxury goods from within the EU and outside the EU can be **permanently stored free of value added tax (VAT) and import duties**. Even though Luxembourg is an EU MS, where import duties on goods from other Member States are not due since the EU is a customs union, differences in VAT rates do matter (interview 2). Goods that are imported from country A can be stored free of import duty and VAT at Luxembourg freeport as transit goods until they are exported to country B (see the practical example of a Frenchman and Hungarian buying a painting at the beginning of this case study). Though a lot of efforts have been undertaken by the EU to harmonise VAT tax rates, there are still large differences, ranging from 17 % VAT tax rate in Luxembourg, 20 % in France (which is slightly below the EU average of 21 %), to 27 % VAT tax rate in Hungary in 2022. Much larger differences occur for art, where the EU requires only a minimum VAT of 5 %. In France, the value-added tax (VAT) rate on artworks purchased directly from artists is 5.5 per cent, compared to 8 % in Luxembourg, while Hungary charges 27 %²⁵⁵ Even within the EU, to buy/import art from France with 5.5 % VAT rather than paying 8 % VAT in Luxembourg can make a substantial difference when trading luxury goods (interview 2). Pieces of art from country A can be stored at the freeport VAT free, can be temporarily loaned to a museum of country B for a year (plus an extension of another year) and then be stored again in the Luxembourg LSH freeport VAT tax-free. Since pieces of art, or whole collections could have high values, not having to pay VAT can save the owners a lot of tax payments (interview 2). The economic rationale for relief of VAT tax given by service operators is that the VAT is a tax that the final consumer of a good has to pay. But here the client does not consume the good,

²⁵⁴ <https://geneva-freeports.ch/la-societe/>

²⁵⁵ <https://www.statista.com/statistics/1224396/vat-rates-for-imported-art-and-antiques-eu-and-uk/>

but only stores it for future use, so to tax her for final consumption would be unjustified (interview 2).

RQ2 Do current customs and AML rules fit for regulating freeports?

'The AMLD5 (Article 2(3)) explicitly refers to persons 'storing, trading or acting as intermediaries in the trade of works of art when this is carried out by **freeports**'. Given that freeports fall under the UCC 'free zone procedure', which is almost on the same legal footing as the UCC's 'custom warehousing procedure', it opens a discussion as to whether 'customs warehouses' or 'bonded warehouses' also fall within the scope of the Directive. Given that the market for customs warehousing is much larger than for freeports, they may become an appealing option for people who like their identity to remain unknown' (Korver 2018). In addition, one has to be aware that "water always finds its way" (see Unger and Den Hertog 2012). The stricter one regulates freeports, the more likely it is that new ways of storing criminal assets will be found. To give an example: when the Dutch put their trust sector under stricter licensing regulation and supervision, shadow trusts suddenly emerged, where for instance, splitting of trust tasks between several members allowed to circumvent licensing requirements (Commissie Ten Haar 2021). This means that next to traditional warehouses, 'shadow warehouses' might emerge, just under the radar of the authorities. Anybody can rent or buy a storage room for furniture or whatever purpose and hide precious stolen art in it, installing cameras, cooling systems and private protection staff and herewith circumvent licensing requirements. This means that regulations and controls will have to be **extended to all storage facilities** eventually.

The terminology of free zones and freeports is even more confusing in practice. The classification of Type I, II in the former Community Customs Code was a very technical one. This is why stakeholders developed their own everyday language terminology. So does Luxembourg address the free zone meaning Luxembourg Freeport LSH, while other free zones, such as bonded warehouses are simply called warehouses. The Swiss talk about freeports and open customs warehouses. The translation into German in both countries also differs (The German term Freihafen used in Luxembourg is a term that the German/Swiss did not understand. They call it Zollfreilager).

Reporting duties of art dealers: in Switzerland, they are not designated non-financial businesses and professions DNFBPs (obliged entities), while in Luxembourg they are, but art dealers claim that they are not familiar with financial transactions (interview 2). But inversely, financial intermediaries are not familiar with art. They do not have the necessary knowledge about the person who sells or buys, whether the person is known in the art circles etc.

Identifying the **Ultimate Beneficial Ownership** of freeport tenants is still in its infant stage. In Switzerland, under the fierce pressure of the FATF, one will start to create some UBO registration in 2023 (interview 3).

RQ3 Economic Benefit of Freeports

- ▶ Some interviewees shared that freeports can be **magnets for attracting artists**, art dealers, art experts, art restaurateurs, etc. Switzerland sees high economic benefit of being an art centre and therefore, still excludes the art sector from stricter anti-money laundering rules, as e.g. reporting duties for cash operations below CHF 100 000. Luxembourg thinks

that it will be difficult to compete in art with places like Paris and Geneva. At the same time, it should be noted that there is no information that cultural centres in Europe resort to free zones to store art. For example, in 2019 a new Louvre conservation centre was opened in France²⁵⁶, while there are a number of storage options for art in London, which are not related to free zones.

- ▶ **Freeports can promote private sponsorship for art.** Since the last twenty years, the public sector has shifted a lot of public tasks (including core tasks such as security, preservation of public space, and combatting crime like money laundering) to the private sector (see Unger, van der Linde, Getzner 2017). Furthermore, the sponsoring of art is - due to budget cuts – left more and more to the private sector. Freeports make this sponsorship possible. Some of the clients of the freeports send their private art collections as temporary donations to big museums worldwide (interview 2).
- ▶ The benefit of a luxury freeport can be to give large private art collectors (Maecenas, patrons of art) the **possibility to expose their pieces of art** temporarily. Service operators in Luxembourg and in Switzerland can store art from EU countries or from abroad. In Luxembourg they can temporarily lend out art to museums or other public relevant spaces (banks, exhibitions, museums) as specified in the Customs Code (Zollkodex) with a limit of one year (with a one-year extension). The art piece is sent to the other country and then comes back to the freeport. With this, freeports make it possible to exhibit more art, since museums only show a small percentage of their art, and the rest is stored (interview 2).
- ▶ Since art production has increased over the centuries, there is an accumulation of art for storage, and therefore, high security, stable storage and climate conditions, **for long-term preservation of cultural pieces** of art are necessary.
- ▶ The **costs of storage**, insurance, and restoration are covered by Maecenas to support museums. But it is free of VAT. Since the owner has no direct access to his art, and cannot consume it, a consumption tax would also not be appropriate (interview 2).
- ▶ For Luxembourgers, the storage of EU goods in a freeport is unusual. But it is one of the **best-protected buildings** in the EU (Interview 2, <https://lux-hsh.com/>). LSH also wants to attract EU residents with VAT-free storage, profiting and exploiting VAT differences within the EU.
- ▶ Luxembourg with **organising ‘open days’ in the freeport** and with having a museum as a service operator, seems more enterprising and open than Geneva freeport.
- ▶ For **warehouses**, the benefit is seen in the fact that raw materials can be stored free of VAT and duty-free until they are needed by the operator of the warehouse. If they had to pay everything immediately for the total of imports, they would have liquidity difficulties and would import only small amounts. This might lead to shortages in the value chain and more dependence on third countries for raw materials. Many goods were not stored in the EU, which during the Pandemic and the war in Ukraine posed a severe problem (interview 4).

²⁵⁶ For more information, see: <https://www.louvre.fr/en/the-louvre-in-france-and-around-the-world/the-louvre-conservation-centre>

- **Legal warehouses can be substituted by unregulated illegal warehouses, which create benefits for criminals but costs to society.** In Luxembourg these warehouses can be found especially for illegal goods like smuggled tobacco and alcohol, drugs, and for goods endangering Green Deal goals, such as ivory and rhino horns. They have to be detected by the police, which then contacts ADA (administration des douanes et accises) (interview 4).

RQ4 Risks of freeports

When asked about the type of goods which pose risks—whether drugs, weapons, and terrorism explosives are likely to be stored in a freeport—the interviewees did not think that this is very likely. Cameras, X-ray screening for weapons and explosives, sniffing dogs for drugs prevent this. In Luxembourg, every package that enters the freeport is unpacked. When it is a porcelain service, every cup has to be unpacked separately, to give an example (interview 4). But wildlife crime trophies such as ivory or rhino horns, which endanger the European Green Deal objectives might be much more likely (interview 3) though also every piece gets screened. Stolen antiques and luxury goods are more likely to be stored than drugs. Customs controls whether the painting has the right size, frame and content, but cannot judge the genuineness (e.g. whether the object is an original Picasso or a layman’s sketch).

Freeports might attract different types of goods and of crime (interview 3). In Geneva, next to art, luxury cars and watches are also very likely goods to be stored. Watch prices had a steep price increase. Second-hand Rolex watches have been more expensive than new ones (the waiting time for a new Rolex can be up to four years). The fact that second-hand Rolex watches popped up when new ones were scarce is an indicator that they have been bunkered (interview 3). Stolen Syrian and Etruscan antiques have been discovered at Geneva freeport in diverse newspaper scandals.

RQ5 Risks associated with storage and confidentiality clauses

Regulations and Procedures

Luxembourg

Luxembourg has reacted to the scandals in the abuse of freeports with implementing the 5th AML Directive. At the time of writing this case study, there is an ongoing FATF Evaluation. The Mutual Evaluation Report of Luxembourg is to be expected in the summer of 2023 (Interview 7). In Luxembourg, the English term ‘freeport’ is unfamiliar to the authorities. The customs distinguish the ‘free zone’ (LHSH) from warehouses, according to the UCC. The AML Directive only applies to the free zone LHSH at the airport where there is no warehouse. In the following, the term ‘freeport’ will be used for LHSH in order to avoid confusion with non-freeport free zones in other parts of this study.

Next to LHSH, there are nine warehouses in Luxembourg, of which three are publicly used (which means that the owners store not only their own goods but goods for other clients). These three publicly used warehouses are bonded warehouses, Type I public warehouses according to UCC. In addition, there are six private warehouses (the owners store only their own goods). All nine warehouses are privately owned. Previously, there were publicly owned warehouses with stricter access rules, but they do not exist anymore. In a privately owned

public warehouse, the owner of the warehouse can decide which client enters the warehouse, so sales and showroom exhibitions could also happen there (interviews 2 and 4).

This means that the traditional distinction between WTO open customs warehouses and freeports as outlined in the Swiss section, no longer exists. The ‘new business model’ for freeports of selling art on the spot, was also slowly taken over by public warehouses in Luxembourg.

The UCC lists all the obligations that economic operators need to do (Regulation (EU) No 952/2013, interview 4). The operator in the LSH freeport needs an ‘agreement’, while a warehouse needs an ‘authorisation’ which is stricter. But the permission for the opening of a freeport is even stricter than the abovementioned authorisation because it needs a ‘règlement grand-ducal’ from the Parliament. At a freeport, only licensed service operators can handle business. Service operators first got an agreement for two years, and then (because UCC changed), an **unlimited agreement**, provided that they continue to fulfil the requirements of UCC.

The operator of a warehouse must apply for a customs warehousing authorisation at the Customs Department of the Customs and Excise Agency. ‘When the application is approved by the administration, they issue an authorisation with an **unlimited time validity** which determines the storage conditions, the stock account and the type of goods that can be stored.’²⁵⁷

L'Administration de l'enregistrement, des domaines et de la TVA (AED) is responsible for indirect taxation and for money laundering matters. Three customs officers on-site control their ingoing and outgoing products. While customs officers are present at the freeport, warehouses are only audited from time to time by the customs (and they are not under AML legislation). Inventory of the warehouses is checked by the relevant Customs office, which has duty collecting and auditing tasks, and (also) by the Customs Audit and Accounting Inspection (Inspection d'Audit et de comptabilité de l'Administration des douanes et accises), which has auditing tasks.²⁵⁸

ADA (like any other government agency such as the AED) reports its ML/TF suspicions to the Luxembourg Financial Intelligence Unit - Cellule de Renseignement Financier (CRF). For example, when a cultural object entered LSH with a high value and two weeks later was sold for a much lower value in the freeport this appeared suspicious, or when two different conflicting invoices for a car emerged suspicious transaction reports were sent to the CRF (interview 4).

Geneva

Since 2009 Switzerland has tried to make its customs laws (dating from 1925) ‘EU-compatible’. Since 2015, Switzerland adopted its money laundering and tax laws to international standards. In total, eight changes have been made so far, making money laundering law the most frequently changed law in Switzerland (interview 3). Though Switzerland is not an EU Member State, and the 5th AML Directive is hence not applicable, it is a member of the Financial Action Task Force FATF and of the OECD. International pressure regarding tax laws and money laundering, including the threat of becoming blacklisted with harsh economic consequences (see Unger 2020, Ferwerda et al. 2019) showed its impact. Switzerland is a federal state with powerful Cantons. The fact that taxation is largely decided by the Cantons, but money

²⁵⁷ <https://guichet.public.lu/en/entreprises/marche-international/import-export/importation/entrepot-douanier.html>

²⁵⁸ https://guichet.public.lu/en/organismes/organismes_citoyens/

laundering at the federal level, put the federal government of Switzerland, in a delicate position to try to avoid international sanctions and harmonise Canton tax policies. The biggest change Switzerland made was trying to harmonise direct taxes among the Cantons and to make tax evasion (which beforehand was only a misdemeanour) into a serious crime (an aggravated misdemeanour in Swiss terminology), punishable also for money laundering. The FATF fourth Mutual Evaluation Report on AML and counter-terrorist financing measures of 2016 criticised especially gaps in fulfilling recommendations relating to customer due diligence, know your customer and ultimate beneficial ownership identification (FATF 2016). It also made recommendations for further regulation and enforcement to promote greater transparency in the art sector. In 2022, new adaptations of the Anti-Money Laundering Act AMLA took place (Swiss AMLA as of 1 January 2022²⁵⁹). On 31 August 2022, the Swiss Federal Council announced that it had brought the revised Anti-Money Laundering Act (AMLA) and the amended Anti-Money Laundering Ordinance (AMLO) into force with effect from 1 January 2023²⁶⁰.

Important changes in Swiss Customs law regarding freeports were:

- ▶ The Geneva Freeport is **no longer considered an “extra-territorial zone”** (already since 2009), which means that some on-site services are now subject to Swiss VAT (7.6 %). But VAT is not applicable to the value of items stored, to storage fees or to insurance premiums.
- ▶ All artworks stored at the Freeport must now be recorded by storage companies in an **inventory listing** each item's description, value, size, date and place of storage, country of origin, and the name and address of ‘the person with the right of disposal’ over it. The inventory must be kept on a computer database in storage companies' offices and be readily available for inspection by Customs. The information must be kept for five years.

Improvements and Loopholes in Anti-Money Laundering Regulations

Luxembourg

- ▶ The law of 29 July 2022, which entered into force on 12 August 2022, is the latest amendment of the Law of 12 November 2004 on the fight against money laundering and terrorist financing, transposing Directive 2001/97/EC of the European Parliament and of the Council of 4 December 2001 amending Council Directive 91/308/EEC on prevention of the use of the financial system for the purpose of money laundering (the AML Law).
- ▶ In March 2020, art dealers have become designated non-financial entities for money laundering with all “know your customer” and reporting obligations of designated non-financial businesses and profession.
- ▶ The licensed service operator has to **check the UBO** in terms of whether the client is on diverse international lists such as high-risk jurisdiction, or international sanction lists and has to follow the standard Know Your Customer (KYC) procedure.
- ▶ AED (L'Administration de l'enregistrement, des domaines et de la TVA) supervise the licensed service operators. In the early days of the freeport, two operators were fined for the lack of compliance. Over the last years, no such shortcomings were noted. **Who**

²⁵⁹ https://www.fedlex.admin.ch/eli/cc/1998/892_892_892/en

²⁶⁰ <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-90145.html>

becomes a service operator is also **pre-checked** by the Luxembourg High-Security Hub-Management Company S.A, which can refuse to rent out space to service operators. Contact between the freeport head and ADA regarding suspicions of money laundering exists.

- ▶ The authority for direct taxes such as the income tax (l'Administration des contributions directes) is not present in the freeport. But if a foreign tax authority asks the Luxembourg direct tax authorities (LTA) about the storage of a specific foreign person, access to that information is granted to the LTA by the Law of 25 November 2014. ADA concentrates on checking goods and not on the fiscal situation of the owners or the legal and beneficial ownership. According to Luxembourg Criminal law, tax fraud is a predicate offence to money laundering. As such, the various operators involved in the Freeport-process (such as licensed operators) have to report any suspicious transaction they could notice which mitigates the risk of tax evasion.
- ▶ Physical checks on the goods that are in the stocks of service operators by ADA are rare but possible (interview 2). Goods can change hands in the freeport. For this, the service operator has to inform ADA that the owner has changed so that when goods exit, they can be cleared by the customs.
- ▶ Member States can make use of EU legislation like Directive 2011/16/EU for Administrative Cooperation in direct taxation, Council Regulation (EU) No 904/2010 on administrative cooperation and combating fraud in the field of value added tax, and Directive 2010/24/EU for mutual assistance in the recovery of taxes, duties and other measures. The Luxembourg legislation provides for such cross-border assistance for information held in free zones. Under the Law of 25 November 2014, any holder of information, including LSHS and any licenced operators, is obliged to provide the requested information to the Luxembourg competent authority (LTA) in its entirety, accurately and without alteration. That obligation is extended to the transmission of unaltered documents on which the information is based.
- ▶ Pursuant to the national AML framework, **customs authorities check incoming and outgoing goods** (their size, weight, description, without being an art expert), whereas the AED, as the AMLCFT supervisory authority for the licensed freezone operators, carries out the necessary checks on the level of the UBOs (of the natural and legal persons). Furthermore, it is important to note that under national AMLCT framework, freezone operators are obliged entities.²⁶¹

Geneva

Following a critical Swiss Federal Audit Office, SFAO Audit (2014), the scandals around the Panama Papers and the FATF 2016 Report of Switzerland, the Swiss Anti Money Laundering Act AMLA was amended. The adaptation to international AML standards was heavily contested in Switzerland. The Parliament was expected to begin addressing the measures amending the AMLA in the second half of 2019. However, at the end of January 2020, the National Council's Legal Affairs Committee decided by 13 votes to 12 not to proceed with the

²⁶¹ Please refer to Supranational risk assessment (annex) of 2021 for further details: [EUR-Lex - 52022SC0344 - EN - EUR-Lex](#)

amendment of the AMLA (Lalive 2020). A 3rd Enhanced Follow-Up Report & Technical Compliance Re-Rating in January 2020 was submitted to the FATF for approval. Under the pressure of the upcoming FATF evaluation in 2022, finally, the Swiss Parliament adopted the revised AMLA in March 2021 (Federal Decree of 19 March 2021).

Improvements:

- ▶ the maintenance of an up-to-date **list of freeport tenants** and sub-tenants;
- ▶ the **limitation of operating licences** to five years for open customs warehouses and 10 years for freeports;
- ▶ the FCA sets a **minimum number of goods' movement** per year (200 for open customs warehouses and **5 000 for freeports**) in order to prevent their use predominantly for storage over long periods;
- ▶ **art dealers** and auction companies which accept cash payments exceeding CHF 100 000 – even in several instalments – **have an increased duty of diligence and reporting duty**, including the identification and documentation of the counterparty and the beneficial owner (Swiss Federal Act on Combatting Money Laundering and Terrorist Financing (AMLA) Art. 2 para 1 lit. b and Art. 8a (Anne Brouver 2022)).

Possible loopholes:

- ▶ Since it is not an EU member, Switzerland did not follow the 5th AML Directive regarding **stricter threshold** limits for art dealers, auction houses and other entities transacting in art and who are treated as non-financial obliged entities. According to the FATF's 2016 report, the Swiss AMLA did reduce the threshold for cash payments from CHF 100 000 to CHF 15 000, but only for the trade of precious metals and stones at freeports, and **not for art intermediaries** (see correct forecast Lalive 2020 and AMLA Amendment 2021).
- ▶ **No disclosure of the UBO**. In Switzerland, disclosure of ultimate beneficial ownership (the name of the ultimate, physical owner or UBO), is not required.
- ▶ Since the outbreak of the war in Ukraine, Switzerland has faced increasing scrutiny over its handling of Russian assets. So far, Switzerland has frozen CHF 6.3 billion and confiscated 11 properties. But freeports – including their exact contents and ownership – **still remain largely behind closed doors** and mostly inaccessible to Swiss authorities chasing assets on the sanctions' list.²⁶² Swiss authorities claim that they were able to give the information required to the State Secretary of Economics (SECO), which is in charge of sanctions and responsible for confiscation (interview 6). Seco did not respond to any public or private inquiries, including ours.
- ▶ An important loophole in Switzerland is that **rules** introduced more recently **are not retroactively applicable** to goods that have been sitting in freeports for decades. In addition, there is **a lack of staff and compliance teams and processes similar to banks** are missing.²⁶³

²⁶² <https://www.swissinfo.ch/eng/russian-war-in-ukraine-renews-pressure-on-swiss-free-ports/47671636>
²⁶³ www.swissinfo.ch 17.6.2022 Olivia Chang

RQ6 Employment creation through freeports

Both freeports create only limited direct jobs. There are 23 people employed in Luxembourg and about 80 in Geneva Freeport. The indirect employment effects through attracting art, art dealers, increasing tourism, and establishing art-related businesses, could be larger, but there are no official estimates.

Summary conclusions

Regarding the anti-money laundering policy, the case study results suggest that **Switzerland is lagging behind the EU counterpart as regards transparency**. According to interviewees, Switzerland very reluctantly introduces changes only after fierce FATF criticism and **threat of sanctions** (interview 3). Switzerland is still heavily **protecting the art sector**, more than Luxembourg where art dealers have to report suspicious transactions to their Financial Intelligence Unit, the Cellule de Renseignement Finances CRF. The 'new business model' for freeports of selling art on the spot, was slowly taken over by public warehouses in Luxembourg. In Luxembourg, there have been a few reports of suspicious transactions to the CRF by freeports and the customs. In Switzerland, it can be a handful of reports (interview 3) in connection with freeports, but freeports are no separate statistical entity and therefore cannot be shown separately. Furthermore, **seizures** were meagre; none in Switzerland and about EUR 200 million in Luxembourg due to the confiscation and seizures of Russian assets during the Ukrainian war.

Secrecy around goods stored in freeports regarding their origin, value and ownership makes them susceptible to money laundering. International scandals regarding tax evasion and stolen cultural property found in freeports resulted in high media attention and research. The two countries have chosen different routes to cope with this. The privately owned Luxembourg freeport tries to be more transparent, gives interviews and has a transparent homepage advertising the freeport's service operators. Furthermore, unlike Switzerland, which is not an EU MS, Luxembourg applies the 5th AML Directive, according to which art dealers have become non-financial obliged entities for money laundering.

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CASE STUDY 2: ENVIRONMENTAL ASPECTS - THE BARCELONA AND AJMAN FREE ZONES

Introduction

The purpose of this case study is to collect further evidence to answer RQ8 (Are the analysed free zones contributing to the objectives established in the European Green Deal (EGD)?) and RQ9 (Do these free zones have a plan to contribute to the objectives established in the European Green Deal?). Additionally, it aims to provide grounds for the comparative analysis between free zones in the EU and free zones in third countries, and to help identify potential good practices for the elaboration of the guidelines.

Background

The European Green Deal (EGD) was launched by the European Commission at the end of 2019. The Green Deal Communication²⁶⁴ introduces the EGD as a reset of the Commission's commitment to tackling climate and environmental challenges. The EGD 'aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use.'

The EGD includes the following relevant objectives (presented in more detail in section 2.7):

- ▶ supplying clean, affordable, and secure energy²⁶⁵
- ▶ **clean and circular economy**²⁶⁶
- ▶ **sustainable and smart mobility**²⁶⁷
- ▶ **zero pollution**²⁶⁸.
- ▶ **fair, healthy and environmentally friendly food systems**²⁶⁹
- ▶ resource efficient building and renovating²⁷⁰
- ▶ **preservation and restoration of ecosystems and biodiversity**: the restoration of degraded ecosystems at land and sea across Europe by 2030 through the biodiversity strategy.

Bearing in mind that the initial main purpose of a free zone is to provide economic incentives, the abovementioned objectives are not naturally built into their operating principles. However, in light of the recent policy development and the environmental crisis, free zones should be

²⁶⁴ COM(2019) 640 final, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2019:640:FIN>

²⁶⁵ Further decarbonisation of the energy system, to reach the climate objectives of 2030 and 2050. Measures include prioritisation of energy efficiency, development of a power sector that is based mainly on renewable sources, phasing out coal and decarbonising gas, while ensuring a secure and affordable energy supply for consumers.

²⁶⁶ Transformation of industry value chains to support circular design and production of all projects, with a focus on resources intensive sectors such as textiles, construction, electronics and plastics.

²⁶⁷ A 90 % reduction in transport emissions by 2050, to achieve climate neutrality, and significantly reduce air pollution and the overall environmental footprint of transport activities.

²⁶⁸ Creation of a toxic-free environment by preventing the generation of pollution in the air, water and soil, as well as measures to clean and remedy existing pollution.

²⁶⁹ Ensuring access to healthy, affordable and sustainable food while tackling climate change, protecting the environment and biodiversity and ensuring a fair economic return in the supply chain. It includes significant reductions to the use of pesticides and fertilisers and the loss of nutrients, as well as the increase in total farmland used for organic farming.

²⁷⁰ Doubling annual energy renovation rates by 2030 and fostering energy renovations. Includes using 'energy efficiency first' as a horizontal guiding principle, integration of renewables, use of waste heat, increasing resource efficiency in construction, ensuring high health and environmental standards, coupling green and digital transitions, and ensuring that energy-performing and sustainable buildings are available and accessible for medium and low-income households.

aligned with the EGD objectives. The EGD also aims to make the green transition economically beneficial for the participating operators, which means that being an early adopter may become a competitive advantage.

The rationale for choosing the free zones

This study examines the free zones in Barcelona and Ajman. The choice of these free zones was based on the following criteria:

- ▶ Availability of information:
 - ▷ at a general level, what free zones are reporting on their characteristics and activities;
 - ▷ more specifically on sustainability: What free zones document on their sustainable activities, strategies and actions.
- ▶ Comparability:
 - ▷ similarities between the zones (both are freeports – special economic zones);
 - ▷ size of free zones: of the two, the Ajman free zone is clearly bigger in terms of square metres (around 610 000 against 160 000 m² and the number of companies and employees). However, both free zones can be considered as large when considering their number of companies and employees they host as well as their contribution to the country in which they are located;
 - ▷ both free zones are active;
 - ▷ both free zones are reporting comprehensively on their sustainability efforts.

Description of the two free zones to be compared

In the table below, we present the details of the two free zones examined in this case study.

Table 17: Descriptive features of the free zones

Element	Barcelona free zone	Ajman free zone (AFZ)
Country	Spain	UAE
Date of creation	1916	1988
Type of free zone	Free port – Special economic zone	Free port – Special economic zone
Entities	Zona Franca Industrial Estate, also including the Zona Franca Logistics Park and the Zona Franca Services Centre Zona Franca Customs of Barcelona (ZFC), a “strategic and distinct enclave” with a special tax regime. It consists of	Ajman free zone

Element	Barcelona free zone	Ajman free zone (AFZ)
	warehouse space, office space and lockers. ²⁷¹	
Governance	<p>Consorti de la Zona Franca de Barcelona (CZFB, Public-Private)</p> <p>General Meeting (highest body) responsible for approving the bylaw, electing members of governing bodies and approving the budget</p> <p>Executive Committee: responsible for the management and administration of the zone</p> <p>Management team: develops guidelines for the activities and projects taking place in the zone</p>	<p>Chairman</p> <p>Director General</p> <p>8 different committees/management units (IT, legal affairs, property, etc.)²⁷²</p>
Objectives and commitments	<p>Boosting the economy of Barcelona, generating economic and social value, raising international awareness of the added economic and social value free zones can generate.</p> <p>Their vision is to be a leading industrial hub in the Mediterranean, attracting companies and investments to develop key innovations.</p>	<p>Attracting investments by providing advanced infrastructure, new technologies, competitive services and products, flexible legislation and community well-being.²⁷³</p>
Services and Incentives	<p>Strategic geographic location (port, airport, rail)</p> <p>Storage areas, offices, (access to) infrastructure</p> <p>Zona Franca Customs Area is not subject to import duties, internal taxes (VAT or other duties)</p>	<p>Strategic geographic location (port, airport, rail)</p> <p>Offices, business centre, warehouses, accommodation</p> <p>Business licences issuance</p> <p>Visa for foreign workers</p> <p>Exemption from customs duty for goods and services, corporate tax, personal income tax and import-export tax²⁷⁴</p>
Number of companies	176+	9 000+
Employees	137 000 total employees.	Information on total employment in the free zone is not publicly available.

²⁷¹ Barcelona Field Studies Centre (2022). Zona Franca, Barcelona; Consorci Barcelona Zona Franca, available at: <https://zfbarcelona.es/en/opportunities-future/zona-franca-customs/>

²⁷² Ajman Free Zone Sustainability Report Year 2020.

²⁷³ Ajman Free Zone. Our commitment, available at: <https://afz.ae/about-us/our-commitment>

²⁷⁴ Danburite Corporate. Major benefits of Ajman Free Zone Company Setup in UAE, available at: <https://www.danburitecorp.com/major-benefits-of-ajman-free-zone-company-setup-in-uae/nw-87>

Element	Barcelona free zone	Ajman free zone (AFZ)
		In 2020, AFZ reports 143 team members in the managing organisation. ²⁷⁵
Economic capacity	Contributes up to EUR 9.1bn to GDP	Information not publicly available.
Geographic characteristics	Zona Franca Customs Area: 16ha ²⁷⁶	Around 60ha. ²⁷⁷
Key sectors	Automotive, basic chemicals, logistics industries and others.	Healthcare, retail, education, food and beverage, automotive, construction, agriculture, paper & packaging, jewellery, media, marine, advanced textile technologies

The two analysed free zones are both important operators in the economic sphere of their respective regions. Both aim to boost the local economy and investment, as well as to increase social value and well-being. The two free zones are located near key infrastructures, such as ports offering economic operators a logistic hub. Both free zones also operate on multiple sectors, although for Ajman the scope is noticeably broader. What is particularly interesting about this case study is that **both also have an environmental management plan** (see below for further details).

Despite the similarities mentioned in the previous paragraph, as can be seen from the table above, the two free zones also have several notable differences. Ajman is notably larger in size, both in terms of physical dimensions and the number of operators and has a larger capacity for leasing new contracts to operators than Barcelona.²⁷⁸ The incentives offered are also somewhat different for the two free zones. The conclusions of this case study should be assessed in light of these differences (including also exogenous factors such as the local regulatory frameworks). However, differences might also provide complementarities in the insights studied and provide examples relevant to other free zones.

Insights into answering the research questions

In this section, we take a closer look at the actions that both free zones are taking, which are relevant to the European Green Deal and can therefore help us answer RQ8 and RQ9.

RQ8 Are the analysed free zones contributing to the objectives established in the European Green Deal?

Looking at the **environmental management** of both free zones, the notable similarity is that both free zones are ISO 14001 certified. ISO 14001 sets out the criteria for an environmental

²⁷⁵ AFZ Sustainability report 2020

²⁷⁶ Barcelona Field Studies Centre (2022). Zona Franca, Barcelona.

²⁷⁷ <https://www.afz.ae/en/resources/our-story#:~:text=1995,Free%20Zone%20has%20truly%20begun.>

²⁷⁸ The Free Zone of Barcelona has a limited availability of land with 98 % of its land areas being already rented through long-term contracts.

management system, establishing a framework for an organisation to follow to set up an effective environmental management system.²⁷⁹

The AFZ has created a sustainability policy adhered to by all regulatory units in the free zone. It provides a framework for evaluation, prevention, protection and measures for achieving strategic objectives following environmental laws. The AFZ has also implemented an Environmental Management System recording communications with relevant stakeholders, including environmentalists, health inspection specialists, and coordinators.²⁸⁰

The Barcelona Free Zone Consortium (CZFB) acts on two levels when it comes to environmental management:

1. Management of the environmental impacts from the direct use of the facilities and activities of the consortium. The related environmental management system is the EU Eco-Management and Audit Scheme (EMAS) certified.
2. Management of the impacts of business activities in the area. For this, the consortium promotes a long-term circular economy project EcoCircularZF, which identifies opportunities for improving the management of resources in the zone. It detects the actors that should collaborate and facilitates relations for the development of the identified synergies.²⁸¹

The CZFB also has environmental technical specifications for suppliers, particularly in subcontracted civil works, buildings and services. The purpose of these specifications is to control and minimise the environmental impacts, such as polluting discharges, combustion gas emissions, particle and dust emissions, emissions of volatile organic compounds, generation of noise and vibrations, identification, storage and management of waste, and consumption of energy, material and waste resources. Finally, monitoring is conducted through an online reporting platform to collect metrics associated with CSR and in line with Agenda 2030 and the ISO 26000 standard.²⁸²

Both free zones provide specific **incentives and schemes to encourage sustainable operations** and engage in **environmental awareness activities**. The AFZ has two notable incentives to encourage sustainability for its companies. The first edition of the Sustainability Awards was organised in 2022. Awards were given in five categories, green project, green initiative, green workshop, green awareness and training and green personality. The objective of these awards was to “accelerate the shift to a green economy and promote green projects both in the free zone and the UAE”.²⁸³ The AFZ also offers packages for companies involved in sustainable solutions and clean energy innovations. These include registration fee exemption, e.g. a 15 % discount on the rent of the free zone warehouses or a 50 % discount on Ajman Chamber of Commerce and Industry’s membership fees.²⁸⁴

The Barcelona free zone reports that in February 2020, a conference was hosted on sustainable action titled ‘Tools for the implementation of the 2030 Agenda in the company and the value chain’.²⁸⁵ It has also engaged in environmental awareness activities, including workshops on reverse logistics for packaging, photovoltaic panels for internal consumption, sustainability in buildings, environmental awareness, and circular economy and logistics.²⁸⁶

²⁷⁹ ISO 14000 family. Environmental management, available at: <https://www.iso.org/iso-14001-environmental-management.html>

²⁸⁰ Ajman Free Zone Sustainability Report Year 2020.

²⁸¹ The Consorci Barcelona Zona Franca. Sustainability Report 2020.

²⁸² The Consorci Barcelona Zona Franca. Sustainability Report 2020.

²⁸³ Ajman Free Zone. Sustainability awards, available at: <https://afz.ae/en/sustainability-awards>

²⁸⁴ Zawya. Free Zones play critical role in sustainable development, available at: <https://www.zawya.com/en/economy/free-zones-play-critical-role-in-sustainable-development-ihaud0s5>

²⁸⁵ The Consorci Barcelona Zona Franca. Sustainability Report 2020 .

²⁸⁶ The Consorci Barcelona Zona Franca. Sustainability Report 2020.

The City Council of Barcelona has also promoted a tax bonus for companies and industries that install photovoltaic panels, designed in particular for large companies located in the free zone.²⁸⁷

Regarding cooperation and synergies between the Barcelona Free Zone and the city, it should be noted that as the Free Zone and the existing companies have their own autonomous legal framework, which according to the city representatives, restricts targeting the Free Zone with specific policies from the outside (at local or regional level). The city has engaged in dialogues with the Free Zone, particularly regarding greenhouse gas emissions, but representatives indicate that a greater degree of interaction and alignment between the Free Zone and the regional and local governments' environmental and ecological policies would be needed.²⁸⁸

Both free zones are committed to the **United Nations Sustainable Development Goals (SDGs)**. For Barcelona, the SDGs were the entry point to establish a sustainability strategy in 2019, in close collaboration with the local and regional governments.²⁸⁹ Of those relevant to the EGD, the Barcelona free zone lists SDGs 7 (affordable and clean energy) and SDG 13 (climate action) among its priority SDGs, and SDGs 6 (clean water and sanitation), 12, 14 (life below water), and 15 (life on land) among other SDGs it adheres to.²⁹⁰ The AFZ specifically mentions SDGs 7, 11 (sustainable cities and communities), 12 (responsible consumption and production) and 13.²⁹¹

Contribution to specific EGD objectives

Both free zones engage in activities that are relevant to specific EGD objectives. These are discussed below.

Clean energy and resource-efficient building and renovating

Both free zones report annually on water consumption. Ajman also reports annually on the consumption of electricity. The AFZ has implemented several renewable energy initiatives, including the establishment of an Eco-Friendly Zone in July 2020. This zone includes 9 700m² of warehouses, industrial facilities and showrooms powered by solar panels, using LED lamps and with better insulation to minimise the energy needed for cooling down. Smart electricity and water meters are included to monitor consumption. Additionally, the AFZ has solar light poles and electric charging stations in some of the parking areas.²⁹²

The Barcelona free zone runs working groups with 30 companies to promote renewable energy and the installation of photovoltaic panels. An industry and energy transition workshop has also been organised in this context. It also supported the implementation of the first green hydrogen station in Spain.²⁹³ In the period 2019-2020, several actions were implemented, including the “Charge yourself with energy” campaign and workshops on photovoltaic panels for internal consumption and sustainability in buildings.²⁹⁴

²⁸⁷ Interview with the City of Barcelona.

²⁸⁸ Interview with the City of Barcelona.

²⁸⁹ Interview with the Consorci Barcelona Zona Franca.

²⁹⁰ The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

²⁹¹ Ajman Free Zone Sustainability Report Year 2020.

²⁹² Ajman Free Zone Sustainability Report Year 2020.

²⁹³ The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

²⁹⁴ The Consorci Barcelona Zona Franca. Sustainability Report 2020 .

Circular economy

The AFZ conducts annual reporting on the amount of waste generated and the amount of waste recycled. Between 2017 and 2020, a small reduction in general waste creation and an increase in waste recycling has been recorded.²⁹⁵

The Barcelona free zone, on the other hand, reports a few specific measures on circular economy. All non-hazardous waste is recovered, and the free zone has implemented measures to reduce printing. The abovementioned EcoCircularZF, identifying and facilitating synergies (and reducing inefficiencies) in the treatment of resources, had 35 companies from 10 sectors participating by 2021.²⁹⁶ The representatives of the city of Barcelona also noted that there could be a (further) reduction of production and increase of reusing waste in the Free Zone, as well as the use of regenerated non-potable water as a primary source for industrial uses.²⁹⁷

Preventing pollution

The Barcelona free zone has invested more than EUR 450 000 for the environmental recovery of soil contaminated by hydrocarbons and organochlorines²⁹⁸ and has a system to monitor and control pollution.²⁹⁹ The city of Barcelona noted that the reduction of GHG emissions is a key challenge for the Free Zone, particularly regarding mobility and energy transition.³⁰⁰

Sustainable mobility

The Barcelona free zone participates in the PERTE project (recovery and economic transformation of the electric and connected vehicles) and provides infrastructure for the project. In addition, it is in the process of improving its bike lane infrastructure and implementing electric charging stations within the free zone.³⁰¹

RQ9 Do the free zones have a plan to contribute to the objectives established in the European Green Deal?

The Strategic Project Plan of the Barcelona free zone is based on three pillars: 1) Long-term economic sustainability, 2) Economic development of the territory, and 3) Urban integration and environmental sustainability. Under the third pillar, the free zone has three objectives, namely 1) Achieving selected SDGs where possible, 2) Integrating with Barcelona's urban environment, and 3) Being a Circular Economy benchmark. The strategic lines under these objectives include developing the circular economy programme and extending it beyond the free zone, increasing energy efficiency and integrating into the urban environment. In practice, the plans include, e.g. introducing green areas, improving mobility, and measures for energy efficiency and circular economy development.³⁰²

These objectives also link to Barcelona's Green Deal strategy, an 'open roadmap' developed by the local authorities of the city of Barcelona which aims to set a new economic agenda for the city by 2030. As part of action 36 of this strategy, it is foreseen to "intensify the urban character of the Zona Franca through urban planning, maintaining productive activity in this

²⁹⁵ Ajman Free Zone Sustainability Report Year 2020.

²⁹⁶ The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

²⁹⁷ Interview with the City of Barcelona.

²⁹⁸ The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

²⁹⁹ Interview with the Consorci Barcelona Zona Franca.

³⁰⁰ Interview with the City of Barcelona.

³⁰¹ The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

³⁰² The Consorci Barcelona Zona Franca. Where opportunities are born. Corporate report 2021.

area but also increasing [...] the ecological transition”.³⁰³ In addition to this plan, the free zone of Barcelona intends to position itself as a positive contributor to society on environmental and social challenges.³⁰⁴

The AFZ has set **sustainability targets** in alignment with the objectives of Ajman Vision 2021 and the UAE Vision 2021 and the National Agenda³⁰⁵. These targets concern efforts on energy management, water management, and waste management.³⁰⁶

In terms of environmental management, the Barcelona Free Zone, in particular the Zona Franca Industrial Estate, is working on a model to guarantee its energy efficiency and environmental objectives. Activities are also continuing on the EcoCircularZF project.³⁰⁷ The AFZ aims to apply leadership standards in energy and environmental design for existing buildings, leading to LEED certification.³⁰⁸

Contribution to specific EGD objectives

In addition to the above, both free zones have set certain future targets relevant to **specific EGD objectives**. These are as follows:

- ▶ **Clean renewable energy:** the AFZ aims to reduce electricity consumption by 20 % by 2025 (and rationalise 30 % of water consumption) through renewable energy initiatives. The Barcelona Free Zone plans to update energy audits, replace lamps with LEDs, install light sensors, install photovoltaic panels on roofs, etc. Regarding water, it aims to promote the use of reclaimed water from a treatment plan for the irrigation of green areas.
- ▶ **Sustainable mobility:** The AFZ aims to increase the proportion of environmentally friendly cars used to at least 10 % of the total number by 2025. It should be noted that the ambition of this target does not match the levels associated with the EGD. However, it indicates that the need to reduce emissions by cars is acknowledged and is at least started to be addressed.
- ▶ **Circular economy:** As mentioned above, the Barcelona free zone commits in its strategy to develop a circular economy programme that allows it to become a circular economy benchmark. The AFZ plans to further increase the amount of recycled waste through a Waste Recycling Plan, which includes e.g.:
 - ▷ Increasing the rate of recycling waste to 50 % of public waste in the free zone by the end of 2025 (slightly lower than the EGD and Waste Framework Directive target of reusing and recycling 55 % of municipal waste by 2025);
 - ▷ Increasing ratings of recyclable materials by the end of 2025;
 - ▷ Developing regulations, laws and policies to raise the business partners' commitments;
 - ▷ Reducing the rationalisation rate of paper consumption in the free zone by 30 % by end of 2025;
 - ▷ Reduce the operational costs of transporting waste.

³⁰³ Ajuntament de Barcelona (2021). Barcelona Green Deal – A new economic agenda for the city by 2030.

³⁰⁴ Interview with the Consorci Barcelona Zona Franca.

³⁰⁵ The UAE Vision 2021 and National Agenda focus on improving the quality of air, preserving water resources, increasing the contribution of clean energy and implementing green growth plans.

³⁰⁶ Ajman Free Zone Sustainability Report Year 2020.

³⁰⁷ <https://zfbarcelona.es/en/spaces-development/offering-availability/zona-franca-industrial-estate/>

³⁰⁸ Ajman Free Zone Sustainability Report Year 2020.

- **Preservation and restoration of ecosystems and biodiversity:** the AFZ has set a target of a 10 % increase in green spaces by 2025.

Summary conclusions

As discussed in the previous sections, both the Barcelona Free Zone and the Ajman Free Zone have committed to environmental sustainability as a principle. This commitment extends from the approach to the free zone management to individual development activities and incentives offered to companies operating in the respective free zones. The following table provides a summary of the two free zones' key contributions to the EGD.

Table 18: Summary of the free zones' key contributions

Element	Barcelona free zone	Ajman free zone (AFZ)
Free zone's environmental management	ISO 14001 certified EU Eco-Management and Audit Scheme (EMAS) certified	ISO 14001 certified
Contribution to specific European Green Deal objectives	<ul style="list-style-type: none"> • Clean energy and resource-efficient building and renovating • Circular economy • Sustainable mobility • Preventing pollution 	<ul style="list-style-type: none"> • Clean energy and resource-efficient building and renovating • Circular economy • Sustainable mobility • Preservation and restoration of ecosystems and biodiversity
Example of the free zones' specific incentives and schemes to encourage sustainable operations	The City Council of Barcelona has also promoted a tax bonus for companies and industries that install photovoltaic panels, designed in particular for large companies located in the free zone.	The Free Zone offers packages for companies involved in sustainable solutions and clean energy innovations. These include registration fee exemption: e.g., a 15 % discount on the rent of the free zone warehouses, a 50 % discount on Ajman Chamber of Commerce and Industry's membership fees.
Ties with broader regional plans	Links with Barcelona's Green Deal strategy and aims to contribute to sustainability through international alliances.	Alignment of sustainability targets with the Ajman Vision and the UAE Vision 2070.

The emphasis on the different EDG objectives varies somewhat between the two Free Zones. As discussed in the previous sections, both are investing and executing actions relevant to

clean energy, resource-efficient building and renovating, and circular economy. Barcelona is also working on projects that contribute to the prevention of pollution and sustainable mobility.

Both Free Zones also have future plans contributing to the EGD objectives, tying to the broader regional plans. The AFZ has its sustainability targets aligned with both the Ajman Vision and the UAE Vision 2070. The latter is a longer-term vision, currently at the stage of forecasting and collecting projects, aiming e.g. to implement AI in various sustainability topics such as renewable energy generation. The **Barcelona Free Zone objectives are tied to Barcelona's Green Deal strategy**, however, the Barcelona Free Zone also aims to become a regional sustainability driver, particularly when it comes to the circular economy. Furthermore, it aims to contribute to the sustainability of Free Zones through international alliances.³⁰⁹ This means its contribution to the EGD objectives can extend well beyond the physical borders of the Free Zone.

The only EGD objective that is not addressed at all by either of the Free Zones is “fair, healthy and environmentally friendly food systems”, which is not entirely unexpected, as free zones do not play a key part in the supply chain of food products.

It should also be noted that the Free Zones do not solely look at the EGD as their source of guidance, but rather local legislation and concrete targets. Both Free Zones are also committed to specific SDGs. It is, therefore, possible that some of the actions and measures apply simultaneously to multiple priorities. In this regard, it is notable that representatives of the City of Barcelona expressed a desire for greater alignment of sustainability policies between the Free Zone and the regional and local governments, and implied that despite the current measures, the Barcelona Free Zone could do more regarding GHG emissions from energy and transport, as well as waste and water reuse.

In summary, while no direct reference is made to the EGD, the operating policies and strategies of both Free Zones analysed in this case study contribute to different objectives and can be expected to increasingly continue doing so in the future. They also encourage sustainable actions among their companies and, particularly in the case of Barcelona, outside their own area.

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³⁰⁹ Interview with the Consorci Barcelona Zona Franca.

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CASE STUDY 3: LABOUR CONDITIONS IN FREE ZONES: THE CASE OF BARCELONA, BOGOTÁ, POLAND, AND SOUTH ASIA

Introduction to the case study

This case study aims to support the responses to RQ6 and RQ7 regarding the labour conditions, quality of labour and labour conditionalities applied in the free zones. For this purpose, we selected four different free zones and countries located in the EU and outside the EU: Zona Franca of Barcelona, Polish SEZs, Zona Franca of Bogotá and finally, we provide a general overview of the current labour conditions in two Southern Asian countries, India and Bangladesh.

Background

When assessing the status of employment in free zones and SEZs in general, there is a variety of realities when it comes to labour standards, starting with the legal frameworks determining basic working and employment conditions. **In EU MSs**, the EU legal instruments and the national labour legislation are applicable in the entire territory, with no possible exemptions on free trade zones. This includes alignment with ILO fundamental rights, which form part of the EU and national legislation. Existing compliance mechanisms such as conciliation and mediation, labour inspection, or the judiciary, also extend their coverage to workers and employers in free zones. Therefore, workers in free zones enjoy the same legal entitlements and basic labour rights as workers outside the zones.

In other regions of the world, exemptions or limitations exist in some countries regarding the applicability of the national labour law to EPZs, or in the effectiveness of the mechanisms ensuring its application. These might be in the form of waivers, specific labour rules applicable in the zones or by establishing specific compliance mechanisms, preventing, for instance, the labour inspection from entering the zones. This includes countries such as Nigeria, where the applicable legislation for EPZs developed in 1992 included a prohibition of strikes and lockouts for a period of ten years following the commencement of operations within a zone³¹⁰. In India, all firms located within SEZs receive the designation of “public utility service,” which allows for the curtailing of certain liberties of labour specifically dealing with the right to strike.³¹¹ Other legal limitations on freedom of association and the right to strike have been observed in Pakistan³¹², Bangladesh³¹³ and a number of other countries.³¹⁴ Some authors have pointed

³¹⁰ Nigeria Export Processing Zones Decree 1992 (No. 63 of 1992), mentioned in *The state of trade unionism and industrial relations practice in Nigeria's Export Processing Zones – NIGERIA*, ITUC-ILO, page 10, 2012.

³¹¹ *The Cost of Global Competitiveness: Assessing the Impacts of Special Economic Zone Policy on the Working Class in Bangalore*, A Thesis Presented to the Faculty of Architecture and Planning COLUMBIA UNIVERSITY, In Partial Fulfillment of the Requirements for the Degree Master of Science in Urban Planning, Jessica George May 2015.

³¹² This law has been in place from 1982 and has been subject to numerous requests for reform by the ILO's Committee of Experts in the Application of Conventions and Recommendations (CEACR) and the Committee on Freedom of Association (CFA) for being incompatible with ILO Conventions 87 and 98. R. Gopalakrishnan, 'Freedom of Association and Collective Bargaining in Export Processing Zones: Role of ILO Supervisory Mechanisms', ILO International Labour Standards Department Working Paper 1, 2007, mentioned in European Parliament, 2017, page 79.

³¹³ *Labour rights in Export Processing Zones with a focus on GSP+ beneficiary countries*, European Parliament, Subcommittee on Human Rights (DROI), 2017.

³¹⁴ *Ibid*, Gopalakrishnan, 2007.

out that very often in practice, restrictions on these and other rights remain widespread and are not confined to EPZs.³¹⁵

Nonetheless, the practice is common in national law. One of the most comprehensive investigations into government policies restricting freedom of association and collective bargaining found that **legal restrictions on union rights in EPZs are widespread in developing countries**. It cited examples from Bangladesh, Colombia, Namibia, Nigeria, Pakistan and Togo. It also found examples of restrictions on industrial action in Bangladesh, India, Namibia, Nigeria, Pakistan, the Philippines, Sri Lanka and Turkey. Interference in the affairs of workers' organisations was identified in Bangladesh, Nicaragua and Sri Lanka; anti-union discrimination in Costa Rica, the Dominican Republic, Guatemala, India, Nicaragua, the Philippines and Sri Lanka; and action against collective bargaining in the Dominican Republic, India, Malaysia, Nicaragua, the Philippines and Sri Lanka.³¹⁶ Some of these countries have subsequently amended their legislation to remove some or all of these restrictions.³¹⁷

However, even if no legal restrictions exist, union activities can be seriously undermined in practice, for example, by establishing fenced walls around the zones, making organising more difficult³¹⁸, by inadequate state labour inspection³¹⁹, or by sponsoring worker welfare associations that often serve to compete with or undermine trade unions.³²⁰

A study undertaken by the European Parliament on GSP+ beneficiary countries suggests that in EPZs outside Europe, violations of fundamental labour rights are more likely in production sites further upstream in the supply chain, EPZs and registered factories, often in the informal sector. In short, while there are violations of labour rights in both law and practice in EPZs, serious and more pervasive labour rights problems occur outside EPZs in countries benefitting from the GSP+.³²¹

One frequent critique of EPZs by trade unions and civil society in some countries has been that firms located in the zones pay lower wages than they would pay if located outside the zones. However, studies reviewed by Cicera and Lakshman³²² indicate that EPZs tend to pay higher wages, although ILO surveys also document cases where the right of unionisation is also respected in many EPZs. Union rights violations, however, may also prevail outside the zone, and might be a country-wide problem.³²³

A literature review undertaken by the ILO in 2017³²⁴ on the impact of EPZs on workers' rights concluded that the violations of fundamental rights most cited concerned freedom of association and collective bargaining and gender discrimination. Child labour is more likely to occur upstream in the production chain and is not a significant issue in EPZs. Some elements

³¹⁵ *ibid*, R. Gopalakrishnan, 2007.

³¹⁶ R. Gopalakrishnan: [Freedom of association and collective bargaining in export processing zones: Role of the ILO supervisory mechanisms](#) Working Paper No. 1, Geneva, ILO, 2007, mentioned in ILO, 2017.

³¹⁷ Promoting decent work and protecting fundamental principles and rights at work in export processing zones, Report for discussion at the Meeting of Experts to Promote Decent Work and Protection of Fundamental Principles and Rights at Work for Workers in Export Processing Zones (Geneva, 21–23 November 2017), ILO, Geneva, 2017.

³¹⁸ The state of trade unionism and industrial relations practice in Nigeria's Export Processing Zones – NIGERIA, ITUC-ILO, page 10, 2012.

³¹⁹ *ibid*, European Parliament, page 6.

³²⁰ *ibid*, ILO 2017.

³²¹ *ibid*, European Parliament, page 6.

³²² The impact of export processing zones on employment, wages and labour conditions in developing countries: systematic review, Xavier Cirera & Rajith W. D. Lakshman, *Journal of Development Effectiveness*, 9(3), 2017-04-10. 2017.

³²³ *ibid*, Cicera and Lakshman, 2017.

³²⁴ Promoting decent work and protecting fundamental principles and rights at work in export processing zones, Report for discussion at the Meeting of Experts to Promote Decent Work and Protection of Fundamental Principles and Rights at Work for Workers in Export Processing Zones (Geneva, 21–23 November 2017), ILO, Geneva, 2017.

of forced labour may appear in EPZs, linked to migrant workers, but is more likely to exist upstream. In their review, Cirera and Lakshman conclude that there is no robust evidence that the employment created in the zones is additional. Also, in most cases, EPZs pay higher wages and do not contribute to increasing the gender wage gap. The results regarding labour conditions such as health and safety, unionisation or hours worked are mixed when compared with firms outside the EPZ.³²⁵

Reports of violations of freedom of association in EPZs are common. There is said to be a significant amount of factual evidence documenting restrictions on unionisation inside the EPZs, either via limits on rights or by de facto constraining of these rights. The ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) and the Committee on Freedom of Association (CFA) have been addressing the protection of workers' rights in EPZs for many years. Based on their reports, the ILO Conference Committee on the Application of Standards has examined individual cases concerning Bangladesh, Guatemala and Pakistan in relation to issues in EPZs.³²⁶

There are no observed cases of conditionality of labour standards rights to exporters from third countries. Firms operating in the EU free zones have to comply with labour standards, but they do not extend to third countries.

The rationale for choosing the free zones/regions

We decided to choose two free zones, i.e. Barcelona and Bogotá and two country/regions, i.e. Poland and South Asia (Bangladesh, India). The selection of those is based on our desk research and information available on the free zones' websites.

- ▶ We chose Zona Franca Barcelona and Zona Franca Bogotá as two EU and non-EU free zones characterised by similar size in terms of business demography, counting over 200 companies.
- ▶ We explored the Polish SEZs as we found interesting some sources of historical labour conflicts in SEZs and finally, we chose to provide a quick overview of Indian and Bangladeshi EPZs and SEZs as they still reveal major challenges in terms of human and labour rights. Furthermore, as far as the two cases can be compared, SEZs in Poland and SEZs in South Asia specialised mostly in factories and goods production rather than services.

We analyse the state of play of employment and working conditions in the free zones and identify whether there are any infringements or gaps in labour standards. In particular, the following aspects have been taken into account:

- ▶ health and safety measures;
- ▶ decent labour conditions;
- ▶ gender equality;

³²⁵ The impact of export processing zones on employment, wages and labour conditions in developing countries: systematic review, Xavier Cirera & Rajith W. D. Lakshman, *Journal of Development Effectiveness*, 9(3), 2017-04-10. 2017.

³²⁶ *ibid*, ILO, 2017.

- ▶ consideration of vulnerable groups;
- ▶ skills development, training, education, professional growth;
- ▶ evidence of conditionality for exporting countries to labour standards when exporting to free zones;
- ▶ collective bargaining and freedom of association.

For this case study we used a mixed methodology based on desk research and consultation interviews with stakeholders. We conducted interviews with a variety of stakeholders, ranging from free zones authorities to trade union representatives and academic researchers.

First Comparison

Table 19: Free zones of Barcelona and Bogotá

Element	Zona Franca Barcelona	Zona Franca Bogotá
Year of establishment	1916	1993, active since 1997
Size	16 ha	64 ha
Investments	A total of EUR 5.5 million was invested in this project, 54 % from the CZFB and 46 % from the AMB.	N/A
Firms	220 companies	200 permanent companies and 200 support companies
Employment	137 000	25 000
Labour conditions and initiatives	<ul style="list-style-type: none"> • ILO Conventions and national labour policies are applied in the free zone • National minimum wage • Collective bargaining agreements • Promotion of SDGs • Women’s Council 	<ul style="list-style-type: none"> • Compliance with national labour legislation³²⁷ • Lack of trade union • Educational/training skills development initiatives and ties with universities • Family compensation fund

Zona Franca Barcelona

The Zona Franca of Barcelona was created in 1916. It is managed by a consortium where the Spanish and the local Catalan governments are represented. The zone covers a wide industrial area where the customs-free area is located, hosting 33 enterprises covering 160 000 square meters. As the zone authorities state, the overall strategy to attract enterprises has been its extension, services and advantageous location—close to the port and connected with the

³²⁷Colombia ratified ILO Conventions N. 87, 98, 81, source: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO::P11200_COUNTRY_ID:102595

railway and road networks. On top of the customs-free area, the zone also comprises an industrial area with 113 enterprises, a technological and service hub with 30 enterprises and an urban area with 22 enterprises and a tax-free zone with 33 enterprises. The total number of enterprises in the Zone is 220.

Regarding the assessment of the creation of decent employment in the free zone, labour authorities confirmed that **no statistics exist on the quantity or quality of employment in the zone**. Recent estimates available included in the 2020 annual report estimate the number of jobs to be 137 322. This is 5 % of the economically active population (EAP) of Barcelona, 0.6 % of the EAP in Spain.³²⁸ This figure remained invariable between 2019 and 2020. By sex, 73.9 % of the employees are male, and 26.1 % are female. The sectors with the most significant economic impact are: 63 % of the total expenditure is due to the activity generated by two *automotive* companies, SEAT and Nissan, followed by the *chemical industry*, with a big role played by BASF and Quimidroga, followed by *logistics*, with 4 % of the total expenditure. Nissan abandoned production in the zone in late 2021, and its facilities have been taken over by a consortium of companies – D-Hub- to reindustrialise the area to produce electric vehicles.

In terms of quality of employment, while no statistics are officially available, a number of factors point to **employment which is fully compliant with decent work indicators**. According to the ILO, decent work corresponds to the four strategic pillars of the ILO–full and productive employment, rights at work, social protection and the promotion of social dialogue–and covers ten substantive elements as follows: (1) Employment opportunities; (2) Adequate earnings and productive work; (3) Decent working time; (4) Combining work, family and personal life; (5) Work that should be abolished; (6) Stability and security of work; (7) Equal opportunity and treatment in employment; (8) Safe work environment; (9) Social security and (10) Social dialogue, employers' and workers' representation.

While no statistics are provided on these indicators, there are several qualitative factors that point to the existence of decent work employment.

- ▶ In EU Member States, the EU legal instruments and the national labour legislation are applicable in the entire territory, with **no possible exemptions on free trade zones**; both the European body of legislation as well as the national legal frameworks are aligned with the decent work indicators listed above, and all EU member states have ratified at least the eight ILO fundamental conventions considered to be fundamental until their extension by the International Labour Conference of the ILO in June 2022. Existing compliance mechanisms such as conciliation and mediation, labour inspection, or the judiciary also extend to workers and employers in free zones; consequently, the employees of the Barcelona Free Zone enjoy the same legal entitlements and basic labour rights - as workers outside the zone.
- ▶ A review of fundamental conventions ratified by EU Member States³²⁹ shows that **all countries have ratified the eight ILO conventions** considered to be fundamental up to June 2022, when two conventions on health and safety were added to that consideration.³³⁰ Ratification implies a national legal framework in compliance with the principles contained in the conventions in all the territory, including free zones. All EU

³²⁸ Consortium of the Barcelona Free Zone, [Annual Report 2020](#), Page 38.

³²⁹ ILO: [Ratification of fundamental instruments by region](#).

³³⁰ See ILO: [Conventions and Recommendations](#).

member states have also ratified ILO Convention 81 on labour inspection. The ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR), which monitors compliance of the national laws and practice with the ratified conventions, has not revealed any major challenges in compliance with ILO fundamental conventions for workers in EU free zones.

- ▶ The 2020 annual report of the Barcelona Free Zone³³¹ highlights that more than 90 % of the employees benefit from an indefinite contract, implying **employment stability**.
- ▶ The **national minimum wage** established at the National level is also applicable to the Barcelona Free Zone.
- ▶ Employees in the zone are covered by **collective bargaining agreements signed at the sectoral or enterprise levels for the entire Spanish territory**; for example, the 20th collective agreement at the company SEAT, signed in September 2022, does cover all SEAT workplaces and includes the factory at the Barcelona free zone. One of the signatory unions interviewed for this report declared that the trade union strategies were established mainly by sector of the economy, or by enterprise, and that no exception or specific provisions were made in the agreements for workers in the free zone or in any other Spanish territory; this is also the case of Spanish supermarket chain Mercadona, who signed a collective agreement in 2019 for all workers, including those based in the Barcelona free zone.³³²
- ▶ In line with Sustainable Goal 5 on Gender Equality, in 2020 the zone authorities created the **Women's Council** in the Free Zone, a consultative body aimed at agreeing on equality policies in the industrial zone to give women visibility in the industry, promote gender mainstreaming and achieve equality of rights; members of the Council include consortium members, management officials a number of representatives from the free zone.
- ▶ Furthermore, the Barcelona Free Zone is committed to creating an employment environment with high standards of health and safety through continuous improvements in health and safety measures, preventing risks at work offering safe workplace conditions and training³³³.

With regards to the elimination of duties, customs, etc., conditional on compliance with international standards on labour rights in the exporting countries – the zone authorities interviewed declared that no such conditionality exists, and that no information is gathered on the state of affairs in terms of labour in the countries of origin of the imports in the zone.

Zona Franca Bogotá

The Zona Franca (Free Zone) of Bogota (ZFB) presents an example of how a zone authority has engaged in alliances with educational institutions to facilitate access to education and training for workers to meet the skills needs of enterprises in the zone. As it is the case of the free zone in Barcelona with the promotion of gender equality, the zone authority has played an active role to in improving the skills and education of the workforce, as is explained below.

The Zona Franca of Bogotá (ZFB) was created in 1993 and started operations in 1997. The ZFB is composed of a park with 200 permanent companies and 200 support companies. The

³³¹ Consortium of the Barcelona Free Zone, [Annual Report 2020](#)

³³² See [collective agreement for the company group Mercadona, SA, and Forns Valencians Forva, SA, Unipersonal](#) published in the Spanish Official Bulletin, of 18.02.2019.

³³³ Zona Franca de Barcelona, available at: <https://zfbarcelona.es/en/actualidad/blog/el-consorci-de-la-zona-franca-de-barcelona-fully-committed-to-the-sdgs/>

ZFB companies currently operate in 45 of the ZFZs in Colombia. Today the ZFB generates about 25 000 jobs and 35 000 indirect jobs, including hybrid/online work since the beginning of the Covid-19 pandemic.

90 % of the companies in the Colombian Free Trade Zones are SMEs. Originally, the Bogotá free zone was characterised only by manufacturing companies, in 2005 the free zone opened up to a wider variety of services and investors, including logistics that count today for 50 % of the companies.

The region of Bogotá counts more than 100 universities, preparing around 100 000 students per year and therefore, it constitutes a very important highly skilled pool of human resources for the economic activities of the free zone. About 70 % of the workers have a secondary school education plus a technical education, 20 % administrative staff with a professional education (degree). The remaining 10 % formed by management and top management have post-graduate studies. To encourage skills training, the ZFB is very **active in developing education and skills training programme**, which are beneficial for the companies in the park as they receive custom-trained workers. For example, the ZFB has developed a programme with the Warren Buffett foundation, for an amount of 13 million dollars, for training. Students that undertake specialised courses are directly offered a workplace inside the free zone. The ZFB is also developing a training programme called UNIFRANCA: an infrastructure for providing training courses through partners who run the courses, which count approximately 1 500 participants.

These policies are complemented by other employment policies developed in cooperation with the Colombian government, for example, a campaign with disabled and reinserted people within the peace processes in Colombia. The **free zone also runs gender diversity and social inclusion programmes**. Workers in the free zone also benefit from specialised and technical courses in logistics.

In Colombia free zones and free trade zones must always comply with national labour laws, consequently, the **Zona Franca Bogotá does not operate with exceptions from labour policies on labour standards**. Free zone companies must comply with the same regulations as national companies. Moreover, taking into consideration the geographical position of the free zone – located on the west side of the city, which is less accessible – companies tend to offer more attractive job positions to incentivise new workers. Companies, therefore, provide incentives in terms of economic benefit, better quality of life, and hybrid type of work. In general, based on our interviews, there are no differences in terms of conditions between workers working inside or outside the free zone.

Companies in the FTZ also have to make contributions to the **family compensation fund**. This fund has allowed the development of recreational centres, housing, and health services. A series of benefits enable employees to access them at no cost. Different family allowance funds are derived from employers' contribution products. Based on our stakeholder consultations activities, **there is no trade union activity in the Bogotá Free Zone**. This might be a reflection of the size of the majority of the companies established in the zone—small and mediums sized—or of the limitations that trade unions face in the country to engage in trade union action.

Conclusions of the first comparison

Both in the free zones of Barcelona and Bogotá, the national legal frameworks are applicable in the zones, as is the scope of intervention of the labour administration. In terms of working conditions, while no statistics are available, there is an indication that the zones offer decent working conditions. In Bogotá the zone authorities declare that the companies offer good incentives to attract qualified workforce, but no trade unions or collective bargaining exist in the zone. As it was the case of the free zone in Barcelona, several companies engage in collective agreements offering similar working conditions to other work centres in the Spanish territory, the absence of trade unions—and consequently of collective agreements—in the Bogota free zone might seem to reflect the context for industrial relations in the respective countries.

In the first comparison, between Zona Franca Barcelona and Zona Franca Bogotá, results show:

- ▶ similarities in terms of good working and employment conditions of employees. both free zones provide training and skills programmes;
- ▶ both free zones are committed to social responsibility;
- ▶ differences in terms of industrial relations and trade union activity in the zones—in fact, in Bogotá free zone, unlike in Barcelona, there are no trade union activities;
- ▶ both zona franca Barcelona and Bogotá are committed to developing training and educational programmes, attracting qualified workforce;
- ▶ in addition, Zona Franca Barcelona is very active in promoting gender equality rights and SDGs.

Second comparison

For the sake of clarity, below we provide a summative table, focussing on the labour conditions in Poland and India/Bangladesh. The table does not aim to provide a one-to-one comparison of specific free zones, which is why it is of general nature.

Table 20: SEZs and EPZs in Poland, India and Bangladesh

Element	Polish SSEs	EPZ in South Asia (India and Bangladesh)
Year of establishment	1994	<ul style="list-style-type: none"> • 1960s in India • 1980s in Bangladesh
No. of free zones	14 SEZs	<ul style="list-style-type: none"> • 200 active SEZs in India • 8 EPZs in Bangladesh
Labour conditions	<ul style="list-style-type: none"> • Low coverage of collective bargaining (only at local level) 	<ul style="list-style-type: none"> • Poor working conditions, no health and safety standards

Element	Polish SSEs	EPZ in South Asia (India and Bangladesh)
	<ul style="list-style-type: none"> • free zones have stricter formalities to respect and therefore i.e. more formal labour • Agreements with university (case of Łódź) 	<ul style="list-style-type: none"> • Lack of international labour standards • Lack of trade union access • Insufficient labour inspection • Lack of labour policies harmonisation across regions in the case of India

The Polish Specjalne Strefy ekonomiczne (SSE)

Poland, as an EU Member State, ratified the ILO conventions and therefore, provisions are considered in the national legislations that are applied inside and outside the free zones. However, while conducting our desk research, we observed some results on some **past labour conflicts and issues** characterising foreign industries and factories located in the SEZs. The contribution of Polish free zones, whose establishment and operation are regulated by the 1994 Special Economic Zones Act, has generated debate in the academic publications.

Polish SEZs were established during the 90s with the objective of accelerating the economic development of poorer regions characterised by high levels of unemployment, attracting investments and new business activities. The so-called **Specjalne Strefy ekonomiczne (SSE)**, have been established initially with the Special Economic Zones Act of 1994 and afterwards renewed and revised with the Special Economic Zones Act of 2014. Last time the policy was renegotiated with the EC with a mandate valid from 2017 up to 2026. Over time, the objectives and conditions of the SEZs policy changed, expanding the zones from the initial designated and localised areas to other adjacent areas³³⁴, meaning that the policy turned from being an instrument given by the government to a policy determined in favour of new investments of larger foreign enterprises. It means that the opening of new SEZs in the country started to be determined and forwarded from investors to governments and not the other way around, and therefore favouring international companies over local enterprises.

On the other side, the introduction of SEZs helped to decrease the level of unemployment, creating new workplaces and job opportunities. Moreover, the presence of the special economic zones contributed to stimulating competitiveness and the creation of industry clusters, such as the high-tech Aviation Valley, in Podkarparckie Voivodeship. Nevertheless, SEZs in Poland suffered from a bad reputation due to workers' exploitation and lack of labour law compliance. The main reason is that non-European firms tended to settle and invest in the SEZs, and ultimately free zone authorities did not implement any measures to sustain the inflow of investments.³³⁵

³³⁴ Jensen, C., Winiarczyk, M., (2014), \Special Economic Zones – 20 years later, CASE-Center for Social and Economic Research on behalf of CASE Network

³³⁵ Eurofound - European Foundation for the Improvement of Living and Working Conditions, Poland, Specjalne strefy ekonomiczne (SSE), available at: <https://www.eurofound.europa.eu/nl/observatories/emcc/erm/support-instrument/special-economic-zones-sez>

The establishment of the Polish Special Economic Zones also generated some debate in the academic publications. A 2014 study by Pastusiak and colleagues point out the positive impacts of free zones on job creation and investment attraction in Poland (see Section 2.6 for more details).³³⁶ Similarly, using a rich data set for 379 Polish counties over the period 2003-2012, Cizkowicz et al. (2015)³³⁷ find that larger Polish free zones tend to be linked with higher levels of employment—both within the same county and in neighbouring counties. These findings have been challenged and qualified by sources focusing more clearly on the issue of reverse causality in the relationship between free zones and economic impacts. A 2014 paper by Jensen and Winiarczyk leverages panel data to perform an ex-post evaluation of the performance of Polish special economic zones, first introduced in 1994. Using a difference-in-differences estimator, they find **that free zones tend to be linked with greater firm creation but lower employment creation relative to areas without free zones.**³³⁸ In a 2018 research study which also uses a difference-in-differences approach, Ambroziak and Hartwell compared provinces where free zones were established with provinces without free zones.³³⁹ They find that **capital investment and firm entry increased in provinces with free zones, but fail to find any statistically significant differences between the two in terms of firm entry and employment generation.**

Maciejewska (2012, 2016) provides some studies focusing on working conditions and labour conflicts that characterised foreign factories, typically for electronics production, in the Polish Special Economic Zones between 2011-2013. In the first study, Maciejewska (2012)³⁴⁰ collects information based on research conducted by participant observation. The author worked as a temporary worker in Polish electronics assembly plant operating in one of the Special Economic Zones, depicting the development of SEZs and their impact on women workers. After her experience as a worker in an electronics plant, the author underlined “though workers’ rights are not legally suspended in the zone, they are undermined and dismantled in everyday praxis through managerial techniques and the organisational structure of electronics parts suppliers.” In the research, the author underlined several issues regarding the lack of compliance with labour rights and decent employment, in particular: low wages for female workers, majority of temporary contracts (monthly, weekly) were for female workers, exhausting labour and working hours, and health and safety issues.

In another study, Maciejewska (2016)³⁴¹ explores the labour conflicts and trade union failures in the LG factories in the Polish regions. The author identifies weaknesses of traditional unionism and bargaining position due to two factors. Firstly, the flexible nature of foreign electronics production factories, characterised by flexible work and low labour costs, gives

³³⁶ Pastusiak et al. (2014). Effectiveness of SEZs in Poland. The paper is available at the following [link](#).

³³⁷ Cizkowicz et al. (2015). The Effects of Polish Special Economic Zones on Employment and Investment: Spatial Panel Modelling Perspective. *MPRA Paper No. 63176, posted 23. March 2015*

³³⁸ Jensen and Winiarczyk (2014). Special Economic Zones: 20 Years Later. Case Research Paper, No. 467. The paper is available at the following [link](#). The Jensen and Winiarczyk paper focuses on impacts at the level of NUTS5 regions (or *gminas*). Ambroziak and Hartwell suggest that, due to frequent changes in the definitions and borders of free zones introduced by the government in response to potential investors’ requests, there are likely discrepancies between the actual location of free zones and statistical data on their location at the NUTS5 level.

³³⁹ Ambroziak and Hartwell (2018). The Impact of Investments in Special Economic Zones on Regional Development: the Case of Poland. *Regional Studies*, 52(10). The paper is available at the following [link](#).

³⁴⁰ Maciejewska, M., (2012), Exhausted bodies and precious products: women’s work in a Special Economic Zone for the electronics industry in Poland, *Work Organisation, Labour & Globalisation*, Vol. 6, No. 2 (Autumn 2012), pp. 94-112.

³⁴¹ Maciejewska, M., (2016). “Union busting is disgusting”: labour conflicts at LG corporation in Poland. Flexible workforces and low profit margins: electronics assembly between Europe and China, *European Trade Union Institute*, Chapter 9, pp. 187-203.

more power to employers. Secondly, the detachment of SEZ workers from local communities reduces potential support from other citizens and institutions.

Based on our consultation activities with a Polish trade union representative, **today in the Polish free zones there is no evidence of decent work deficits**, as there are no specific legal provisions nor waivers from the general labour legislation in the country. A major challenge in the Polish labour market concerns the **abuse of service contracts** i.e. workers are considered self-employed where in reality an employment relationship exists. These service contracts are qualified as “bogus contracts”, regulated by civil law and they do not foresee contributions to the social security system, and therefore do not create pension rights. These are limitations in the attainment of decent work. In fact, these types of contracts do not legally benefit from health and safety protection, as they are governed by civil law. According to a trade union leader, the labour inspectorate in Poland does not have the appropriate tools to transform bogus service contracts into employment contracts. The union leader admitted that the type of employment created in special economic zones was linked to industrial activities, here, the use of service contracts was reduced compared to the service sector. In this regard, **it was likely that special economic zones were making better use of employment contracts, with the related benefits that these contracts bring, compared to service contracts**. This was confirmed by two academics, who declared that it was more likely to find better quality employment in free zones, as the existence of formalities for enterprises to be established in the industrial hubs would positively impact the formalisation of the employment relationship and improved working conditions.

Collective bargaining in Poland takes place predominantly at the local or enterprise level, showing a very low rate of coverage, dramatically falling from medium coverage (from 40 to 60 %) in 1997-1999 to less than 20 % coverage in the years 2011-2013. This compares to an EU average of 66 % in 2007-2009.³⁴² The absence of sectoral bargaining contributes to this low level of coverage which is also due to the absence of employers’ organisations at the sectoral level.

Furthermore, in some cases, such as in Łódź, the SEZ and the local municipality cooperate in arranging agreements to provide training, internships and apprenticeships for students and young workers. In these cases SEZs are not made just for investing, but they are more part of the local business system.

Two are the main conclusions when analysing the status of Polish SEZs. Firstly, it is important to underline that **by default, the Polish SEZs have been established in regions characterised by high poverty levels, unemployment and unskilled labour**. Therefore, poor labour conditions could be related to the nature and the social conditions of these specific Polish regions and not associated with the existence of SEZs. Secondly, as argued by one interviewed expert, the **performance and success of the Polish SEZs really differ from each other**. The success of the activities often depends on the investment attractiveness of the Voivodship region, on the zone reputation and management and finally on the specific

³⁴² Eurofound (2015), [Collective bargaining in Europe in the 21st century](#), Publications Office of the European Union, Luxembourg, pages 42-43.

internal factors and quality of the zone (such as the zone administration, infrastructures and human capital programmes).

Special Economic Zones in India and Bangladesh

As already underlined in the previous sections, in several regions of the world, such as Africa and Asia, exemptions or limitations exist in the applicability of the national labour law to EPZs or in its implementation, affecting the right to freedom of association, the right to strike or the payment of existing minimum wages.

In India EPZs have existed since the 1960s, regulated by the Foreign Trade Policy and defined as duty-free enclave zones. In the early 2000s, EPZs experienced the introduction of the SEZs scheme, introducing new simplified procedures and introducing fiscal benefits. The SEZ have been introduced for creating economic activity, promoting exports of goods and investments³⁴³, attracting the biggest multinationals (such as Unilever). Today there are over 200 SEZs active in India³⁴⁴.

One major challenge pointed out by one interviewed stakeholder concerns the **limited labour inspection visits**, a fact that has triggered a complaint against the government in the ILO supervisory system for not complying with ILO Convention N. 81 on Labour Inspection **in the special economic zones located in India**. According to existing data³⁴⁵, the number of labour inspections conducted in recent years is insufficient, e.g. there are 652 units in Vishakapatnam SEZ and only 74 inspections, in the Noida SEZ with 258 enterprises, where only 77 labour inspections were undertaken only 20 were unannounced. Furthermore, since **trade unions have no access to SEZs**, these numbers cannot be independently confirmed. Again, violations seem to be underreported due to the low number of inspections. For instance, no violations have been reported in the Vishakapatnam SEZ and in the Mumbai SEZ, while these zones employ 343 572 workers employed in 652 units in Vishakapatnam SEZ, no law has been infringed.

The actions taken following the violations reported are also a matter of concern for the trade unions. In the Chennai SEZ, out of 388 violations reported, only 30 were followed up on, without providing information and details on the nature of the labour and rights infringements. In the Kandla SEZ, out of 147 violations detected, only 111 seem to be under investigation.

In many cases the Indian SEZs fall between different provinces and borders, which often apply different labour policies that are harmonised. In some states such as Jharkhand, Karnataka, West Bengal, and Uttar Pradesh (as per the SEZ policies of such states), there is a provision for placement of an officer from the labour department under the supervision of the Development Commissioner. And therefore, even if there is no delegation of the power and function of labour inspectors to the Development Commissioner, the labour officer is not

³⁴³ Indian Ministry of Commerce and Industry, Special Economic Zones in India, available at: <http://sezindia.nic.in/cms/operational-sezs-in-india.php>

³⁴⁴ [http://sezindia.nic.in/upload/uploadfiles/files/Operational%20SEZs%20270\(1\).pdf](http://sezindia.nic.in/upload/uploadfiles/files/Operational%20SEZs%20270(1).pdf)

³⁴⁵ Information gathered through interview. Data come from official Indian authorities.

independent, but works under the office of the Development Commissioner, which again undermines the inspections conducted.

During the 80s, EPZs have been set up in Bangladesh to promote economic growth through inflows of foreign investments and industrialisation. Today there are around 8 export processing zones in Bangladesh, with the plan to open new ones³⁴⁶. In Bangladesh, **laws on labour in EPZs are not in compliance with international labour standards, including specific legislation preventing trade union access in the EPZs**. After the Rana Plaza factory disaster in 2013³⁴⁷, workers have been allowed to form the so-called Workers Welfare Associations, which, however, do not have the same collective bargaining power as traditional trade unions.

For this purpose, several workers' delegates in 2019 made a complaint to the ILO against the government of Bangladesh regarding the negligence and non-observance of Conventions n. 81³⁴⁸, 87³⁴⁹ and 98³⁵⁰. This led to the development of a roadmap of priority areas and actions by the government. Nevertheless, in its statement, the IndustriAll Association³⁵¹ still highlighted that the amendment of the EPZ Labour Act still referred to Welfare Workers Associations and not trade unions, and that the act amendment was done without the consultation of welfare associations that are independently affiliated with IndustriAll.

In conclusion, there is an indication that violation of labour standards occurs in free zones in these countries, and that countries need to strengthen the legal framework and the labour administration to ensure that workers benefit from basic standards at work.

Conclusions of the second comparison

In the second comparison, between the Polish SEZs and the South Asian EPZ, the main results are the following.

- ▷ In both cases, mostly foreign and multinational companies are based in the free zones, although in Poland there is also FDI focused on IT.
- ▷ Poland reported some issues in terms of unionism and labour conflicts a decade ago, and there is no evidence so far that these issues are still ongoing. Challenges in the misuse of service contracts seem to exist in the country but are not specific to SEZs. It is likely that SEZs limit the use of service contracts due to the formalities required for enterprises to operate.
- ▷ **Unlike in Poland, in South Asia there are big issues with compliance with international labour standards in EPZs/SEZs, including limitations on the right of freedom of association and limited labour inspections. In India, trade unions have**

³⁴⁶ <https://www.bb.org.bd/en/index.php/econdata/epzexp>

³⁴⁷ On the 23rd April 2013, the collapse Rana Plaza factory (Bangladesh) killed over 1100 workers due to negligence on the status of the building factory. The tragedy revealed the status of labour conditions in these regions and put into more focus the rights of workers on health and safety. Available at: <https://www.business-humanrights.org/en/latest-news/bangladesh-allows-welfare-unions-in-special-economic-zones-after-factory-building-collapse/>

³⁴⁸ ILO Labour inspection convention.

³⁴⁹ ILO Freedom of association right convention.

³⁵⁰ ILO Right to Organise and Collective Bargaining Convention.

³⁵¹ IndustriAll Union Statement on ILO Roadmap in Bangladesh, available at:

https://www.industrialunion.org/sites/default/files/uploads/documents/2022/Bangladesh/industrial_statement_on_roadmap.pdf

no accesses to SEZs and therefore the real estimation of violations of labour standards is not available. In 2019 in Bangladesh, several workers 'delegates made a complaint to the ILO against the Government, claiming a lack of compliance of the regulations applicable in EPZs with international labour standards and non-observance of ILO Conventions on labour inspections (N. 81), freedom of association (N. 87) and collective bargaining (N. 98).

Summary conclusions

The information gathered reveals that **major challenges exist in the application of basic labour rights for workers employed in special economic zones in less developed countries**, such as freedom of association or the effectiveness of labour inspection. Instead, **no major challenges have been identified in EU countries**, where the legal frameworks are mostly in compliance with the principles contained in the decent work concept, where Member States have ratified the fundamental ILO conventions of the 1998 ILO Declaration of Principles and Rights at Work and where administrative and judicial mechanisms are in place to control their implementation. The free zones in Europe seem to reflect the industrial relations practice in the rest of the territory. No challenges have been identified regarding trade union activity in the zones that have been reviewed. In conclusion, the case study confirmed that no issues have been identified in the case of EU free zones related to RQ6 and RQ7 of the main report.

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CASE STUDY 4: STATE AID ASPECTS – ROMANIA AND MOLDOVA

Introduction

This case study aims at further looking into the State aid aspects and providing additional evidence to answer the research questions. The rationale for selecting the two Free Economic Zones (FEZ), one in an EU Member State (Romania) and another in a non-EU Member State (Moldova) is to find similarities and differences in how State aid aspects are applied in these free zones.

The rationale for choosing the free zones

As will be discussed in more detail below, there are currently six FEZs established under a framework first laid down in the early 1990s. Since then, Romania has become an EU Member State and phased out the main advantages granted by free zones prior to its EU membership after 2011. Since then, advantages for FEZ residents have been subject to the generally applicable State aid rules (regional aid map, Regional Aid Guidelines (RAG), General Block Exemption Regulation (GBER) etc.), most of which apply automatically. In this frame, it is worth analysing how Romanian FEZ, exemplified by the Galati FEZ, have evolved since the end of the more advantageous State aid regime. Romania is also an interesting jurisdiction to investigate as it faces competition from residents of non-EU free zones, particularly Moldovan free zones, which are not formally subject to the EU Treaty rules on State aid.

Moldova, an EU candidate country since June 2022, adopted its framework legislation concerning FEZ in 2001,³⁵² and implementing rules subsequently, such as Laws and Regulations concerning the creation and operation of specific FEZ. Since then, Moldova has adopted a State aid law and a number of implementing regulations, which are broadly in line with EU standards.³⁵³ In addition, in 2014 Moldova signed an Association Agreement with the EU,³⁵⁴ which provides in its Article 341.1 that State aid schemes established under the Law no. 440 of 27 July 2001 on free economic zones have to be aligned within 10 years from the date of entry into force of the Association Agreement, which fully entered into force in July 2016. Accordingly, Moldova may still grant benefits beyond the EU state aid rules' limits, which could be distortive for EU companies (particularly from neighbouring Romania) and could also lead to distortions in the Moldovan markets. In this context, it is worth studying what benefits the residents of Moldova Free Zones may receive, as exemplified by the Ungheni-Business FEZ, their compatibility with the EU State aid rules, and their possible impact on competitors from EU Member States, particularly from neighbouring Romania.

In light of the foregoing, this case study pursues two main goals: (i) analysing the evolution of FEZ in Romania post-2011, as demonstrated by the case of Galati, particularly in terms of the impact on FEZ residents of the termination of the previous more advantageous State aid regime; and (ii) analysing the benefits that FEZ residents may receive in Moldova, their compatibility with the EU State aid rules and their possible impact on EU competitors, mainly

³⁵² Law of the Parliament No. 440 of 27 July 2001 on Free Economic Zones.

³⁵³ The 2012 Moldovan State aid law and the implementing regulation can be consulted at: <https://www.competition.md/tabview.php?!=en&idc=36&t=/Official-documents/State-aid>

³⁵⁴ The Text of the Association Agreement can be consulted at: <https://investmentpolicy.unctad.org/international-investment-agreements/treaty-files/3125/download>

in neighbouring Romania through the analysis of incentives granted in Ungheni-Business, Moldova.

A comparison of the two proposed Free Economic Zones is significant and timely for several reasons.

First, it will provide relevant information concerning the granting of State aid to FEZ residents in two jurisdictions where the availability of this information is scarce. This scarcity is due to the limited number of recent Commission decisions concerning State aid to FEZ residents in Romania, and the lack of information in Moldova concerning State aid to FEZ residents. This lack of information in Moldova is due to the suspension of the application of the EU State aid principles to FEZs under the terms of the EU-Moldova Association Agreement.

Second, similarities and differences between the two FEZs in Romania and Moldova and how they have adapted to EU State aid law or principles in their different context are worth studying, particularly in light of the recent granting of EU candidate status to Moldova. In this regard, the experience of Romania phasing out economic benefits to FEZ residents could be relevant for the phasing out of incentives to FEZ residents that Moldova needs to undertake, because they are not in line with the EU State aid rules under the EU-Moldova Association Agreement.

Finally, studying similarities and differences in the two proposed jurisdictions is also relevant for competition and trade purposes as the two countries are neighbouring, and there might be distortions of competition and trade associated with their different regulatory environment (the Romanian FEZ being fully bound by the EU State aid rules while the Moldovan are not yet formally bound by them).

Description of Romanian and Moldovan Free Economic Zones

Free Economic Zones in Romania

The legal framework concerning Free Economic Zones in Romania includes the Free Trade Zones Law (No. 84/1992), the Government Ordinance on Stimulation of Direct Investments (No. 92/1997, as amended), the Law on Promotion of Direct Investments with Significant Impact on the Economy (No. 332/2001), and the Law on Establishment and Operation of the Industrial Parks (No. 490/2002).

There are currently six FEZs in Romania, namely Sulina, Constanta-Sud Agigea, Galati, Braila, Curtici-Arad, and Giurgiu.³⁵⁵ According to the information published by the Government of Romania, “Free trade zones are special areas inside customs territory of a state or EU Community. Goods placed within these areas are free of import duties, VAT and other import charges. The free zones were created with the aim of promoting international exchanges and attracting foreign investment in high technologies, know-how, increasing the use of the local economy resources.”³⁵⁶

The activities that can be carried out in free zones, according to the Law on Free Zones (Article 9), are the following: handing, storage, sorting, measuring, packaging, processing, assembly, production, branding, testing, auction, sale-purchase, expertise, repairs, knocking down of goods, organisation of exhibitions, stock exchange and financial-banking operations, transport and domestic or international deliveries, leasing or renting buildings, storage areas or

³⁵⁵This information can be consulted at <https://www.state.gov/reports/2022-investment-climate-statements/romania/>

³⁵⁶ This information can be consulted at <http://investromania.gov.ro/web/free-zones/>

unarranged spaces for the construction of economic or hotel units, quality and quantity control of goods, freighting, supplying of ships and other transportation means, services and other activities specific for free zones.

The Law also provides for a number of financial and regulatory advantages for FEZ residents (Articles 11-18), including the following.

- ▶ The terrains or constructions in the free zones may be leased or rented by natural and artificial persons, Romanian and foreign. [...] The leasing term may be a maximum of 50 years and is an established function of the value of the investment and the specific nature of the activity.
- ▶ For activities carried out in free zones, economic agents shall be exempt from the goods-circulation tax, excise and profits tax throughout the period of activity. Transfer abroad of the profit shall be made under the law.
- ▶ Romanian materials and accessories that enter the free zones and are used to manufacture other goods shall be tax- exempt, with compliance or export formalities.
- ▶ The Romanian goods used for construction, repairs or maintenance of objectives within the free zones are tax-exempt.
- ▶ The goods from a free zone may be transported to another free zone without any customs tariff on Romania's customs territory with observance of legal provisions. Moreover, these goods may also be introduced in the country with observance of the conditions and formalities of import or temporary delivery.

Some of these advantages were no longer granted after the accession of Romania to the EU. In this regard, the Romanian Competition Council published a study in December 2011 regarding the social and economic impact of the State aid granted to undertakings that operate in Romania's free zones.³⁵⁷ The publication of the study derives from the provisions of article 4 of Annex VII to the Treaty on the accession of the Republic of Bulgaria and Romania to the European Union, related to competition policy, under which Romania had to submit to the European Commission information regarding the eligible costs of the investments made, effectively supported by the beneficiaries and also regarding the total amount of state aid granted to the beneficiaries according to the national Law on Free Zones (Law no. 84/1992). This document is particularly relevant as it describes the situation concerning FEZ in Romania and the main tendencies observed at the end of the previous, and more advantageous, State aid regime, which have been contrasted with the situation of Galati in 2022, as discussed in the following sections.

Free Economic Zones in Moldova

The main legal basis for the constitution and operation of FEZs in Moldova is the Law of the Parliament No. 440 of 27 July 2001 on Free Economic Zones. According to information published by the World Trade Organisation (WTO) in 2022, “Based on the existing legal framework, seven free economic zones (FEZ “Balti”, FEZ “Ungheni-Business”, FEZ “Export-Business-Chisinau”, FEZ “Valkanes”, FEZ “Tvardița”, FEZ “Taraclia”, FEZ “Otaci-Business”) have been created and are operating, with 38 sub-zones located throughout the country on a

³⁵⁷ This document can be consulted here: http://www.ajutordestat.ro/wp-content/uploads/2020/02/Studiu-de-impact-AS-ZL-Rezumate-EN_689en.pdf

total area of about 440 ha. According to the situation as of 31 December 2021, 229 residents were registered in the 7 FEZs, with a number of employees of 15 830 persons and a gross average monthly salary of USD 471.20 (approximative EUR 450). [...] The total value of investments made in the free economic zones during the entire period of activity until 31/12/2021 amounted to USD 506.2 million. The total income from sales of industrial production by free zones amounted to USD 672.9 million in 2021, of which USD 612.4 million was export revenue.”³⁵⁸

Similarly, the 2022 WTO extended report provides “[from 2015 to 2021] the use of FEZs by domestic and foreign investors continued to increase as investment and employment more than doubled, and total production and exports more than tripled (Table 15). Total exports from FEZs increased from USD 179 million in 2015 to USD 612 million in 2021 (representing 91 % of FEZ production compared to 73 % in 2015) as the share of total Moldovan exports originating in FEZs increased from 9.3 % in 2015 to 19.4 % in 2020, according to the authorities. Two of the seven zones accounted for nearly 90 % of production and exports. Local labour, energy, and water generated nearly all of the FEZ value added. While most production from FEZs is exported, FEZ residents can also sell production into the customs territory of the Republic of Moldova. Such sales are treated as regular imports and are subject to import duty, VAT, and excise duties where applicable.

Table 21: Development of FEZ activity, 2015 and 2021

	2015					2021				
	Total investment received (USD million)	Number of active firms	Employment	Production (USD million)	Exports (USD million)	Total investment received (USD million)	Number of active firms	Employment	Production (USD million)	Exports (USD million)
FEZ Export-Business-Chișinău	54.4	..	498	14.0	..	75.3	56	1 591	36.0	31.4
FEZ Balti	58.0	..	3 088	80.7	..	249.5	81	10 206	449.9	417.9
FEZ Ungheni-Business	65.6	..	2 133	93.6	..	103.8	43	2 829	147.4	131.0
FEZ Valkanes	15.9	..	384	15.7	..	25.3	27	728	21.8	21.7
FEZ Tvardita	16.8	..	275	10.5	..	23.4	5	250	13.8	8.4
FEZ Otaci-Business	3.4	..	58	9.4	7	40	0.18	0
FEZ Taraclia	16.1	..	66	19.6	10	186	3.8	2.0
Total	230.2	156	6 502	214.7	178.7	506.3	229	15 830	672.9	612.4

.. Not available.

Source: Information provided by the authorities.³⁵⁹

According to Article 6 of the Law on FEZ, free zone residents may be any natural or legal person registered in accordance with the law as the subject of any of the entrepreneurial activities in the Republic of Moldova provided for by Article 6(10) of the Law on FEZ.

The activities allowed in the FEZ are the following:

- a. industrial production of export goods, excepting ethylic alcohol (refined ethylic alcohol, ethylic alcohol with a strength higher than 80 % vol, ethylic alcohol with a strength lower than 80 % vol, technical alcohol, denatured alcohol, raw and matured wine distillates, other ethylic alcohol derivatives) and of alcoholic production; b) sorting,

³⁵⁸ Trade policy review, Report by Republic of Moldova, WT/TPR/G/428, 15 June 2022, at points 2.54 and 2.55. The report can be consulted at https://www.wto.org/english/tratop_e/tpr_e/q428_e.pdf

³⁵⁹ Trade policy review, Report by Republic of Moldova, WT/TPR/S/428, 15 June 2022, at point 3.79 and Table 3.7. The report can be consulted at https://www.wto.org/english/tratop_e/tpr_e/s428_e.pdf

package, labelling and other similar operations with goods transiting the customs territory of the Republic of Moldova.

- b.** external commercial activity: c) auxiliary types of activity, such as utility, storage, construction, public food provision services, etc., required to conduct the activities indicated in items a) and b) (as per paragraph 10 of Article 6 of the Law on FEZ).
- c.** It is also provided, by way of derogation to paragraph 10(a) above that the residents who at the date of entry into force of the mentioned provisions, were implementing investment projects related to the production of ethylic alcohol and alcohol production are entitled to continue implementing them under the conditions provided in the contract concluded with the administration, in force at the moment of entry into force of the provisions of this law. In addition, paragraph 11 of the same article underlines that the priority type of activity is industrial production.

FEZ residents enjoy a number of advantages under Law 440. This preferential treatment derives from a number of legal and fiscal privileges. Legal privileges include enhanced protection from expropriation or nationalisation, the protection from changes in the legal framework for a period of 10 years and up to 20 years, the free movement of goods (services) located in FEZ, and the exception of customs declaration to goods and services within the FEZ. According to the information provided by the state agency Invest Moldova, incentives for investments in FEZ include a 0 % CIT for a period of 3 years when investing at least USD 1 million and 5 years if investing at least USD 5 million, 0 % VAT, no Excise and Customs duties, and a 10-year state guarantee on legislation changes.³⁶⁰

In addition, according to information published by the World Bank,³⁶¹ FEZ residents enjoy the following fiscal advantages:

- ▶ Exemption of 50 % of the income tax generated from the export of goods (services) originating in the free economic zone outside the country or obtained from the delivery of goods (services) produced in the FEZ by other residents of free economic zones for goods (services) export oriented.
- ▶ Exemption of 25 % of income tax obtained from other activities than exports of goods (services).
- ▶ Total Exemption for three years from tax on income derived from exports of goods (services) originating in the free economic zone outside the country as a result of investing in the free zone at least USD 1 million.
- ▶ Exemption for five years of total tax on income from exports of goods (services) originating in the free economic zone outside the country as a result of investing in the free zone at least USD 5 million.
- ▶ Exception of VAT for goods (services) delivered to the FEZ from outside Moldova, goods (services) delivered to the FEZ from the rest of Moldova, goods (services) delivered by residents of different free areas of the Republic of Moldova to each other.

³⁶⁰ This information can be consulted at <https://www.invest.gov.md/en/incentives-taxes/>

³⁶¹ World Bank. 2016. Moldova Trade Study : Note 4. The Performance of Free Economic Zones in Moldova. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/24006> License: CC BY 3.0 IGO, at page 8.

- ▶ Exemption from excise duty on goods brought in FEZs from outside Moldova, from other FEZs, the rest of the territory of the Republic of Moldova, as well as goods originating in a FEZ and exported outside the territory of the Republic of Moldova.
- ▶ The goods delivered within FEZs and supplies of goods brought from one FEZ to another are exempted from excise duties.

Table 22: Tax Benefits in Moldovan Economic Zones

Tax benefits in economic zones	Rest of the country
50 % exemption from tax on income derived from export of goods and services originating in the zones or sold to other zone residents.	12 % CIT
25 % exemption from tax on income derived from activities other than exporting goods and services.	12 % CIT
For an investment in the free zone of at least USD 1 million, exemption for three years from income tax derived from goods and services originating in the zone and exported outside the country.	12 % CIT
For an investment in the free zone of at least USD 5 million, exemption for five years from income tax derived from goods and services originating in the free economic zone and exported outside the country.	12 % CIT
VAT is not applied to the goods delivered to the free zone.	20 % VAT
Zero VAT rate for goods and services delivered: to the free zone from outside Moldova, from the free zone outside Moldova, to the free zone from the rest of the territory of Moldova, by residents of different free zones in Moldova to each other.	20 % VAT
Exemption from excise payment for goods: introduced in the free zone from outside the Republic of Moldova; from other free zones; from the rest of the territory of Moldova; originating from this zone and exported outside the territory of the Republic of Moldova.	According to the legislation (unit and ad-valorem excises)
Exemption from payment of excise taxes for: deliveries of goods within the free zone; deliveries of goods from one free zone to another are not subject to excise duties.	According to the legislation (unit and ad-valorem excises)

Source: World Bank, *Moldova Trade Study, Note 4, The Performance of Free Economic Zones in Moldova, 2016*, based on National legislation, Law Nr. 440XV from July 27, 2001 Fiscal Code

Comparison of selected Romanian and Moldovan Free Economic Zones

In the table below, we present the details of the two free zone examined in this case study.

Table 23: Comparison of selected free zones

Element	Galati Free Economic Zone	Ungheni-Business Free Economic Zone
Country	Romania	Republic of Moldova
Date of creation	1993	2002
Size	80 ha	41.55 ha.
Investment	EUR 50 000 000	USD 1 900 000
Tenants	40	22
Employment	100 to 200	290
Turnover	3 886 000 Romanian LEI	N/A
Key sectors	The main economic activities include Logistics, Commerce, and warehousing of products such as cereals, metal products, industrial equipment, fertilisers, or steel products. In particular, Commerce and transit of general cargo, Warehouse and bonded customs warehouse, Oil and oil derivate (LPG) terminal, bunkers, commerce and transit, and steel and metal commerce and processing.	The main economic activities include: production of goods for export, sorting, packaging, labelling and other similar operations with goods transited through the customs territory of the Republic of Moldova, Other related types of activity, such as community services, storage, construction, food sales, etc., Activities and services of a different nature that do not contradict current legislation. Current residents operate in: <ul style="list-style-type: none"> • Production of industrial products for export (11 residents) • Sorting, packing, labelling and other similar operations with goods transited through the customs territory in the Republic of Moldova (4 residents) • Other auxiliary fields: community services, storage, construction, food sales, renting services, etc. (7 residents)
Main advantages	<ul style="list-style-type: none"> • customs duties are paid only in the moment when they are 	FEZ Ungheni-Business provides: <ul style="list-style-type: none"> • Income tax payment only 50 % of that established in the rest

Element	Galati Free Economic Zone	Ungheni-Business Free Economic Zone
	<p>introduced in free circulation;</p> <ul style="list-style-type: none"> • station of goods inside Galati Free Zone is not limited in time; • to introduce wares inside Galati Free Zone does not require a deposit of customs warranty or to declare a customs regime; • there is the advantage to deposit goods inside Galati Free Zone without paying any kind of customs duties or VAT up till the moment the goods are exported from Galati Free Zone towards community space and only for the quantity you want to sell towards community space (European Union space) • transit of goods between free zones is also exempted from customs duties 	<p>of the Republic of Moldova (Law No. 440, article 8, point 2.3.4.6.8.11.12., article 10, point 1);</p> <ul style="list-style-type: none"> • VAT tax suspension; • Possibility of renting space for a period of 25 years; • Possibility of renting free land • Possibility of assembling finished products, through the collection of necessary semi-finished materials from around the globe; • Possibility of employing a qualified work force; • Possibility of transferring capital and profits abroad; • Access to railways, both European and Russian tracks;

It should be noted that the end of the previous, more generous, State aid regime in 2011, does not mean that FEZ residents, or other undertakings investment in Romania more generally, cannot receive State aid. Instead, according to the recently approved regional aid map for Romania, covering the period from 1 January 2022 to 31 December 2027,³⁶² Galati is one of the regions where the maximum aid intensity for large enterprises is 60 %. In other words, the maximum amount of State aid that can be granted per beneficiary is 60 % of the eligible investment costs in the case of large enterprises. In addition, the abovementioned maximum aid intensity can be increased by 10 percentage points for investments made by medium-sized enterprises and by 20 percentage points for investments made by small enterprises, for their initial investments with eligible costs up to EUR 50 million.³⁶³

According to the information gathered (interview 2) the Galati Free Zone has contributed to the economic growth of the region, particularly in the town of Galati, through an increase in employment and in taxes paid by the companies that develop activities inside the free zone and by enriching opportunities for local companies to provide services for bigger ones that operate inside GFZ. In this manner, Galati Free Zone has also contributed to fostering decent employment in the region. This view is also shared by other FEZ administrations, for instance, that of the Curtici-Arad FEZ (Interview 1).

Comparing the current situation to that described by the 2011 Romanian Competition Council report, inasmuch as possible on the basis of the available information, it appears that the situation in the Galati Free Zone has not worsened after the elimination of the more generous

³⁶² State aid SA.100199 (2021/N) – Romania Regional aid map for Romania (1 January 2022 – 31 December 2027), Brussels, 20.12.2021 C(2021) 9750 final.

³⁶³ Id, at paragraph 29.

State aid regime in 2011. To this extent, for instance, the total investments reported in 2021 (EUR 450 000 000) doubled those mentioned in the 2011 report (USD 202 560 000), although the latter only monitored the investments made by two State aid beneficiaries in the Galati Free Zone. Similarly, the average number of employees per company in 2010 was 164 for the Galati Free Zone, which is similar to that reported for the year 2021 (between 100 and 200). In this context, as mentioned in the Galati Free Zone's blog "Despite the economic crisis installed in 2009 and removal of fiscal incentives, free trade zones have neither gone nor reached their full potential for development."³⁶⁴ Finally, for the coming decade, the FEZ administrators foresee an increase in the desirability of the entire area through the infrastructure works that are being developed, particularly the bridge over the Danube, The Road Belt of Galati, the express highway Galati-Braila, and the multimodal harbour project (interview 2). This last prediction is coherent with others made by administrators in different Romanian FEZs, such as Curtici-Arad, which also foresee an expansion of the activities in their FEZ (Interview 1).

Insights into answering research questions

RQ1 Purpose and Objectives of the Free Economic Zones

In Romania, free zones aim to foster international exchanges and draw foreign capital for the introduction of new technologies, as well as to enhance the use of the national economy resources. Free zones may be established in the maritime and river ports of Romania, along the Danube-Black Sea Canal and other navigable canals and in the territories in the neighbourhood of frontier checkpoints (Article 1.1 of the Romanian Law on the Free Zones).³⁶⁵ In this regard, as phrased by the Romanian authorities, "The free zones were created with the aim of promoting international exchanges and attracting foreign investment in high technologies, know-how, increasing the use of the local economy resources."³⁶⁶

Similarly, Article 1.3 of the Moldovan Free Zones Law provides that 'The free zones shall be created aiming the acceleration of the social and economic development of certain territories and of the country as a whole by:

- ▶ attracting domestic and foreign investments;
- ▶ implementing the modern technique and technology;
- ▶ developing the export-oriented production;
- ▶ applying the advanced experience in the field of production and management;
- ▶ creating working places.³⁶⁷

In relation to the foregoing, the main goals of the FEZ Ungheni-Business are the following:³⁶⁸

- ▶ Attract foreign and local investment;
- ▶ Create new jobs;
- ▶ Support private initiatives and entrepreneurs;

³⁶⁴ The blog entry can be consulted at <https://www.zlgalati.ro/en/new-evolution-innovative-logistics-free-trade-zones>

³⁶⁵ Law 84/1992, Romania's Parliament Law on the Free Zones, Article 1.1.

³⁶⁶ This information can be consulted at <http://investromania.gov.ro/web/free-zones/>

³⁶⁷ Law of the Republic of Moldova on free economic zones No. 440-XV from 27.07.2001 Official Monitor of the Republic of Moldova No. 108-109/834 from 06.09.2001.

³⁶⁸ The information can be consulted at <http://ungheni.atspace.org/1informgenerale-1.htm>

- ▶ Stimulate export;
- ▶ Develop infrastructure for production and utilise unproductive infrastructure in municipal Ungheni;
- ▶ Diminish bureaucratic barriers that impede access to the market and entrepreneurial efforts.

RQ2 Free Economic Zones and State aid law and policy

Given that FEZs provide better conditions for economic activity within their geographical area than those applicable to the rest of the given jurisdiction, usually a country, there is a clear risk that the constitution of a FEZ will entail the provision of State aid under EU Law to the FEZ residents. Typical incentives granted to SEZ residents in many jurisdictions, including Romania, meet all the criteria of the definition of State aid under Article 107.1 TFEU. This is the case of the exemption from payment of import duties and charges on imported goods, total or partial exemption from the payment of direct taxes (e.g., income tax), indirect taxes (e.g. VAT exemptions or reductions) or social security contributions.

In particular, under EU Law, the establishment and functioning of FEZ has to be assessed under the EU State aid rules, particularly under the provisions on EU regional aid contained in the Regional Aid Guidelines³⁶⁹, according to a well-established administrative practice³⁷⁰ and the General Block Exemption Regulation (GBER),³⁷¹ whose main objective is to reduce the disparities among EU countries and regions in terms of economic growth and social development.

Consequently, the positive effects of the incentives granted in terms of regional development must outweigh the resulting distortions of competition in the area/region. In other words, under the applicable EU State aid rules, regional aid may be granted in regions eligible under the derogation in Article 107(3)(a) of the Treaty provided that (i) it is justified in terms of its contribution to regional development and its nature and (ii) its level is proportional to the handicaps it seeks to alleviate. In addition, and precisely with a view to limiting the potential competition distortions, regional aid in FEZs should not be intended to promote exports.

Similarly, the financial advantages granted to FEZ residents under the Moldovan Law on Free Zones, as applied for example by the Ungheni-Business FEZ, are liable to constitute State aid under EU Law, but also under the Moldovan regulations implementing the national State aid Law, Law No. 139/2012 on State Aid, particularly within the meaning of Article 6 of the State Aid Law.³⁷²

The compatibility of the advantages granted to FEZ residents in Moldova with the State aid rules has to be assessed considering the national State aid legislation. In particular, under

³⁶⁹ See the current Guidelines on Regional State Aid, OJ C 153, 29.04.2021, p.1. See also in this regard State aid SA.100199 (2021/N) – Romania Regional aid map for Romania (1 January 2022 – 31 December 2027).

³⁷⁰ See, e.g. State Aids N222a/2002 Régime d'aides de la zone franche de Madère pour la période 2003-2006, N293/2007 Reduced excise duty to beer produced and consumed in Madeira, N319/2008 Reduced excise duty for rum and liqueurs produced in Madeira, N421/2006 Zona Franca Madeira, N242b/2005 Regional aid scheme for enterprises in the special economic zone of Katowice (city of Zabrze), C78/2001 Exemption from excise duty for the production of alumina in Shannon, or N335/2009 Mid-Shannon Corridor Tourism Infrastructure Scheme. More recently see also Commission Decision of 4.12.2020 on aid scheme SA.21259 (2018/C) (ex 2018/NN) implemented by Portugal for Zona Franca da Madeira (ZFM) – Regime III.

³⁷¹ Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187, 26.6.2014, pp. 1-78. See also Commission Regulation (EU) 2021/1237 of 23 July 2021 amending Regulation (EU) No 651/2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 270, 29.7.2021, pp. 39-75.

³⁷² Law No. 139/2012 on State Aid. According to this Article, paragraph 1 “State aid is expressed by providing public goods, including through financial means, to a beneficiary or by not providing certain future income, whether actual or you would get from a beneficiary.” The State aid law is available at https://www.competition.md/public/files/uploads/files/legi/ajutor_de_stat/en/STATE%20AID%20LAW%20nr.%20139%20from%2015.06.2012.pdf

Moldovan State aid Law, assessment of the compatibility of State aid with the normal competitive environment is made based on the documents adopted by the Plenum of the Competition Council for each category of state aid provided for in Article 5 Para (1) of Law No. 139 of 15 June 2012 on State aid (Section 11, point 53, of the Regulation on the notification form, examining procedure and decision making on state aid (Approved by the Decision of the Plenum of the Competition Council nr.1 of August 30, 2013)).

To this extent, as advantages to FEZ residents are, inter alia, aimed at regional development, the compatibility of these advantages with the national State aid rules will have to be chiefly assessed on the basis of the Regulation on State Aid for Regional Development implementing the State Aid Law (RAR),³⁷³ in particular under Section 3 et seq. of the RAR.³⁷⁴ In this regard, and without entering into a detailed analysis at this point, the advantages described in the previous section raise doubts as to their compatibility with EU and Moldovan State aid law, as they do not meet in all instances the conditions to qualify as investment aid, but rather appear to be operating aid, which is usually prohibited, also under Moldovan State aid law (Section 6, paragraph 49 of the RAR), save for exceptional circumstances and under certain conditions (Section 6, paragraphs 50-54 of the RAR). It therefore appears that, in the absence of other justifications (such as the possibility of benefiting from De minimis aid where applicable), the advantages currently granted are not fully in line with the Moldovan State aid rules and will have to be adjusted before the end of the extension provided for by the Association Agreement in order to be in line with the EU State aid rules.

In this regard, as mentioned before, Moldova is not yet bound to fully align these advantages to the EU rules on the basis of Article 341.3 of the EU-Moldova Association Agreement, which provides that “Any state aid schemes instituted before the establishment of the state aid authority shall be aligned within a period of eight years from the date of entry into force of this Agreement. Without prejudice to other Chapters of this Agreement, the alignment period shall be extended for a maximum period of up to 10 years from the date of entry into force of this Agreement regarding State aid schemes instituted under the Law of the Republic of Moldova on Free Economic Zones No 440-XV of 27 July 2001.” In this regard, it should be noted that the Republic of Moldova-European Union Association Agreement was signed in June 2014 and is fully in force since July 2016.

RQ3 Economic Benefits of State aid granted in Free Economic Zones

According to the report carried out by the Romanian Competition Council in 2011 on the social and economic impact of the state aid granted to undertakings that operate in Romania's free zones, the granting of State aid to FEZs brought about several positive effects, namely:

- ▶ supporting the free initiative in free zones;
- ▶ realising investments in the area;
- ▶ creating new jobs, even though, overall, the number of employees decreased at the end of the analysed period;
- ▶ employing qualified personnel (over 60 % of total personnel);

³⁷³ Approved by the Decision of the Plenum of the Competition Council No 4 of August 30, 2013, the regulation can be consulted at https://www.competition.md/public/files/uploads/files/Regulamente/Ajutor_de_stat/eng/REGULATION%20on%20state%20aid%20for%20regional%20development.pdf

³⁷⁴ According to Article 3, paragraph 12, RAR “Regional aids for investment is granted for initial investment. Replacement of investments is not eligible for regional aid.”

- ▶ paying taxes to the public budget (the total state aid granted represents about 5.6 % of the taxes paid).³⁷⁵

Similarly, in Moldova, information recently published also highlights that “the policies related to development of the Free Economic Zones (FEZ) [one of them arguably being the granting of incentives in these zones] contributed to the growth of industry”. In the same vein, according to a 2016 World Bank report, FEZ “have been successful in attracting investment from both domestic and foreign sources. Since 2002, the volume of foreign and domestic investments in the zones increased five-fold, reaching USD 212 million in 2014. While not all investments in the zones have a foreign origin, investments in the zones amount to 80 % of total FDI stock in Moldova for the period 2009-2014. The economic zones have become true export platforms, generating a five-fold increase in exported industrial production from the zones between 2004 and 2014. The majority of industrial production (75 %) in the zones is exported rather than sold domestically. The share of exported products from the zone reached 9.2 % of total Moldovan exports in 2014, from 4.2 % in 2006. Exports from the economic zones are in general more dynamic and mainly concentrated on manufactured goods.[...] Evidence suggests that the economic zones have significantly contributed to the diversification of exports and to the changing structure of the Moldovan economy.”³⁷⁶

RQ4 Costs & Risks of Free Economic Zones

The granting of State aid to FEZ residents entails detrimental effects on public finances.

In Romania, State aid granted during the period 2003-2011 amounted to USD 7 295 916, out of which USD 6 501 439 represented exemptions from paying royalties and USD 794 477 represented exemptions from paying tax profit.³⁷⁷

Similarly, in Moldova, the tax benefits to FEZ residents, together with the exemptions to excise and customs duties are liable to have a significant impact on the State budget, although precise information as to the exact amount has not been found.

In addition to their negative impact on public finances, incentives granted to FEZ residents are liable to distort competition and trade by creating artificial advantages that may exclude more efficient competitors from the relevant markets. The competitive distortions may affect undertakings in the country where the FEZs are located, which do not receive the same advantages. Additionally, they may also impact undertakings located in different FEZs if the incentives offered by those FEZs are not the same.

In relation to the foregoing, as the Court of Justice of the EU has constantly held, a measure granted by the State is considered to distort or threaten to distort competition and affect trade when it is liable to improve the competitive position of the recipient compared to other undertakings with which it competes. The distortion of competition within the meaning of Article 107(1) TFEU is thus assumed as soon as the State grants a financial advantage to an undertaking in liberalised sectors where there is, or could be, competition.³⁷⁸ In this context, as affirmed by the European Commission’s recent decision concerning the Zona Franca da

³⁷⁵ Romanian Competition Council, Report on the social and economic impact of the state aid granted to undertakings that operate in Romania’s free zones, 2011, at page 12. The report can be consulted at: http://www.ajutordestat.ro/wp-content/uploads/2020/02/Studiu-de-impact-AS-ZL-Rezumat-EN_689en.pdf

³⁷⁶ World Bank. 2016. Moldova Trade Study : Note 4. The Performance of Free Economic Zones in Moldova. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/24006> License: CC BY 3.0 IGO, at p. 3.

³⁷⁷ Romanian Competition Council, Report on the social and economic impact of the state aid granted to undertakings that operate in Romania’s free zones, 2011, at p. 5.

³⁷⁸ See in this regard, among others, the judgment of the Court of First Instance of 15 June 2000, *Alzetta and Others v Commission*, joined cases T-298/97, T-312/97, T-313/97, T-315/97, T-600/97 to 607/97, T-1/98, T-3/98 to T-6/98 and T-23/98, ECLI:EU:T:2000:151, paragraphs 80, and 141 to 147.

Madeira (ZFM), “To the extent that the companies registered in the ZFM carry out activities that are open to international competition, the measure at stake improves their competitive position and threatens to distort competition and thus may affect trade between Member States.”³⁷⁹

The Romanian Competition Council identified the following negative effects associated with FEZ, and particularly the granting of State aid in FEZ.

- ▶ Many companies relied too much on the fiscal facilities existing within the free zones and they requested for these facilities to be maintained during the following period of time without trying to identify other support measures in order to develop their activities;
- ▶ The effects of the state aid were temporary: 35 % of the companies that had been interviewed were determined to renounce their activities after the fiscal facilities end;
- ▶ State aid in the form of tax exemptions results in higher management costs for the scheme compared to state aid provided in the form of grants;
- ▶ The economic activity within the free zones didn't vary at all. The main activities carried on were storage and trade. Production didn't have a significant weight in the total activities for which the Free Zones Administrations granted licenses;
- ▶ A minimum engagement of the local authorities in the development of the free zone;
- ▶ The State aid didn't draw major investments in the free zones;
- ▶ The fact that the number of companies carrying on their activities within the free zones (measured by the number of concession contracts effective in 2011) is higher than the number of the companies that benefited from State aid, seems to emphasise that the existence or non-existence of some state aid measures in the free zones is not a determinant part in the companies' decision to use the free zone custom regime;
- ▶ The poor delimitation from a facility point of view (except the custom facilities) between the free zones, the deprived areas and the industrial parks.

In addition, Romanian authors have identified other risks or threats related to Romanian FEZs, including competition from free zones in non-EU countries, mentioning in particular the case of Moldovan FEZs, as well competition between free zones within Romania, some of them being located at scarcely 20 km distance, and the fact that the European Union legislation does not encourage the operation of FEZs.³⁸⁰

More recently, a FEZ administrator in Romania has noted the potential risk posed by international trade agreements that the EU signs with third countries. These agreements entail the elimination of customs duties for imports into the EU, which threatens the main comparative advantage of EU FEZs - the suspension of customs duties for the goods brought from outside the EU into the free zone perimeter.

Similarly, regarding Moldova, the following has been highlighted.

- ▶ There are signs that some zones in Moldova have reached their potential or are stagnating, and are susceptible to fraud, counterfeiting, and smuggling.

³⁷⁹ Commission decision of 4.12.2020 on aid scheme SA.21259 (2018/C) (ex 2018/NN) implemented by Portugal for Zona Franca da Madeira (ZFM) – Regime III, at paragraphs 138 and 139.

³⁸⁰ Elena Enache, 2012. "Free Zones In Romania - Success Or Failure?," Management Strategies Journal, Constantin Brancoveanu University, vol. 16(2), pages 58-66, at p. 65.

- ▶ Out of the seven economic zones analysed in Moldova, only two exhibited a continued increase in production—Balti and Ungheni. The rest of the zones, most of which existed long before the financial crisis of 2008, did not expand production by attracting more investments.
- ▶ Taxes paid by the economic zones to the state is less than 1 % of all collections and are primarily from personal income taxes of the employees. While production and exports are constantly increasing in the zones, collection of taxes has not changed.

The number of companies that economic zones accommodated did not change much over time—from 147 residents in 2008 to 160 in 2014. Evidence shows that large international companies in the automotive and textile sectors were behind the latest strong expansion of investments in the zones. This has contributed to export diversification (see Note 1 on Trade Competitiveness Diagnostics) and could have implications on the possibility and scale of leveraging spillovers to the rest of the economy.”³⁸¹

RQ6 Employment creation through Free Economic Zones

The contribution of FEZs to employment in both Romania and Moldova is rather limited. To this extent, according to the 2011 Romanian Competition report, “For most of the companies, during 2003-2010, the number of employees decreased. Only for four companies was an increase in the number of employees at the end of the period analysed versus the debut. For the other firms, staff size fluctuated in time, the management choosing to dismiss or, conversely, to employ personnel.”³⁸² More recently, as mentioned supra, both the managers of Galati and Curtici-Arad FEZs in Romania have reported that their FEZs have made positive contributions to decent employment in the regions where they are located (interviews 1 and 2).

Similarly, the 2016 World Bank report concerning FEZs in Moldova concluded that “On average, employment in the economic zones had a robust growth in the last seven years and almost doubled since 2008. The evidence shows that the overall impact of most economic zones worldwide on employment is rather limited. In the case of a small agricultural country like Moldova, the contribution of economic zones to employment is not negligible, but not determinant. The available data present an increasing level of exports, while delivering relatively limited employment concentrated in specialised labour-intensive areas (automotive, textile, etc.).[...] There is growing concern that employment growth may have reached its peak and will be slowing in the majority of the registered zones. In 2014, employment dropped in 6 out of 7 zones by 4 %”.³⁸³

Summary conclusions

The free economic zones in Romania and Moldova were created with the aim, *inter alia*, of attracting foreign investments, developing national industry and fostering exports and employment.

³⁸¹ World Bank. 2016. Moldova Trade Study: Note 4. The Performance of Free Economic Zones in Moldova. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/24006> License: CC BY 3.0 IGO, at pp. 8-14.

³⁸² Romanian Competition Council, Report on the social and economic impact of the state aid granted to undertakings that operate in Romania's free zones, 2011, at page 9.

³⁸³ World Bank. 2016. Moldova Trade Study: Note 4. The Performance of Free Economic Zones in Moldova. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/24006> License: CC BY 3.0 IGO, at pp. 13-14.

However, the **financial advantages granted to FEZ residents** through tax exemptions and other incentives have **entailed the commitment of significant public resources**. Together with the detrimental effect on public finances, the **incentives granted to FEZ residents are liable to distort competition and trade**, both in the country where the FEZ is present and in neighbouring jurisdictions. In addition, **the ability of incentives to attract significant investments, at least by large undertakings, is not always evident**.

The incentives granted to FEZ residents in Romania and Moldova meet all the criteria of the definition of State aid under Article 107.1 TFEU and under Moldovan national State aid law. This is the case of the exemption from payment of import duties and charges on imported goods, total or partial exemption from the payment of direct taxes (e.g., income tax), indirect taxes (e.g. VAT exemptions or reductions) or social security contributions.

Coming back to the issues posed at the beginning of the case study:

- ▶ (i) analysing the evolution of Free Economic Zones in Romania post-2011, as exemplified by the case of Galati, particularly in terms of the impact on FEZ residents of the termination of the previous more advantageous State aid regime;
 - ▷ **After 2011, Romania can only grant incentives to FEZ residents under the EU State aid rules**, namely the provisions on EU regional aid contained in the Regional Aid Guidelines and the GBER, whose main objective is to reduce the disparities among EU countries and regions in terms of economic growth and social development.
 - ▷ Based on the available information, the application of these rules, and **the corresponding phasing out of the previous – more generous – regime, has not had a significantly negative impact on the operation and results of the analysed FEZs**, in particular in relation to investments made and employment creation. In addition, the FEZ managers interviewed foresee the expansion of their FEZs over the next few years (interviews 1 and 2).
 - ▷ This conclusion is coherent with the conclusions of the 2011 report of the Romanian Competition Council, particularly in relation to the **lack of a clear correlation between the granting of State aid and the economic results of the recipients over time**.
- ▶ (ii) analysing the benefits that FEZ residents may receive in Moldova, their compatibility with the EU State aid rules and their possible impact on EU competitors, mainly in neighbouring Romania:
 - ▷ Incentives granted to FEZ residents under the Moldovan Law on Free Zones, and particularly those provided for by the Ungheni-Business FEZ are liable to constitute State aid under EU Law, but also under the Moldovan regulations implementing the national State aid regulation, namely the 2012 State Aid Law and the Regulation on State Aid for Regional Development implementing the State Aid Law.
 - ▷ Some of the **advantages granted under the national Law on Free Zones**, and particularly those analysed in respect of the Ungheni-Business FEZ appear *prima facie* to go beyond the limits established by the regional national legislation and the EU Law standards. These advantages **will therefore have to be aligned with the EU State aid rules once the extension period granted by the EU-Moldova Association ends**.

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CASE STUDY 5: THE ROLE OF FREE ZONES IN EXTREME SITUATIONS LIKE THE WAR IN UKRAINE

Introduction

This case study has been developed as a part of the overall study on the impact of EU free zones and their modernisation vis-à-vis the European Green Deal. The objective of the case study is **to explore if free zones played a role in alleviating the impacts of the war in Ukraine**. It covers the two main uses of free zones, which could also be used in other potential extreme situations: (i) the relocation of businesses from another country and (ii) the use of the free zone infrastructure. Thus, it covers countries with active free zones (**Romania, Moldova, and Poland**), which are neighbouring or relatively close to Ukraine (**Lithuania and Latvia**). The sources used for the case study include: information from the websites of the free zones, official information from the covered countries (e.g. from Ministries), news agencies, an interview with the operator/general investor in the Giurgiulesti International Free Port³⁸⁴, and an interview with a professor from Łódź University.

In addition to the above objective, the case study aims to gather additional information on two free zones that played a tangible role in reducing the negative impacts of the war in Ukraine – the Łódź Special Economic Zone (SEZ) in Poland and the Giurgiulesti International Free Port (GIFP) in Moldova. These two zones are presented below:

Table 24: Information on the zones in Łódź (Poland) and Giurgiulesti (Moldova)

Element	Łódź (Poland) ³⁸⁵	Giurgiulesti International Free Port ³⁸⁶
Year of establishment	1997	2004 Status of a free economic zone until 2030
Size	1 339 ha	552 000 m ² , extension planned up to 1 200 000 m ²
Investments	13 billion PLN investment overlays	USD 107 million investment (as of 2022)
Tenants	290 business permits issued	50 (as of 2022) with an approx. average salary of EUR 300 (interview information)
Employment	More than thirty-three thousand	550 employees (as of 2022)

³⁸⁴ Stakeholders from the Łódź Special Economic Zone (Poland) and from the Liepāja's Special Economic Zone (Latvia) were also approached, but interviews were not organised due to lack of response.

³⁸⁵ Based on official information from <https://sse.lodz.pl/en/information/>

³⁸⁶ Information as of 2022 based on a general presentation of GIFP (available at: https://gifp.md/en/wp-content/files_mf/16662567152022OctGIFPOverview.pdf) and information as of 2015 based on EUBAM. 2017. Giurgiulesti International Free Port Study. Available at: https://eubam.org/wp-content/uploads/2017/05/Giurguleshti_ENGL_final_.pdf

Element	Łódz (Poland) ³⁸⁵	Giurgiulesti International Free Port ³⁸⁶
		432 persons, who had an average salary of 5 900 Moldovan lei (or approx. EUR 280) (as of 2015);
Transshipment volumes	No data	1.4 million tonnes in 2021; 28.1 % of the cargo turnover in 2021 is the export of cereals (about 395 000 tonnes) EU transshipment share: 59.1 %
Tax and customs regime	Public aid for the implementation of new investments in the form of income tax exemption within the area of three voivodeships: Łódz, Mazovia and Greater Poland. Entrepreneurs interested in starting a new business in the LSEZ can take advantage of public aid up to 55 % for small companies of eligible costs of the investment or two-year labour costs. ³⁸⁷ State aid can be up to 35 % for large companies and 45 % for medium companies ³⁸⁸ .	<ul style="list-style-type: none"> • 75 % reduction of corporate income tax during the first 10 years of operation (currently 3 % instead of 12 %) and a 50 % reduction for the remaining period until 2030; • exemption from excise taxes and import VAT; • exemption from import and export duties; • exemption of import duties into the rest of Moldova for goods that originate from Giurgiulesti International Free Port; • exemption of foreign employees from social insurance contributions;

Analysis

Relocation of businesses – the case of the Łódź Special Economic Zone (Poland)

The **Łódź Special Economic Zone** represents a good example of a SEZ that can support the relocation of businesses from other countries, in this case from Ukraine. According to the president of the zone, Marek Michalik, there are no investors from Lithuania, Latvia, Estonia or Belarus in Polish special economic zones, but there are investors from Ukraine³⁸⁹. In his opinion, this was accelerated by the war in Ukraine, which caused many Ukrainian entrepreneurs to look for opportunities in Poland. An example of a company from Ukraine that is looking for investment opportunities in Poland is the Nowopak company, which decided to invest in the Łódź Special Economic Zone and use the public aid offered by it.³⁹⁰

³⁸⁷ Information from the Polish information and foreign investment agency - <https://invest-in-poland.eu/lodz-special-economic-zone/>

³⁸⁸ Information from <https://sse.lodz.pl/en/state-aid/>

³⁸⁹ Poland Posts English. Cooperation between Poland and Ukraine is gaining speed. Available at: <https://poland.postsen.com/local/119523/cooperation-between-Poland-and-Ukraine-is-gaining-speed.html>

³⁹⁰ CEO.com.pl Ukraińskie i polskie firmy spotkały się w ŁSSE. W tle współpraca gospodarcza. 13.Oct.2022. Available at: <https://ceo.com.pl/ukrainskie-i-polskie-firmy-spotkaly-sie-w-lsse-w-tle-wspolpraca-gospodarcza-86023>

Łódź SEZ was included in fDi Intelligence's³⁹¹ top free zones for 2022 for responding to the social pressures in its community caused by the war in Ukraine by leveraging its own capacity to help mitigate the crisis and to assist companies' relocation³⁹². Furthermore, the SEZ will provide PLN 5 million for training for refugees from Ukraine³⁹³. As a part of the scheme, companies employing refugees from Ukraine will be able to apply for co-financing of training, which will contribute to acquiring new skills and professions by them. More details on the scheme are provided in the textbox below. Interestingly, Polish companies tend to pay lower salaries to Ukrainians (less than to Polish workers), because sometimes they work without legal contracts or insurances, however, this does not happen in the SEZs, because they have more formalities to respect (based on interview input).

Box 7: Łódź Special Economic Zone providing support to companies employing war refugees

As of August 2022, over 35 000 war refugees (most of them women) from Ukraine are registered in the Łódzkie Voivodship. Under the "Strefa RozwoYou2" project, the Łódź Special Economic Zone can connect companies with potential employees, and then transfer funds for their training. Development vouchers worth PLN 9 240 per employee (with 20 % of the employer's own contribution) are provided for training, e.g. Polish language training or specialised courses enabling quick entry into the labour market.³⁹⁴ The objective of the scheme is to integrate refugees into the labour market. The process of connecting Ukrainian citizens with companies looking for employees is to be facilitated by regular business meetings in the Special Economic Zone³⁹⁵.

In addition to investments and the abovementioned scheme, the Łódź SEZ is trying to build a business ecosystem connecting people, business, experts, ideas, technologies and public aid. As a part of its Re_enter program, launched by the zone to support Polish exports, it held an event dedicated to Ukraine. During the event it held the first Polish-Ukrainian Business Mixer in the Łódź SEZ, i.e. short business meetings at round tables where nearly 100 Polish and Ukrainian companies explored possibilities for cooperation.³⁹⁶

Use of infrastructure – Latvia, Lithuania, Romania, and Moldova

The Latvian president Egils Levits noted that Latvia could help Ukraine with the **export of grain** through the Latvian ports³⁹⁷. With this objective, as early as April 2022, the Minister of Agrarian Policy and Food of Ukraine, Mykola Solsky visited the Riga and Ventspils freeports and the special economic zone of Liepāja. In fact, in the first six months of 2022, the Liepāja

³⁹¹ A provider of services related to foreign direct investment.

³⁹² FDI intelligence. Global Free Zones of the Year 2022 – Honourable mentions. October 2022. Available at: <https://www.fdiintelligence.com/content/rankings-and-awards/global-free-zones-of-the-year-2022-honourable-mentions-81464>

³⁹³ Ministry of Economic Development and Technology. Łódzka Specjalna Strefa Ekonomiczna przekaże 5 mln zł na szkolenia dla uchodźców z Ukrainy. 04.07.2022. Available at: <https://www.gov.pl/web/rozwoj-technologie/lodzka-specjalna-strefa-ekonomiczna-przekaze-5-mln-zl-na-szkolenia-dla-uchodzcow-z-ukrainy>

³⁹⁴ Based on information from the Ministry of Economic Development and Technology. Łódzka Specjalna Strefa Ekonomiczna przekaże 5 mln zł na szkolenia dla uchodźców z Ukrainy. 04.07.2022. Available at: <https://www.gov.pl/web/rozwoj-technologie/lodzka-specjalna-strefa-ekonomiczna-przekaze-5-mln-zl-na-szkolenia-dla-uchodzcow-z-ukrainy>

³⁹⁵ Niezależna.PL. Łódzka strefa ekonomiczna wspiera pracowników z Ukrainy. 19.09.2022. Available at: <https://niezalezna.pl/458090-lodzka-strefa-ekonomiczna-wspiera-pracownikow-z-ukrainy>

³⁹⁶ CEO.com.pl Ukraińskie i polskie firmy spotkały się w ŁSSE. W tle współpraca gospodarcza. 13.Oct.2022. Available at: <https://ceo.com.pl/ukrainskie-i-polskie-firmy-spotkaly-sie-w-lsse-w-tle-wspolpraca-gospodarcza-86023>

³⁹⁷ The Odessa Journal. Latvia will help Ukraine with grain exports through Latvian ports. 25 April, 2022. Available at: <https://ohttps://ceo.com.pl/ukrainskie-i-polskie-firmy-spotkaly-sie-w-lsse-w-tle-wspolpraca-gospodarcza-86023>

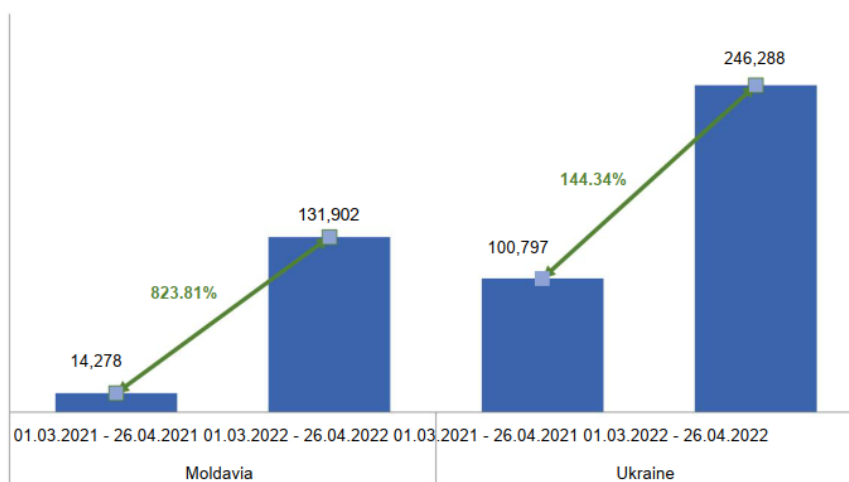
³⁹⁷ The Odessa Journal. Latvia will help Ukraine with grain exports through Latvian ports. 25 April, 2022. Available odessa-journal.com/latvia-will-help-ukraine-with-grain-exports-through-latvian-ports/

port increased its cargo turnover by 15.2 %, but no information has been found on whether this grain export has materialised.³⁹⁸

In neighbouring Lithuania, the port of Klaipeda, which also hosts a free economic zone, has been used to transport Ukrainian sunflower oil.³⁹⁹ In addition, the port has been used to transport agricultural products from Ukraine, brought in by rail and road since May 2022.

Looking at the Black Sea, the port of Constanța in Romania (which also has a free zone) became the main port operating in the sea as the port of Odessa was unable to operate at normal parameters due to the war in Ukraine. The growth in traffic of goods is illustrated by Figure 8, but it has to be highlighted that **no direct link between the status of the free zone and the increased transport flow has been observed**, in other words, the increased transport flows are linked to the Constanța port itself, rather than the free zone in it. In terms of grain, until the beginning of August 2022, exporters have shipped 1.46 million tonnes of Ukrainian grain through Constanța⁴⁰⁰. As of the end of September 2022, Ukraine continues to ship grain across the Danube to Constanța even after some of its own ports reopened⁴⁰¹.

Figure 8: Evolution of the traffic of goods originating or destined for the Republic of Moldova or Ukraine (tonnes)



Source: Romanian Supervisory Council in the railway/naval field⁴⁰²

Outside of the EU, the **Giurgiulesti International Free Port, which has the status of a free economic zone until 2030**,⁴⁰³ has also played an important logistical role in support of supplies to and from Ukraine. Year-on-year volumes moving through the Giurgiulesti

³⁹⁸ Latvian Public Broadcasting. Liepāja port sees cargo record. 14.July.2022 Available at: <https://eng.lsm.lv/article/economy/transport/liepaja-port-sees-cargo-record.a465339/>

³⁹⁹ Delfi.lt 15 000 tons of Ukrainian oil shipped through Klaipeda. 16.August.2022 Available at: <https://www.delfi.lt/en/business/15-000-tons-of-ukrainian-oil-shipped-through-klaipeda.d?id=90991973>

⁴⁰⁰ Reuters. Romanian Black Sea port to keep shipping Ukrainian grain, seeks EU funding. 3.Aug.2022. Available at: <https://www.reuters.com/world/europe/romanian-black-sea-port-keep-shipping-ukrainian-grain-seeks-eu-funding-2022-08-03/>

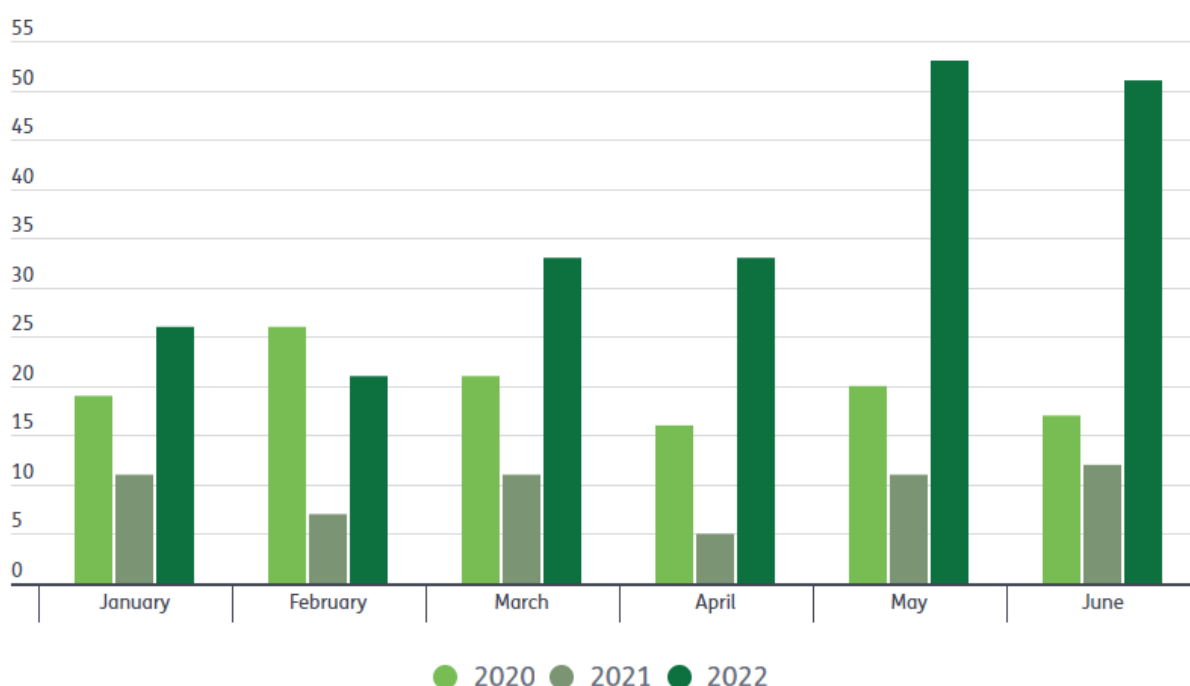
⁴⁰¹ Reuters. Ukrainian grains still using Danube as gateway to Romanian Black Sea port. 28.Sept.2022. Available at: <https://www.reuters.com/markets/commodities/ukrainian-grains-still-using-danube-gateway-romanian-black-sea-port-2022-09-28/>

⁴⁰² Romanian Supervisory Council in the railway/naval field. Studiu privind infrastructura portuară și Infrastructurile de servicii legate de activități feroviare din Portul Constanța. 2022. Available at: http://www.consiliulconcurentei.ro/wp-content/uploads/2022/07/Studiu_infrastructura_servicii_feroviare_port_Constanta.pdf

⁴⁰³ Danube Commission. Factsheet Giurgiulesti International Free Port. 20.June.2022. Available at: https://www.danubecommission.org/uploads/doc/Solidarity_UA_EU/Factsheets/Port_factsheet_Giurgiulesti_20.06.2022.pdf

International Free Port have more than doubled by July 2022, reaching 804 029 tonnes⁴⁰⁴. The port's grain transshipment and storage facilities are increasingly used for grain from Ukraine. Sunflower oil is another commodity of relevance to Ukraine that has been transhipped via the GIFP. While in 2021, Giurgiulesti had an average transshipment volume of 34 000 tonnes per month of petroleum products, by May 2022, this was up to 65 000 tonnes, more than half of which was earmarked for onward delivery to Ukraine⁴⁰⁵. Overall, the freeport finished the second quarter of 2022 with 137 departures, which is almost five times more than the same period in 2021⁴⁰⁶. The growth, since March 2022, in the number of departures of commercial vessels from the freeport is illustrated in the figure below.

Figure 9: Evolution of the departures of commercial vessels from the Giurgiulesti International Free Port (number)⁴⁰⁷



Source: Lloyd's List Intelligence. Data is accurate as of 8 July 2022.

Even before the war in Ukraine, the Giurgiulesti International Free Port experienced a significant increase in cargo throughput, which triggered a study of the European Union Border Assistance Mission to Moldova and Ukraine (EUBAM)⁴⁰⁸. The main results of the study are presented in the textbox below.

Box 8: Key conclusions/recommendations of the EUBAM report on the Giurgiulesti International Free Port (GIFP) – as of May 2016

The EUBAM study notes that the Moldovan Customs Service (MDCS) have made progress in ensuring the required clearance procedures and has increased the use of information technologies. Nevertheless, the study highlights the need for all border control services to align

⁴⁰⁴ EBRD. Moldova's strategic Danube port offers a lifeline for Ukraine. 08.July.2022. Available at: <https://www.ebrd.com/news/2022/moldovas-strategic-danube-port-offers-a-lifeline-for-ukraine.html>
⁴⁰⁵ ibid.
⁴⁰⁶ Lloyd's list. Ukraine's trade shift a boon for neighbouring ports. 08.July.2022. Available at: <https://lloydslist.maritimeintelligence.informa.com/LL1141539/Ukraines-trade-shift-a-boon-for-neighbouring-ports>
⁴⁰⁷ ibid.
⁴⁰⁸ EUBAM. 2017. Giurgiulesti International Free Port Study. Available at: https://eubam.org/wpcontent/uploads/2017/05/Giurqueshti_ENGL_final_.pdf

legislation, implement the appropriate use of risk analysis and to fully apply streamlined and simplified control procedures. As concerns the veterinary and phytosanitary services, the study highlights the need to review functional workloads and allocation of staff at the port to synchronise their services with Customs and to procure the appropriate levels of basic equipment. It also provides a detailed review of control procedures and identifies a number of recommendations based on a comparison with EU and International 'best practice' standards and norms, with the aim of ensuring compliance with Moldova's international commitments and obligations.

The positive logistical role that GIFP has played during the war in Ukraine could have been even more prominent if the **customs procedures were smoother** (or as mentioned in the cited EUBAM report above, more "streamlined and simplified control procedures"). Currently, to cross an 800-meter distance, trucks may have to wait for a week due to the customs procedures between Ukraine and Moldova. In cases of urgent situations, like the war in Ukraine, having faster customs procedures and/or assigning more customs authorities resources could facilitate the logistical role of free zones. At the same time, the Moldovan **transit declaration's duration is deemed insufficient** for the handling of freights, e.g. arriving from Romania and their transshipment to Ukraine.

Regarding the enforcement of the **sanctions regime**, Latvia and its neighbouring countries are one of the groups that initiated a package of sanctions on freight transports from Russia and Belarus by land and sea. According to representatives of the Riga freeport and Liepāja Special Economic Zone (SEZ), shutting Latvian sea ports for Russian ships would not impact them significantly, as the ships sailing under the Russian flag had not accounted for a significant portion of freight or number of ships entering the ports.⁴⁰⁹ Anecdotal evidence (based on stakeholder input) suggests that there have been attempts to circumvent the sanctions in the reviewed Moldovan free zone in the form of the transshipment of Russian raw materials, but these have been thwarted in consultation with EU representatives in the country.

Furthermore, the Liepāja Special Economic Zone (SEZ) stevedore company Terrabalt's representative Āris Ozoliņš explained that new capabilities and speed had emerged in collaboration with ferry operator Stena Line in **transporting war refugees** from Ukraine to Germany for free.⁴¹⁰ Through the SEZ infrastructure, on average around 100 refugees a day were transported per ferry.

Summary conclusions

The case study shows that in addition to their standard objectives (e.g. creating employment, increasing trade, attracting investment, and contributing to regional development), **free zones can play a role in alleviating negative consequences of crisis such as the one caused by the war in Ukraine**. In particular, the Łódź Special Economic Zone represents a good example of an SEZ that can support the **relocation of businesses** from other countries, in this case – from Ukraine. Furthermore, it provided **training for refugees** from Ukraine to

⁴⁰⁹ Baltic News Network. Sea ports: ban for Russian ships to enter EU ports will not impact Riga or Liepāja much. 11.April.2022 Available at: <https://bnn-news.com/sea-ports-ban-for-russian-ships-to-enter-eu-ports-will-not-impact-riga-or-liepaja-much-233876>

⁴¹⁰ Latvian Public Broadcasting. Liepāja port experiences shipment growth despite war conditions. 15.June.2022 Available at: <https://eng.lsm.lv/article/economy/transport/liepaja-port-experiences-shipment-growth-despite-war-conditions.a461556/>

integrate them into the labour market, and the SEZ made use of its **business ecosystem** to connect Polish and Ukrainian businesses.

The **logistical infrastructure of free zones** (in Latvia, Lithuania, and Moldova) has also proved very useful in the transfer of refugees and the transportation of fuel, sunflower oil, agricultural products, and other cargo to and from Ukraine. As the significant role of the port of Constanța (rather than the free zone in the port) shows, for logistical purposes, the status of free zones does not play a significant role. Yet, as illustrated by the case of the Giurgiulesti International Free Port, having **faster customs procedures surrounding the free zone** than the currently existing ones between Ukraine, Moldova, and Romania could facilitate the logistical role of free zones. No circumvention of the sanction's regulations related to the war in Ukraine through the reviewed free zones has been reported.

CASE STUDY 6: ALTERNATIVE CUSTOMS PROVISIONS – THE CASE OF THE NETHERLANDS

Introduction

Several Member States of the EU (e.g. Austria and Belgium)⁴¹¹ do not have a free zone, although the possibility is provided in the Union Customs Code. The reasons Member States do not operate a free zone are different but not always very transparent. Via the case of the Netherlands, the case study is meant to investigate the available alternative customs provisions, which countries could use, instead of choosing to have a free zone.

The approach for the case study includes:

- ▶ desk research on the existing alternative (to the free zones) customs procedures;
- ▶ interviews with two experts from the Customs National Office in the Netherlands and two stakeholders from commercial parties (see Annex V).

The reason for selecting the Netherlands for the case study is that it never operated a free zone. Under the Community Customs Code, the country had a kind of fictitious free zone operational in the Schiphol Airport area, but this was rather a kind of Customs warehouse operated by several companies using a common system of keeping records to follow the goods and to allow Customs to check the flow of goods. On the question why there is no free zone in a certain country, the answer more than once is that there has never been one, but fundamental reasons for not having a free zone are rarely given. In contrast to the Netherlands, Ireland used to have a free zone, dubbed the world's first modern free trade zone⁴¹², which as a part of the modernised Union Customs Code, ceased to exist for customs purposes in May 2016⁴¹³. An overarching reason for closing the Shannon free zone was that Ireland was already an attractive location for foreign direct investment for national-level reasons, so it was no longer feasible to differentiate Shannon from the rest of the country⁴¹⁴. Nevertheless, following Brexit and the British plans for opening freeports⁴¹⁵ raises the question of the relevance of free zones in Ireland again (as also discussed during an interview during this study). Overall, it can be concluded that the previous availability or lack of a free zone in a specific country, does not determine the decision to have a functional free zone or not. On the following pages we explore the question if alternative customs procedures could explain the lack of a free zone in a country.

⁴¹¹ See a list of the EU free zones here: https://taxation-customs.ec.europa.eu/system/files/2022-08/FZ%20LIST%2017%20August%202022_CLEAN.pdf

⁴¹² For example, see: <https://mag.wcoomd.org/magazine/wco-news-87/addressing-challenges-related-to-customs-controls-in-free-zones/>

⁴¹³ For more information, see: <https://www.ennischamber.ie/the-end-of-the-shannon-free-zone-2016/>

⁴¹⁴ For more information, see: The Guardian (2016). Story of cities #25: Shannon – a tiny Irish town inspires China's economic boom. Available at: <https://www.theguardian.com/cities/2016/apr/19/story-of-cities-25-shannon-ireland-china-economic-boom>

⁴¹⁵ For more information, see: <https://www.gov.uk/guidance/freeports>

Analysis

Available alternative customs procedures

One of the main characteristics of a free zone is that goods can be stored or processed without being subject to the levying of import duties and VAT. To a certain extent, this can also be achieved with the use of other customs procedures as described in the Union Customs Code. The customs procedures comprise, except from importation, all usual customs-approved treatment of goods brought into the Union. The main procedures that can be used as an alternative for a free zone are the following: (1) customs warehousing; (2) inward processing; and (3) temporary importation.

Characteristic of most of the customs procedures is that the moment of payment of the respective duties is suspended. This is not the case, however, when the goods are released for free circulation. When, for example, goods are placed under the **customs warehousing procedure**, their duties do not have to be paid. The goods in question do, however, remain under customs supervision. Customs warehouses can be operated in all places approved by Customs authorities. These warehouses are not restricted to a certain place or area. Goods can even be placed under the procedure of the customs warehouse while they are presented to Customs in another part of the country. The use of the procedure is not restricted to the warehouse location. According to Article 5 (33) of the UCC ‘presentation of goods to customs’ means ‘the notification to the customs authorities of the arrival of goods at the customs office **or at any other place designated or approved by the customs authorities and the availability of those goods for customs controls**’.

In practice, goods are stored under the procedure in several places operated by the holder of an authorisation provided that the goods are available any time Customs would like to check. The operator of the Customs warehouse must guarantee access to the goods to Customs. The operator does not necessarily have to be the owner of the goods but must at least have the power of disposal. This flexibility, according to the place of storage, is an **advantage of the Customs warehouses compared to the use of a free zone**.

On the other hand, for the operation of a Customs warehouse there are stricter requirements according to the administrative procedures and records. Of course, Article 214 of the UCC prescribes “appropriate records in a form approved by the customs authorities” for both the activities in a free zone and in a Customs warehouse, but in practice, based on the policy of the customs authorities, the requirements for a Customs warehouse are stricter than for a free zone.

Inward processing means that the goods in question are processed within the EC after which they are being re-exported without payment of the duties. The main difference between a customs warehouse and the procedure of inward processing is that goods in the latter procedure undergo some form of processing or manufacturing. For the procedure of inward processing, the use of the procedure on the location of the holder of the authorisation is often very essential. Usually, the manufacturer already has a production location with the necessary

equipment and installations for the production of goods for the EU market. It would not be very cost-efficient if this manufacturer should move a part of the production to a free zone.

The administrative requirements for operating an inward processing procedure are very strict. Just like Customs warehouses, the locations to manufacture or process goods under the procedure of inward processing are not restricted to a certain place or area. Goods can even be placed under the procedure while they are presented to Customs in another part of the country or even in another MS. The use of the procedure is not restricted to the production location of the holder of the authorisation. It is possible to outsource parts of the work. This, to a certain extent, also applies to the **temporary admission** procedure. For the procedure of temporary admission, the free zone is less relevant than it is for the Customs warehouse and the inward processing. Temporary admission makes it possible to use goods in the territory of the EU without releasing them for free circulation. Trucks, for example, registered in a third country are imported temporarily to transport their load through EU territory. It would not be very useful to use this procedure if it was restricted to a certain location or area.

The customs procedures can succeed one another perpetually. Theoretically speaking, goods can be inward processed or put in storage within the Community continually without payment of the import duty. The fact that a declaration must be lodged to place goods under a certain procedure applies to all customs procedures, with the exceptions of the free zone procedure. This declaration allows Customs assess which goods are placed under customs supervision and which aspects need attention.

Customs supervision ceases only if the non-community goods in question are released for free circulation (with the exception of end-use), or if they are re-exported from the European Community. Until these respective moments the goods in question are subject to the system of supervision.

The possibility of using other customs procedures as an alternative for a free zone is usually mentioned by participants in our stakeholder consultation as a reason not to have a free zone. In the Netherlands, no free zone is established, because other customs procedures are used instead. The advantages of a free zone can be reached as well using these procedures in line with the UCC following the Dutch policy measures for the use of these procedures. These policy measures are published in the national instructional guide called “Handboek Douane” (only available in Dutch). These procedures, however, require specific administrative work and communication (electronically) with Customs authorities. In Customs warehouses and in the locations of inward processing, goods are usually stored or processed together with goods in free circulation. Article 246 of the UCC also makes it possible to enter a free zone with Union goods and have them stored or even processed in the free zone. Because the free zone is a restricted area where movement of goods can be controlled physically, the administrative requirements can be applied with more flexibility than in the case of a customs procedure like inward processing or a customs warehouse. Because the operators must meet certain requirements, the authorisations are often combined with authorisation to declare the goods for the customs procedure by entering them into the records of the company. These operators must produce a stock turnover periodically, and the holders of an inward processing procedure must also hand over a clearance statement afterwards.

Stakeholders' perspective on the coverage of the current customs and business needs

Alternative procedures cover the needs of trade according to the representatives from the Dutch Customs national office. Thus, they see no need to establish a free zone. According to the Dutch Customs officers, there has never been shown any (economic) demand for a free zone from the business sector. From a customs perspective, other customs procedures provided are enough to cover the needs of the business. Therefore, both economic operators and customs can carry out all their activities by using other customs procedures and processes.

This is a point of view we also see among the representatives of the commercial parties. They share the view that the Customs procedures, in particular the **inward processing and customs warehousing, are a good solution for their business model**. It is sometimes even a better option to use these procedures instead of the free zone. Customs procedures are mostly not restricted to a certain area and goods can be stored or processed in every place mentioned in the license. This offers the businesses more flexibility in their process compared with the free zones regime.

On the other hand, the interviewed business representatives see opportunities for some specific situations to use a free zone. Both representatives **mentioned the offshore industry**. A free zone could be very useful for storing goods for the maintenance of offshore installations and for the storage and delivery of supplies to these installations. These goods destined for offshore installations can be delivered free of taxes and duties. Storage in a free zone is convenient because this storage is free of taxes and duties as well provided this free zone is situated at the coast with access to the sea. The north of the country (in the Netherlands) was mentioned as an area where this could work well. Putting this business idea into perspective, the Cádiz free zone partnered with Spanish state-owned shipbuilding company Navantia to create synergies and conditions to develop an industrial hub for offshore wind energy in the zone⁴¹⁶. The idea of a possible synergy between a free zone and an offshore wind farm was also discussed with Irish authorities. Furthermore, it features prominently in the rationale for establishing freeports in Great Britain⁴¹⁷.

Customs receive more information directly when goods are declared for a customs procedure other than the free zone procedure

When we compare the flow of information from business to Customs in the context of the alternative customs procedures and the free zone, we can conclude that the information position of Customs with the use of customs procedures is better than it is in the free zone situation. The required declarations are very well specified in the UCC and in the Commission Delegated Regulation. Annex B of this Regulation is very detailed in this respect.

⁴¹⁶ For more information, see: <https://www.zonafrancacadiz.com/zona-franca-y-navantia-colaboraran-para-explorar-el-potencial-de-las-energias-verdes/>

⁴¹⁷ FOR MORE INFORMATION, SEE: REUTERS (2021). OFFSHORE WIND FREEPORTS EXPAND UK ROLE IN GLOBAL BUILD RACE. PUBLISHED IN MARCH 2021. AVAILABLE AT: [HTTPS://WWW.REUTERSEVENTS.COM/RENEWABLES/WIND/OFFSHORE-WIND-FREEPORTS-EXPAND-UK-ROLE-GLOBAL-BUILD-RACE](https://www.reutersevents.com/renewables/wind/offshore-wind-freeports-expand-uk-role-global-build-race)

Article 245 of the UCC however says that goods entering the free zone do not have to be presented to Customs in other situations than mentioned in the article. Only if there are other customs formalities coming together with the entrance of the free zone, goods must be presented to Customs.

The Customs receive more information on goods placed under an alternative customs procedure rather than on goods entering a free zone. Furthermore, the administrative requirements for establishing a Customs warehouse or arranging an inward processing license are stricter and more detailed. This gives Customs a much better information position than if this is done in a free zone.

Not much of the information according to Dutch Customs policy is published in English. The brochures on the simplified procedures to declare goods for a customs procedure, however, do have an English version. Although the information may not be up to date, these brochures give an idea of how detailed the flow of information to Customs is.⁴¹⁸

One of the main advantages for electronically exchanging information for lodging customs declarations and placing goods under a customs procedure is the possibility for effective communication between Customs and traders. This enables checks by Customs and facilitates various processes, such as addressing requests from traders to modify declaration particulars or applying for authorisations specific to the inward processing of a sole consignment.

Summary conclusions

The case study shows that alternative customs procedures, giving the same benefits as a free zone regime, are often used in the Netherlands. Despite the administrative requirements and the number of data to be presented to Customs, we can conclude that, in general, **the customs procedures based on individual authorisations and administrative checks are a better alternative for Dutch businesses than the free zones**. This is strengthened by the high standard of automation and the good cooperation between the Customs Authority and these businesses.

Another finding of the case study is that, although there has not really been a free zone in the Netherlands, a facility like that can be very useful in specific situations as there is **maintenance for the offshore industry**.

⁴¹⁸ https://download.belastingdienst.nl/douane/docs/information_electronic_declaration_do0881z11fdeng.pdf

ANNEX V: STAKEHOLDERS CONTACTED / PARTICIPATED IN THE CONSULTATION PROCESS

Type of stakeholder	Name of organisation	Response
Customs Authority	Administration générale des Douanes et Accises – Belgium	Written
	Central custom administration – Bulgaria	No response
	Territorial Directorate Bourgas Customs – Bulgaria	Written
	Territorial Directorate Plovdiv Customs – Bulgaria	Written
	Territorial Directorate Rousse Customs – Bulgaria	Written
	Central Customs office – Croatia	Written
	Customs Headquarters - Customs & Excise Department – Cyprus	Written
	Custom office for Pardubice – Czech Republic	No response
	Custom office of Moravia - Silesian Regions – Czech Republic	No response
	Toldekspedition Frihavnen - Denmark	Written
	Estonian Tax and Customs Board	Written
	Finnish customs authority	Written
	Free zone of Verdon – Port de Bordeaux – Direction interrégionale des douanes de Nouvelle-Aquitaine - France	No response
	Zone franche de Guyane – Direction régionale des douanes de Guyane – France	No response
	Customs Directorate General – France	Written
	Bremerhaven Free Zone – Hauptzollamt Bremen – Germany	Written
	Central customs authority - Hamburg	Written
	Central custom authority - International Affairs - Bonn	Written
	Freihaven Cuxhaven – Germany	Written
	Hellenic customs - independent authority for public revenue	Written

Type of stakeholder	Name of organisation	Response
	National Tax and Customs Administration – Hungary	Written
	Agenzia delle Dogane e dei Monopoli (Brindisi) – Italy	No response
	Agenzia delle Dogane e dei Monopoli (Portovesme) – Italy	No response
	Agenzia delle Dogane e dei Monopoli (Trieste and Venice) – Italy	Written
	State Revenue Service - National Customs Board – Latvia	Written
	Customs department (Ministry of Finance) – Lithuania	Written
	Kaunas Territorial Customs Office – Lithuania	No response
	Bureau des douanes et accises – Luxembourg Aéroport	Written
	Malta Customs Department – Special Procedures Unit	Written
	Dutch Customs National Office	Written
	Izba Administracji Skarbowej w Lublinie – Poland	Written
	Izba Administracji Skarbowej w Gdańsku – Poland	Written
	Izba Administracji Skarbowej w Katowicach – Poland	Written
	Izba Administracji Skarbowej w Szczecinie – Poland	Written
	Izba Administracji Skarbowej w Warszawie – Poland	Written
	Ministry of Finance - customs department – Poland	Written
	Customs authority of Funchal – Portugal	Written
	Custom office Sulina – Romania	No response
	Customs authority – Romania	Written
	Customs office Braila – Romania	Written
	Customs office Constanta sud – Romania	Written
	Customs Office Curtici – Romania	Written

Type of stakeholder	Name of organisation	Response
	Customs office Galati – Romania	Written
	Customs office Giurgiu – Romania	Written
	Koper Financial Office – Slovenia	No response
	Ministry of Finance – Customs Department – Slovenia	Written
	Departamento de Aduanas e Impuestos Especiales de la Agencia Estatal de Administración Tributaria	Written
	Departamento de Aduanas e Impuestos Especiales de la Agencia Estatal de Administración Tributaria - Algericas	Written
	Departamento de Aduanas e Impuestos Especiales de la Agencia Estatal de Administración Tributaria - Cadiz	Written
	Departamento de Aduanas e Impuestos Especiales de la Agencia Estatal de Administración Tributaria - Las Palmas	Written
	Departamento de Aduanas e Impuestos Especiales de la Agencia Estatal de Administración Tributaria - Santander	Written
	Departamento de Aduanas e Impuestos Especiales de la Agencia Estatal de Administración Tributaria - Sevilla	Written
	Departamento de Aduanas e Impuestos Especiales de la Agencia Estatal de Administración Tributaria - Tenerife	Written
Free Zone Authority/Free Zone Operator	Croatian free zones association	Interview conducted
	Krapina free zone – Croatia	No response
	Ploče Port Authority – Croatia	No response
	Port of Rijeka – Croatia	No response
	Slobodna zona Luka Rijeka – Škrljevo – Croatia	No response
	Slobodna zona luke Ploče – Croatia	No response
	Slobodna zona luke Pula – Croatia	No response
	Slobodna zona luke Split – Croatia	No response
	Slobodna zona Osijek – Croatia	No response
	Slobodna zona Zagreb – Croatia	No response

Type of stakeholder	Name of organisation	Response
	Free zone Ostrava akciová Mosnov – Czech Republic	No response
	Free zone Pardubice a.s. – Czech Republic	No response
	Toldekspedition Frihavnen – Denmark	No response
	AS Sillamäe Sadam – Estonia	No response
	Muuga Free Zone – Estonia	No response
	Muuga Harbour Industrial Park – Estonia	No response
	Muuga Port – Estonia	No response
	Paldiski Free Zone – Estonia	No response
	Sillmäe Free Zone – Estonia	No response
	Sillmäe Port – Estonia	No response
	Bremerhaven Free Zone (Port) – Germany	No response
	EUROGATE Container Terminal Bremerhaven GmbH – Germany	No response
	Freihafen Cuxhaven – Germany	No response
	Cuxhaven Port – Germany	No response
	Free Zone of Piraeus – Greece	No response
	Free Zone of Piraeus Container Terminal S.A. – Greece	No response
	Free Zone of Platigiali, Astakos Etoloakarnanias – Greece	No response
	Heraklion Port Authority S.A – Greece	No response
	Thessaloniki Port Authority - THPA S.A. – Greece	No response
	Záhony Customs Free Zone – Hungary	No response
	Free Zone of Brindisi – Italy	No response
	Free Zone of Brindisi – Capobianco – Italy	No response
	Free Zone of Portovesme – Italy	No response
	Free Zone of Trieste – Italy	Written
	Free Zone of Venice – Italy	No response
	North Adriatic Sea Port Authority – Italy	No response

Type of stakeholder	Name of organisation	Response
	Free port of Riga – Latvia	No response
	Freeport of Ventspils – Latvia	Interview conducted
	Liepāja Special Economic Zone – Latvia	Written
	Rezekne Special Economic Zone – Latvia	No response
	Terrabalt – Latvia	No response
	UAB “Aviacijos paslaugų centras” (Kaunas) – Lithuania	No response
	UAB Ad rem lez (Klaipėda) – Lithuania	No response
	UAB Vingės logistika (Klaipėda) – Lithuania	No response
	Klaipėda Free Economic Zone – Lithuania	No response
	Fortius (Fine art storage and logistics) – Luxembourg	No response
	Luxembourg Free Port	No response
	Luxembourg Freeport Management Company	No response
	Luxembourg High Security Hub	No response
	Malta Freeport Authority	No response
	Malta Freeport Terminals Ltd	No response
	Kamienna Góra Special Economic Zone Kamienna Góra – Poland	No response
	Kraków - Technology Park – Poland	No response
	Lodz Special Economic Zone S.A. – Poland	No response
	Pomeranian Special Economic Zone sp. z o. o. – Poland	No response
	Śląskie Centrum Logistyki S.A. – Poland	No response
	Special Economic Zone EURO-PARK MIELEC Industrial Development Agency S.A. Branch in Mielec – Poland	No response
	Special Economic Zone Katowice – Poland	No response
	Special Economic Zone Kostrzyn-Słubice – Poland	Written
	Special Economic Zone Legnica – Poland	No response
	Special Economic Zone Starachowice S.A. – Poland	No response

Type of stakeholder	Name of organisation	Response
	Suwałki Special Economic Zone S.A. – Poland	No response
	Tarnobrzeg Special Economic Zone EURO-PARK WISŁOSAN – Poland	No response
	Wałbrzych Special Economic Zone "INVEST-PARK" sp. Z o.o. – Poland	No response
	Warmia and Mazury Special Economic Zone S.A. – Poland	No response
	Wolny Obszar Celny w Gdańsku – Poland	No response
	Wolny Obszar Celny w Gliwicach (Katowicach) – Poland	No response
	Wolny Obszar Celny w gminie Terespol (Lublinie) – Poland	No response
	Wolny Obszar Celny w Świnoujściu (Szczecinie) – Poland	No response
	Wolny Obszar Celny w Mszczonowie w województwie mazowieckim (Warszawie) – Poland	No response
	Free zone of Madeira – Portugal	No response
	International Business Centre of Madeira (Madeira free trade zone)	Written + Interview conducted
	Autonomous Company Galati Free Zone Administration – Romania	No response
	Free Zone Braila – Romania	No response
	Free Zone Constanta Sud si Basarabi – Romania	No response
	Free Zone Curtici Arad – Romania	Written
	Free Zone Galati – Romania	Written
	Free Zone Giurgiu – Romania	No response
	Free Zone Sulina – Romania	No response
	Luka Koper – Prosta cona Koper – Slovenia	No response
	Port of Koper – Slovenia	No response
	Consorcio Zona Franca Vigo – Spain	No response
	Free Zone of Barcelona – Spain	No response
	Free Zone of Cádiz – Spain	No response

Type of stakeholder	Name of organisation	Response
	Free Zone of Las Palmas de Gran Canaria – Spain	No response
	Free Zone of Santander – Spain	No response
	Free Zone of Sevilla – Spain	No response
	Free Zone of Tenerife – Spain	No response
	Free Zone of the Bay of Algeciras – Spain	No response
	Berge logistics – Spain	
	Free Zone of Vigo – Spain	No response
	Free zone Bourgas – Bulgaria	No response
	Rousse Free Zone – Bulgaria	No response
	Free zone Plovdiv – Bulgaria	No response
	NCIZ – Bulgaria	No response
	Free zone Pardubice a.s. – Czech Republic	No response
	Free zone Giurgiu – Romania	No response
	Giurgiulesti International Free Port – Moldova	No response
	Terrabalt – Latvia	No response
Government	Federal Ministry of Finance – Austria	Written
	Anti-money laundering office – Croatia	No response
	Ministry of Economy and Sustainable Development – Croatia	No response
	Ministry of Finance, Customs administration – Croatia	No response
	Finnish Ministry of Finance	No response
	Irish Ministry of Finance	Interview conducted
	Slovak Ministry of Finance	Interview conducted
	Swedish Ministry of Finance	No response
	Irish Ministry of Transport	Interview conducted
International Organisation	World Free Zone Organisation	Interview conducted
	Undisclosed	Interview conducted
	WCO - World Customs Organisation	Interview conducted

Type of stakeholder	Name of organisation	Response
NGO	ETUC	Partial response
	Financial Action Task Force	No response
	Tax justice network	Call interview conducted
	International Trade Union Confederation (ITUC)	No response
Financial Intelligence Unit (FIU)	CTIF-CFI – Belgium	Written response
	State Agency for National Security – Bulgaria	No response
	Financial Analytical Office – Czech Republic	Written response
	FIU of Estonia	Interview conducted
	Rahanpesun selvittelykeskus Financial Intelligence Unit – Finland	Written response
	Hungarian Financial Intelligence Unit	Written Response
	Banca d'Italia – Italy	Written response
	FIU of Lithuania	No response
	FIU of Luxembourg	Interview conducted
	FIU of Malta	Interview conducted
	FIU of Portugal	Interview conducted
	FIU of Romania	Interview conducted
	FIU of Slovenia	Interview conducted
	SEPBLAC – Spain	Interview conducted
Finanspolissectionen Nationella operativa avdelningen – Sweden	Interview conducted	
Tax Authority	Tax Authority of Belgium	Written response
	National Revenue Agency of the Republic of Bulgaria	Written response
	Ministry of Finance – Croatia	Written response
	Ministry of Finance – Cyprus	Written response
	Tax Authority of the Czech Republic	No response
	Tax Authority of Denmark	No response
	Tax Authority of Estonia	No response
	Bundeszentralamt für Steuern (BZSt) zentrale – Germany	No response

Type of stakeholder	Name of organisation	Response
	Tax Authority of Greece	Written response
	Agenzia delle Entrate – Italy	No response
	Tax Authority of Latvia	Written response
	Tax Authority of Lithuania	Written response
	Tax Authority of Luxembourg	No response
	Tax Authority of Malta	No response
	Tax Authority of Poland	Written response
	Tax Authority of Portugal	Written response
	Tax Authority of Romania	No response
	Tax Authority of Slovenia	Written response
	Agencia Estatal de Administración Tributaria – Spain	Written response

ANNEX VI: STAKEHOLDERS CONTACTED / PARTICIPATED IN THE CONSULTATION PROCESS FOR THE CASE STUDIES

Type of stakeholder	Name of organisation	Case study	Response
Trade Union	IndustriAll	Labour	Interview conducted
Trade Union	Solidarnosc	Labour	Interview conducted
Free zone authority	Zona Franca Bogotá	Labour	Interview conducted
Academia	University of Sussex	Labour	Interview conducted
Free zone authority	Consorti de la Zona Franca de Barcelona	Labour/Environmental	Interview conducted
Academia	University of Lodz	Labour/Ukraine case	Interview conducted
Academia	University of Warsaw	Labour	No response
International organisation	ILO	Labour	No response
Trade union	ITUC CSI IGB	Labour	No response
Trade union	EFP	Labour	No response
Trade union	PWF	Labour	No response
Academia	University of Gdansk	Labour	Cancelled
Free zone authority	Gdansk SEZ	Labour	No response
Free zone authority	Katowice SEZ	Labour	No response
Free zone authority	Mszczonów FZ	Labour	No response
Free zone authority	Suwalski FZ	Labour	No response
Free zone authority	Krakow FZ	Labour	No response
Free zone authority	Starachowice	Labour	No response
Air cargo organisation	Air Cargo Netherlands	Customs	Interview conducted
Customs broker	Kuper BV	Customs	Interview conducted
Shipper organisation	EVOfenedex	Customs	No response

Type of stakeholder	Name of organisation	Case study	Response
Customs authority	Dutch National Customs Administration - Rotterdam	Customs	Interview conducted
Customs authority	Dutch Customs Regional office - Schiphol	Customs	Interview conducted
Academia	University of Bolton	Environment	Interview conducted
EU institution	European Parliament - policy officer Panama Committee	Money Laundering	Interview conducted
Public prosecutor, FATF Evaluator of Switzerland	Ministry of Justice, Grand Duchy of Luxembourg	Money Laundering	Interview conducted
Academia	RAM - Swiss non-profit organisation for protecting art which issues AML guidelines, Geneva University Art Law Center	Money Laundering	No response
Expert	RAM and attorney at law	Money Laundering	No response
Customs authority	Swiss Customs	Money Laundering	Interview conducted
Customs authority	Luxembourgish customs	Money Laundering	Interview conducted
Free zone authority	Freeport Luxembourg LSH	Money Laundering	No response
Free zone authority	Geneva Freeport Port Francs	Money Laundering	No response
Economic operator	Fortius	Money Laundering	Interview conducted
Customs authority	FIU Switzerland MROS	Money Laundering	Interview conducted
Academia	German Art Institute in Florence	Money Laundering	Interview conducted
NGO	Tax Justice Network	Money Laundering	Interview conducted
Academia	Offshore Kenniscentrum	Money Laundering	Interview conducted
Free zone authority	Giurgiulesti International Free Port	Ukraine/State aid	Interview conducted

Type of stakeholder	Name of organisation	Case study	Response
Institution	Climate emergency Council of the city of Barcelona	Environment	Interview conducted
Free zone authority	Free Trade Zone Curtici Arad	State aid	Interview conducted
Free zone authority	Free Trade Zone Galati	State aid	Interview conducted
Customs authority	Romanian Customs Authority	State aid	Interview conducted

ANNEX VII: PROPOSAL FOR GUIDELINES ON GOOD PRACTICES – HOW FREE ZONES CAN CONTRIBUTE TO THE EUROPEAN GREEN DEAL OBJECTIVES

(Provided separately)

ANNEX VIII: STAKEHOLDER CONSULTATION REPORT

Introduction

This stakeholder consultation report presents the results of the consultation activities performed for the ‘Study of the impact of free zones and proposals for guidelines in their future modernisation in light of the European Green Deal’.

The stakeholder consultations involved performing conducting interviews, sending questionnaires, sending data sheets to customs/tax/FIU authorities, a limited online survey, and the performance of interviews as a part of the conducted case studies. The list of stakeholders contacted/consulted is presented in Annexes V and VI. Below we provide a short description of the objectives of the consultation tool and the number of stakeholders contacted/consulted.

Table 25: Stakeholder consultation tools

Tool	Objective	Comment	Stakeholders contacted	Stakeholders who provided feedback
Interviews / Filled in questionnaires	To provide key input along all research questions and criteria	The aim of the targeted interviews was to collect the views and perspectives of stakeholders for answering the research questions. Consultations have been conducted using a mixed approach: in written form filling in the questionnaire or through an interview. For two countries (Poland and Italy), some questionnaires have been filled in by stakeholders in their national language, which have been translated and processed for the analysis.	231	98
Datasheets*	To fill in data gaps from the customs authorities	The information received covered more than 30 individual free zones. The information contained in the datasheets provides complementary details to the information provided by free zone authorities, allowing the research team to gather a rounder perspective of the size and activities conducted within EU free zones.	17*	12*
Online survey	To reach out to economic operators in the free zones	Despite all efforts of the team (including translation of the survey, calling free zone operators, asking free zone authorities to serve as gatekeepers and to distribute the questionnaire), economic operators largely ignored the invitation to participate in the study. Due to these reasons, their perspective was considered via the interviews /	Over 800	5

Tool	Objective	Comment	Stakeholders contacted	Stakeholders who provided feedback
		written input of free zone authorities and the WFZO, while the survey results were used only to a very marginal extent.		
Case study interviews	To gather information for the development of the case studies and potentially fill in other gaps	As planned, the case study interviews provided valuable input for the development of the case studies and answering the research questions. They allowed a targeted selection of interviewees, which is manifested in the good response rate.	38	23

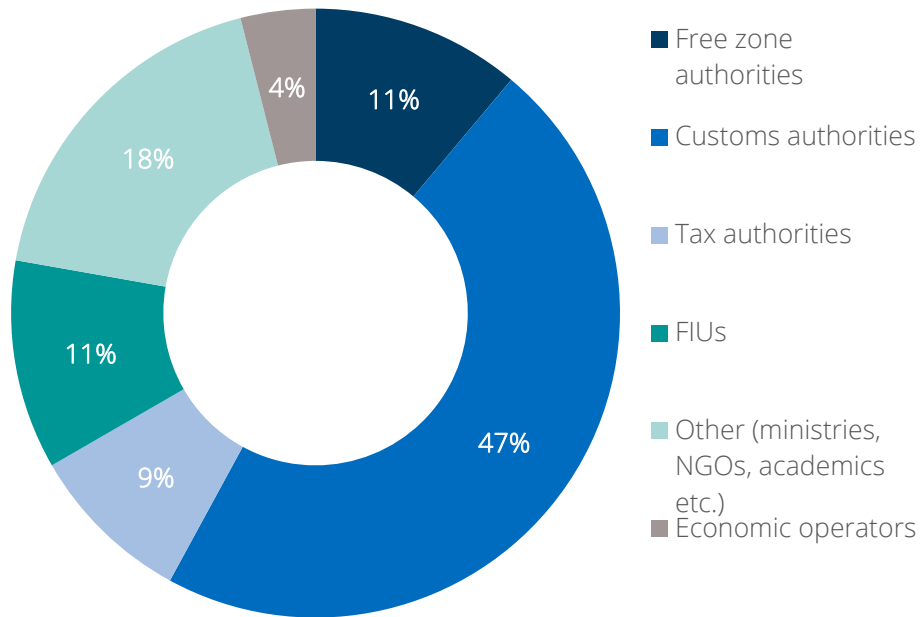
* To avoid double counting, data sheets are not counted as additional stakeholder inputs if the customs authority concerned already filled a questionnaire or took part in an interview.

Overall, we received input/response from over 120 stakeholders, including the ones contacted in the development of case studies (see Annex VIII) divided as follows:

- ▶ 13 free zones authorities (14 interviewees) in Colombia, Croatia, Italy, Latvia, Malta, Moldova, Poland, Portugal, Romania, and Spain;
- ▶ 59 customs authorities in Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovenia, Spain, and Switzerland. Furthermore, 12 customs authorities provided additional information in the form of a data sheet;
- ▶ 11 tax authorities in Belgium, Bulgaria, Croatia, Cyprus, Greece, Latvia, Lithuania, Poland, Portugal, Slovenia, and Spain;
- ▶ 14 Financial Intelligence Units (FIUs) in Belgium, Czech Republic, Estonia, Finland, Hungary, Italy, Luxembourg, Malta, Portugal, Romania, Slovenia, Spain, Sweden and Switzerland;
- ▶ 21 others (24 interviewees), including ministries, NGOs, academics, trade unions, international organisations, and economic operators;
- ▶ 5 economic operators and one free zone authority responded to our survey.

Among respondents, customs authorities constituted the majority (47 %) followed by 18 % of others, such as Ministries, NGOs, academia, and 11 % of FIUs and free zone authorities, respectively. Among the remaining respondents, 9 % were tax authorities, and 4 % were economic operators. Figure 10 provides an overview of the share of responses by stakeholder groups.

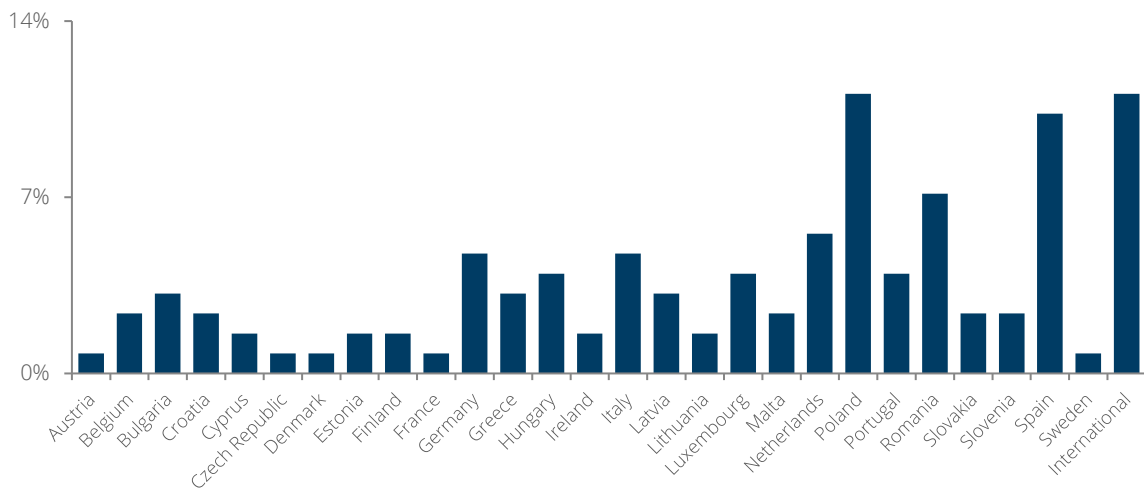
Figure 10: Shares of consultation responses by stakeholder group



N=126

Figure 11 shows the number of responses from all stakeholders by country. Most of the inputs received come from Spain, followed by Romania and Poland.

Figure 11: Shares of consultation responses by country



N = 126

Results of the consultation activities

Summary of the interviews per research question

RQ1: What is (are) the core activity(ies) / purpose(s) of every free zone established in the Union in the short and in the long run? What are the objectives of every Union free zone in the short and in the long run and what needs were meant to be met? Are they still valid?

Out of 21 customs authorities who provided answers to RQ1, all of them signalled that EU free zones were established mainly for economic reasons, such as promoting economic development, creating jobs, promoting investment, facilitating free trade and creating storage of goods and services. Stakeholders in five Member States out of 17 Member States with free zones mentioned that regional development was one of the main objectives of the free zones in respective jurisdictions.

Most stakeholders indicated that the objectives of free zones remain relatively unchanged over time and that there is no distinction between short-run and long-run objectives. Seventeen out of 21 custom authorities who participated in the interviews either explicitly mentioned that there is not a difference in the short-run and long-run objectives of free zones or did not indicate that there is a difference. Moreover, four out of nine EU free zone authorities who provided answers on RQ1 confirmed this point. Four interviewed free zone authorities did not comment on whether there is a difference between long-run and short-run objectives. There are only a few stakeholders (one free zone authority, one customs authority of a MS without free zone and one customs authority with a free zone) who mentioned that in the short-term, the objectives of some free zones are changing due to geopolitical reasons.

Stakeholders in seven Member States indicated that they did not have an active free zone or one or more free zones in their jurisdiction are no longer active.

RQ2: Regarding the customs provisions regulating free zones in the EU, are the current rules fit for purpose? Do these rules ensure a proper functioning of the free zones or are there any weaknesses or gaps in the legal framework (UCC)?

Out of 21 customs Authorities who provided answers to RQ2, 13 reported broad satisfaction with the current rules and highlighted that there are no gaps in the UCC. Among Free Zone Authorities, 4 out of the 6 which responded to the relevant question reported the same response. FIUs were not consulted on customs provisions specifically.

Among customs authorities, three expressed a degree of dissatisfaction with the current rules. One authority pointed out that economic operators in free zones should be obliged to file customs declarations. This authority also raised the issue that not all economic operators based in free zones are engaged in international trade, creating difficulties for the oversight of customs authorities. Another customs authority also mentioned that the absence of a declaration obligation on economic operators makes the authority's supervision and risk monitoring activities more burdensome.

In addition, it is worth noting that one customs authority with oversight of a prominent freeport reported having implemented supervision rules that are stricter than those foreseen by the UCC, while not directly expressing dissatisfaction with the UCC. This Customs Authority, as well as 2 out of 3 of the Authorities which did express dissatisfaction with the UCC, also

mentioned the lack of exchange of electronic information between Customs and Free Zone Authorities. Greater harmonisation in this area is perceived as needed to support risk monitoring activities.

RQ3: To what extent have the free zones contributed to economic growth of the country and/or region where they are located?

Among the stakeholders we consulted, only 7 free zone authorities and 2 customs authorities provided answers to our questions under RQ3. Among the first group, 5 free zone authorities cited **business creation** as a key contribution of free zones to their city or region, with 4 of these authorities linking the creation of new businesses to processes of local and regional economic diversification. One authority mentioned that free zones allow for the exchange of know-how between firms in and outside the zone and facilitate innovative activities. At the same time however, one free zone authority overseeing two free zones pointed out that these are overly dependent on a single industry and would therefore need to diversify their activities.

Employment creation is the second contribution which was raised by several free zone authorities. In total, 4 authorities pointed to the role of free zones in creating and providing employment opportunities in their host locations. Among these, 3 free zone authorities provided estimates of the number of free zone employees:

- ▶ Freeport of Ventspils: 3 291 full-time employees, of which 2 209 in manufacturing activities;
- ▶ Madeira free zone: over 3 500 full-time employees;
- ▶ Tenerife free zone: over 300 jobs.

Other contributions highlighted by stakeholders include **export promotion**, which was highlighted by one free zone authority and 2 customs authorities, although these authorities did not provide details; **tax revenues** from free zone based companies, highlighted by 2 free zone authorities; and the attraction of **private sector investment**, which was highlighted by one free zone authority. Another interviewee, however, suggested that there are several instances of disinvestment or displacement of investment, although they did not provide details.

RQ4: Have the benefits obtained from the free zones outweighed such costs or not (and to what extent)?

The vast majority of customs authorities either did not respond to this question or did so in a vague and inconclusive manner. Among these, 8 customs authorities reported that they are not aware of such an assessment existing. Only 5 customs/tax authorities expressed a positive opinion of benefits outweighing costs, whereas 2 customs authorities reported a negative opinion. Such an opinion is also shared by the majority of stakeholders in countries without active free zones.

Most customs authorities (out of authorities in 12 jurisdictions covering 35 free zones) noted that the intensity of checks and the staff required to perform them are similar to the checks outside of the free zone.⁴¹⁹ Only customs authorities in 2 jurisdictions, covering a total of 7 free zones maintained that more resources are needed to perform checks in free zones compared to outside of them.

⁴¹⁹ Only two customs authorities (out of 11) noted that more resources are needed to perform checks in the free zone compared to outside of it.

As shown in the table below, in terms of the types of risks associated with free zones in the EU, the majority of stakeholders that took part in the consultation activities assessed most risks in the lower scales (“to a very small extent” and “to a somewhat small extent”).

Table 26: Assessment of risks by customs/tax authorities and FIUs

Aggregate	To a very small extent	To a somewhat small extent	To some extent	To a very large extent	I don't know	Total
Money laundering	12	7	4	3	10	36
Tax evasion	6	12	7	4	8	37
Terrorist financing	14	6	2	1	13	36
Circumvention of sanctions	9	9	8	5	7	38
Customs fraud	12	7	11	4	6	40
Length of goods' storage (from a taxation point of view)	9	7	4	4	11	35
State aid non-compliance	10	3	6	1	15	35

A description by risk is included below.

- **Money laundering:** identified by 19 stakeholders as concerning “to a (very or somewhat) small extent”. In comparison, 4 customs authorities reported it as concerning “to some extent”,⁴²⁰ 3 Tax Authorities/FIUs assessed it as concerning “to a large extent”.⁴²¹
- **Tax evasion:** was identified by 8 out of 13 customs authorities as concerning “to a (very or somewhat) small extent”, 5 reported it as “to some extent”⁴²² Out of 16 Tax authorities/FIUs, 10 reported this risk as concerning “to a (very or somewhat) small extent”, 2 considered it relevant to some extent, whereas 4 concerning “to a very large extent”.⁴²³
- **Terrorism financing:** was assessed by most stakeholders in the low scale. 8 out of 10 customs authorities reported this as concerning “to a (very or somewhat) small extent”, 2 of them consider it concerning “to some extent”.⁴²⁴ Only 1 FIU reported this as concerning “to a very large extent”.⁴²⁵
- **Circumvention of sanctions:** 9 customs authorities (out of 19) identified this as concerning “to a (very or somewhat) small extent”, 7 reported it as relevant “to some extent”, while 3 considered it concerning “to a very large extent”⁴²⁶. Similarly, 9 tax authorities/FIUs (out of 12) also identified this as concerning “to a (very or somewhat) small extent”, 1 reported it as relevant “to some extent”, while 2 more considered it concerning “to a very large extent”⁴²⁷.

⁴²⁰ Out of 30 customs authorities who responded to this questions, 9 stated they could not provide a precise answer.

⁴²¹ Out of 16 tax authorities and FIUs that responded to this question, 2 stated they could not provide a precise answer.

⁴²² In addition, 7 customs authorities reported they could not provide a precise answer.

⁴²³ In addition, 1 FIU could not provide a precise answer.

⁴²⁴ 10 more customs authorities stated they could not provide an answer to this question.

⁴²⁵ 3 more Tax authorities/FIUs could not provide an answer to this question.

⁴²⁶ 5 more customs authorities could not provide an answer to this question.

⁴²⁷ 2 more tax authorities/FIUs could not provide an answer to this question.

- **Customs fraud:** 9 customs authorities (out of 20) identified this as concerning “to a (very or somewhat) small extent”, 10 reported it as relevant “to some extent”, while only 1 considered it concerning “to a very large extent”⁴²⁸. 10 Tax authorities/FIUs (out of 14), also identified this as concerning “to a (very or somewhat) small extent”, 1 “to some extent”, and 3 FIUs considered it a concerning “to a very large extent”.⁴²⁹
- **State aid non-compliance:** 4 customs authorities (out of 9) identified this as concerning “to a (very or somewhat) small extent”, 4 reported it as relevant “to some extent”, while only 1 considered it concerning “to a very large extent”⁴³⁰. 9 tax authorities/FIUs (out of 11) also identified this as concerning “to a (very or somewhat) small extent”, while 2 of them considered it concerning “to some extent”.⁴³¹

While comparing results by stakeholder group it appears that customs authorities, tax authorities, and FIUs across the EU do not have vastly dissimilar assessments of risks related to the free zones regime in their jurisdictions. Customs authorities considered the risks related to circumventions of sanctions as higher than other authorities (10 out of 19 and 11 out of 20 considered such risks as concerning “to some or to a very large extent”. On the contrary, Tax authorities and FIUs assessed them as concerning “to a very/somewhat small extent” (9 out of 12 for the circumvention of sanctions, 10 out of 14 for tax authorities and FIUs).”

Overall, FIUs responded that they consider the aforementioned risks concerning “to a very large extent” in higher proportion than other authorities.

None of the consulted stakeholders could provide an estimate of the costs associated with mitigating the abovementioned risks, nor could they provide estimates of the average costs of operating a free zone. Only one customs authority (out of more than 80 authorities that provided input) noted that there are substantial economic costs related to operating a free zone, e.g. the provision of the business infrastructure and other environmental costs but offered no quantification thereof.

Beyond the questionnaire/interviews performed with customs/tax authorities and FIUs, as a part of the analysis for RQ4, we performed interviews with 2 customs/free zone authorities, which contributed to the development of a **case study on State aid aspects comparing the regime of Romania and Moldova**. The key inputs from the interviews for the case study are related to: the state aid regime, information on companies registered in free zones, financial information on those companies, and clarification on State aid decisions in the countries.

RQ5: Does the fact that goods can be stored in free zones with no time limit entail risks (mainly in terms of taxation)? Do free zones disclose the value of goods stored on their premises or there are privacy and confidentiality clauses (akin to bank secrecy) in place?

Most stakeholders that took part in the consultation activities assessed the risks related to the length of goods storage in the lower scales (“to a very small extent” and “to a somewhat small extent”):

- ▶ Most customs authorities (6 out of 10 that provided an answer to this question⁴³²) identified low risks associated with the terms of the length of storage (“to a very small

⁴²⁸ 4 more customs authorities could not provide an answer to this question.

⁴²⁹ 2 more tax authorities could not provide an answer to this question.

⁴³⁰ 11 more customs authorities could not provide an answer to this question.

⁴³¹ 4 more tax authorities/FIUs could not provide an answer to this question.

⁴³² Eight customs authorities could not assess the risk.

extent” and “to a somewhat small extent”), three authorities assessed the risk as “to some extent”, and only one identified it as a risk “to a very large extent”.

- ▶ The responses of tax authorities/FIUs are similar to the customs authorities (9 out of 13 that provided an answer to this question)⁴³³ identified low risks associated with the terms of the length of storage (“to a very small extent” and “to a somewhat small extent”), one authority assessed the risk as “to some extent”, and three identified it as a risk “to a very large extent”.
- ▶ Free zone authorities did not identify issues with the length of goods storage either.

The input from tax authorities/FIUs suggests that by and large free zones are not considered a separate risk category across MS.

As concerns the second sub-question under RQ5, free zone authorities/operators confirmed that they do not disclose to the general public the value of goods stored in their premises. However, the input received from 5 customs authorities, three tax authorities/FIUs, and three free zone authorities suggests that such information can be demanded from authorities on a case-by-case basis. In other words, information on the value of goods stored in free zones can be obtained, but it is not provided systematically. From a general perspective, as confirmed via the interviews with customs authorities and free zone authorities, the customs authorities have access to information about the goods held in the free zone at any time due to the obligatory storage bookkeeping. At the same time, authorities (4 customs authorities and 3 tax authorities/FIUs) noted that **tax authorities do not have direct access to information on the goods stored in free zones**. As explained by customs/tax authorities and FIUs the information is typically communicated by customs authorities in electronic format “where necessary”, i.e. for tax purposes (to tax authorities) or criminal investigations (to FIUs).

The input received from all customs/tax authorities/FIUs/international organisations suggests that since free zones in the EU are not considered extra-territorial to the Member States, they are not exempted from any measure under the EU or the national frameworks, including those related to combatting money laundering and terrorist financing. In this line, nine customs and tax authorities noted that Ultimate beneficial ownership (UBO) information is available in accordance with Anti-money laundering (AML)/counter-terrorism financing regulations.

Beyond the questionnaire/interviews performed with customs/tax authorities and FIUs, as a part of the analysis for RQ5, we performed interviews with more than 10 customs/free zone authorities, academics, and NGOs, which contributed to the development of **a case study on the freeport of Geneva and the Luxembourg high-security hub**. The key inputs from the interviews for the case study are related to: the number of customs officers on site, rent costs, changes in the legal systems, actions related to sanctions, anti-money laundering requirements and their application, the storage of jewels and other high-valued goods.

RQ6 and RQ7: To what extent have the EU free zones contributed to foster decent employment in the country/region of their location? Do the free zones in the Union make elimination of duties, customs, etc. conditional on compliance with international standards on labour rights in the exporting countries?

Throughout our consultations, we collected inputs from multiple categories of stakeholders regarding the research questions on labour. Overall, responses have been quite homogenous and similar across stakeholders and across Member States. Overall, results confirmed that in

⁴³³ Three tax authorities/FIUs could not assess the risk.

the free zones, **the same labour provisions apply to the national territory in terms of employment and safety at work, as prescribed by the EU law.**

Four free zone authorities indicated that free zones contribute to the creation of good quality and qualified employment, fostering the local labour market. According to 5 customs authorities, free zones are committed to creating skilled and qualified labour in diversified sectors. Some stakeholders also mentioned that workers in the free zones tend to have higher salaries compared to the rest of the regions. One respondent raised the issue of job displacement as a potential major risk connected to the establishment of free zones.

Concerning RQ7, stakeholders' responses were limited to confirming that activities carried out by free zones companies are fully compliant with national and EU regulations as well as ILO's international conventions, following the same procedures and supervision and finally, subject to any international trade policies introduced at the EU level.

Out of 13 replies, 7 (2 customs and 5 free zone authorities) underlined that the free zone's activities are conducted in compliance with national labour legislation and ILO standards. The remaining part of the replies indicated that they did not have such information. Only one respondent underlined that the elimination of duties (VAT zero rate, no customs duties on excise goods) is conditional on the national law and relevant EU regulations on exporting countries' compliance with international standards on labour rights. However, according to the same custom authority, customs relief in free zones in the same country is not related to exporting countries' compliance with international standards on labour rights.

Beyond the questionnaire/interviews performed with free zones and customs authorities as a part of the analysis for RQ6 and RQ7, we interviewed further stakeholders (2 free zone authorities, 2 trade unions and one academic researcher) who contributed to the development of **a case study on the labour conditions**. Also in this case, the key inputs confirmed the findings on the good quality of labour, qualified jobs, higher wages, freedom of association, health and safety standards, and SDGs promotion activities, when it concerns free zones located in the EU Member States.

RQ8 and RQ9: Are the analysed free zones contributing to the objectives established in the EGD? If not, how far away are these free zones from fulfilling such objectives, and what is the cost of this lack of compliance entails? Do these free zones have a plan to contribute to the objectives established in the European Green Deal as mentioned in question 8? If yes, which concrete actions are envisaged to be taken in the following ten years? How should the functioning of free zones change in order to become more relevant to the current needs and coherent with the EU policies?

Regarding RQ8, we received 11 replies to the question. Among the respondents, 7 authorities indicated that free zone activities and actions are in line with environmental European and national policies, including the EGD. Several free zone authorities mentioned being involved in alternative fuels and energies, particularly hydrogen, solar and photovoltaic plants. Only two free zones mentioned that they are not actively contributing to EGD objectives but that they would be open to such projects or activities in the future.

On RQ9, 21 stakeholders provided inputs. Five stakeholders (4 customs authorities and 1 free zone authority) emphasised the importance of creating a standardised digitalisation for all customs procedures and for all transactions concerning free zone activities. One free zone also pointed out the need to consider adopting more technological tools because of the recent rise of digital services and businesses in their area.

Two customs authorities underlined how the functioning of free zones should become more coherent with modern technologies and the European Green Deal objectives. Four free zones expressed their involvement in future plans and investments in alternative energy production infrastructure based on photovoltaic, wind power, hydrogen or offshore power supply.

For the development of the **case study on the environmental aspects** of free zones, two (one EU and one non-EU free zone) free zone authorities have been consulted. Similar to the labour laws, the stakeholders highlighted that business activities and actions are conducted in line with national and EU environmental standards.

Datasheets feedback

In addition to the questionnaires/interviews, a datasheet was distributed to the customs authorities with the intention of filling in some gaps in the data-gathering process. As a result, customs authorities provided data on 35 free zones in addition to the information already gathered as a part of the interview process. The parameters and variety of the requested data are presented in the table below.

Table 27: Data provided via the datasheets

Parameter	Range
Customs officers involved in checks in free zone/s in the country (number, please specify whether in free zone or country)	1-146 (depending on the size/operations of the free zone)
Frequency of the checks (i.e. number of customs checks per year)	Up to 94 800 (depending on the understanding of what a check constitutes)
Do the checks related to addressing potential customs risks in the free zone/s require more / less / the same resources as compared to checks outside the free zone?	18 responses “same” 2 responses “more” No responses “less”
Number of seizures in the free zone/s for the last available year	0 - 500
Number of seizures in the whole country for the last available year	Data provided for just three countries
Value of seizures in the free zone/s for the last available year	EUR 0-110 million
Value of seizures in the whole country for the last available year	Not provided
Total value of the goods stored in the free zone/s (specify currency)	Up to several billion, but no consistent data provided
Average times for goods kept in the free zone/s	From 1-2 days to several years

As shown in the table, the data provided by Member States differ significantly, which is logical due to the different sizes and operations of free zones. The data was used mostly to answer research questions related to the risks and benefits of free zones (RQ4 and RQ5). The information on the value of goods stored in free zones is not provided systematically to customs/tax authorities, while the data on the overall number/amount of seizures across countries is also difficult to obtain.

Feedback to the online survey

Despite all efforts of the team (including translation of the survey, calling free zone operators, asking free zone authorities to serve as gatekeepers and to distribute the questionnaire),

economic operators largely ignored the invitation to participate in the study and only 5 responses – out of over 800 distributed – were received. Due to the very limited input received, their perspective was considered via the interviews / written input of free zone authorities and the WFZO, while the survey results were used only to a very marginal extent. In particular, the survey results were used to double-check: the objectives of some free zones (in Poland, Italy, and Portugal) and the advantages that they provide (e.g. tax exemptions, infrastructure), compliance with EU requirements (e.g. on equality).

ANNEX IX: METHODOLOGY TO ESTIMATE TAX REVENUE AND FOREGONE TAX FROM FREE ZONES

As noted in Section 2.4 of the report (under Research Question 4), quantifying the costs and benefits arising from the establishment of free zones in the EU is an extremely challenging exercise. At a minimum, such an exercise would require two key components. The first one is a standardised methodology to conduct a cost-benefit analysis (CBA) of free zones. This would need to address key questions such as the attribution of costs and benefits to private actors and to the society, and the opportunity costs of investing in a free zone. The second key component is access to time-series balance sheet data on economic operators based in free zones, including, at least, information on their revenues, profits, and expenses. It would also be necessary to have information on the exact number and size of operators active a free zone, the year in which they started operating—to assess under which tax regime they operate, as free zone incentives tend to be limited in time—and the wage levels that their employees typically receive, which has implications for the assessment of benefits.

A CBA methodology does not currently exist in the context of free zones. Moreover, no data that would let us to begin the development of a CBA is publicly available. The aforementioned stakeholder consultation process yielded little in the way of new and reliable time-series data. It is, therefore, **not possible to conduct a CBA of establishing EU free zones**. With the aid of the limited data we obtained from free zone and Customs Authorities, it is, however, possible to provide a preliminary estimate of the tax revenue linked to the establishment of free zones, as well as an estimate of foregone taxes due to the incentives governments and regions provide to free zones. Based on our desk research and on the data that we collected, estimates can be provided for Latvia, Lithuania, Portugal, and Slovenia. No estimate can be provided for the other countries covered by this study due to the paucity of data we collected from stakeholders. These estimates are reported in Table 28.

In the case of Portugal, some information on tax revenue linked to free zone activities and on foregone taxes is publicly available. We retrieved information on tax revenues on the website of the Madeira Free Zone. As for foregone taxes, in its decision on “State Aid N 421/2006–Portugal–Zona Franca da Madeira”, the European Commission reported estimates of fiscal expenditures connected to the establishment of the Madeira Free Zone.⁴³⁴ For the other three countries (Latvia, Lithuania, and Slovenia), we used a simple methodology to provide estimates of tax revenues and foregone taxes from free zone activities. To derive estimates for these three countries, we compared tax revenues linked to free zone activities in the latest available year to a counterfactual scenario in which a given free zone had not been established. The counterfactual is based on the following assumptions:

- ▶ The level of economic activity in a ‘no-free zone scenario’ is assumed to be around 70 % in comparison to this level in a ‘free zone scenario’. This is based on evidence from the Madeira Free Zone in Portugal, where a change in tax incentives in 2011-2012 prompted over 30 % of economic operators to leave the Zone.

⁴³⁴ See European Commission, State Aid N 421/2006 – Portugal – Zona Franca da Madeira, Available at the following [link](#).

- ▶ The average profitability of economic operators in and out of free zones is assumed to be 5 % annually.⁴³⁵

Based on these assumptions, we estimated the following items:

- ▶ **Tax revenue.** This is estimated for the baseline scenario relying on information on corporate income tax rates which prevail in free zones in the four aforementioned countries, namely Latvia, Lithuania, Portugal, and Slovenia. We include tax revenue from personal income tax levied over workers who are employed full time by operators in the free zones, assuming that those workers are paid the average wage prevailing in the country. Tax revenue from full-time equivalents (FTEs) working in free zone is reported separately.
- ▶ **Foregone taxes.** These are estimated in the counterfactual scenario as the tax revenue that would have accrued to a country's government, had the country not introduced a reduced corporate income tax rate to incentivise operators to establish themselves in the free zone. This is, therefore, the result of a purely counterfactual exercise. The volume of foregone taxes is dependent on the assumptions specified above.
- ▶ **Costs related to customs personnel.** We also included estimates of the costs linked to the maintenance of customs personnel to oversee the free zones. Information on FTEs employed by Customs Authorities was only reported for Portugal, Latvia, and Slovenia.

It is important to note that estimates from our counterfactual exercise have significant methodological limitations. These include:

- ▶ no consideration of the opportunity costs of providing tax incentives to economic operators in a free zone;
- ▶ no consideration of the distribution of expenses and revenues across private and public actors, nor of potential costs or externalities to society at large.

We only consider revenue arising from corporate and personal income tax. Taxes on investment, dividends, as well as other types of relevant taxation (e.g. regional and municipal levies) are not included in the estimates in Table 28. As a result, our estimates of foregone taxes are an under-estimation of the tax revenue that tax authorities forego as a result of granting incentives to economic operators.

Table 28: Estimates of tax revenues and foregone taxes linked to the establishment of free zones in selected EU countries

Element	Portugal (Madeira)	Latvia (Liepajas)	Latvia (Ventspils)	Lithuania (Klaipėda)	Slovenia (Koper)
Expenses related to customs FTEs ¹	161 280	1 351 200	N/A	N/A	2 831 400

⁴³⁵ Data on profitability is notoriously hard to obtain. We relied on recent estimates of median five-year average profit margins of listed companies active in the service industry—including typical FZ activities such as transport, logistics, and industrial services—in the EU. These are available at the following [link](#).

Element	Portugal (Madeira)	Latvia (Liepajas)	Latvia (Ventspils)	Lithuania (Klaipėda)	Slovenia (Koper)
Foregone tax²	28 524 823	2 290 830	1 873 900	3 150 000	315 000
Revenue from corporate income tax³	37 439 500	654 523	535 400	9 000 000	2 812 500
Net revenue estimation	8 753 396	-2 987 507	-1 338 500	5 850 000	-333 900
Revenue from personal income tax⁴	N/A	5 026 193	8 893 598	22 800 000	9 652 500
Net revenue estimation, including personal income tax	N/A	2 038 686	7 555 098	28 650 000	9 318 600

Note and data sources: ¹ Estimated based on the number of customs officials and data on the average wage in the country. Information on customs officials was provided during our stakeholder consultation process. ² Estimated based on assumptions on the amount of tax revenue a country would have been able to raise in a counterfactual scenario with no free zones. ³ Estimated based on data on revenues and on the corporate income tax regime prevailing in a country's free zone. Data on revenues was collected through our stakeholder consultation process and desk review. ⁴ Estimated based on data on the number of workers employed in a free zone and data on the average wage in the country. Data was collected through our stakeholder consultation process and desk review.

These limitations mean that the estimates reported in Table 28 can only be taken as being very preliminary. These estimates suggest that the net revenue accruing to tax authorities as a result of the establishment of free zones can be positive. In the case of Portugal, for instance, revenue net of foregone taxes is estimated to have amounted to approximately EUR 8 million in 2020. The Lithuanian Free Zone of Klaipėda is another instance where—in terms of the relationship between revenue from taxes levied on the Zone, and potential revenues lost through tax incentives—the balance appears to be positive (over EUR 5 million). In other free zones—Liepajas and Ventspils in Latvia, and the Port of Koper in Slovenia—our estimates suggest that the balance may be negative—unless one takes into consideration the revenues arising from personal income taxation of the FTEs employed in these free zones.

As discussed above, a methodology to carry out a systematic CBA of free zones is not available. Building on available literature, Table 29 below provides an overview of the data requirements to carry out a CBA of EU free zones, alongside notes on their availability. Overall, available data only supports preliminary conclusions on tax revenue and revenue loss from a small number of free zones. As more data is collected and becomes available, a full net cost-benefit accounting should become possible. Given the marked differences in the history,

purposes, and contextual characteristics of EU free zones, for such a net accounting exercise to be representative of EU free zones as whole, it should aim at capturing as many free zones as possible.

Table 29: Requirements, use, and current availability of data for a CBA

Cost / benefit item	Data requirement	Data use	Current availability data
Costs			
Total payroll of customs officials and other officials needed in oversight and/or operation of a free zone	Payroll data or data / estimates on the average wage and number of public officials involved in overseeing a free zone	Payroll data can be used to estimate costs for operating, managing, or overseeing a free zone	Not available. One can, however, make assumptions on the average number of customs officials per free zone.
Outlays for infrastructure development, upgrading, or maintenance	Data on government outlays for infrastructure to service the free zone	Spending for on- or off-site infrastructure to service free zones can become a financial drain on governments ⁴³⁶ (depending on the ownership of the free zone)	Not available.
Tax revenue loss due to reduced corporate income tax incentives ⁴³⁷	Data on revenues of economic operators; data on the year of establishment of economic operators	Estimates on revenue loss for governments arising from different sets of tax incentives granted to economic operators are important to determine the budgetary impact of free zones on government revenue. Information on the years of activity of economic operators is important here	Data on revenue can be estimated from revenue of a free zone as a whole, which is currently available for selected free zones in Latvia, Lithuania, Portugal, Slovenia, and Spain. It is worth noting that data is only available at the aggregate level (i.e. for the free zone as a whole) and for a single year. Data on the year of establishment of operators is not strictly

⁴³⁶ Infrastructure is often listed as a cost to governments in the context of Free Zones (see Jayanthakumaran, 2003, [Benefit-Cost Appraisals of Export Processing Zones: A Survey of the Literature, Development Policy Review](#), 21(1); OECD, 2007, [Export Processing Zones: Past and Future Role in Trade and Development](#); and IGC, 2019, [Doing Special Economic Zones Right: A Policy Framework](#)). However, many EU Free Zones have long been established. Costs for new infrastructure development may therefore not be very large in many instances.

⁴³⁷ It is worth noting that while the majority of existing literature sees tax revenue loss as a cost item (see, for instance, OECD, 2018, [Benefits and Costs of Zones for Host Economies and Business](#); OECD, 2007, [Export Processing Zones: Past and Future Role in Trade and Development](#); and IGC, 2019, [Doing Special Economic Zones Right: A Policy Framework](#)), some studies argue that since firms would not have located in a free zone if it were not for tax incentives, tax revenue loss should not be counted as a cost (see Jayanthakumaran, 2003, [Benefit-Cost Appraisals of Export Processing Zones: A Survey of the Literature, Development Policy Review](#), 21(1); and Monge-González et al., 2005, [Cost-Benefit Analysis of the Free Trade Zone System: The Impact of FDI in Costa Rica](#)). This assumption is fully justified in all those cases where capital moves from abroad, rather than from elsewhere in the domestic economy, into the Free Zone; or where a clear case can be made that investment in a Free Zone would not have occurred without incentives. Generally speaking, a thorough analysis of the history and context of a given Free Zone should be undertaken before making such an assumption.

Cost / benefit item	Data requirement	Data use	Current data availability
		because incentives can be limited in time	necessary but can help in refining the analysis.
Tax revenue loss due to reductions or elimination of import duties	Data on total imports flowing into a free zone		Not available.
Tax revenue loss due to other direct or indirect incentives and subsidies	E.g. data on incentives on municipal levies, or data on energy and water consumption		Not available
Loss of import duties or other duties due to illegal trade/smuggling	Estimates of illegal trade flowing in and out of free zones	Estimates on illegal trade can be used to proxy for budgetary costs to governments arising from tax evasion	Not available.
Benefits			
Tax revenue from corporate income tax ⁴³⁸	Data on revenues of economic operators	Governments may benefit from Free Zone thanks to tax receipts from the activities of economic operators, including wages paid to employees	Data on revenue can be estimated from revenue of a free zone as a whole, which is currently available for selected free zones in Latvia, Lithuania, Portugal, and Slovenia. It is worth noting that data is only available at the aggregate level (i.e. for the free zone as a whole) and for a single year.
Tax revenue from personal income tax	Data on the number of employees of economic operators, and data on wages		Data on the number of employees can be inferred from the total number of employees in a free zone, which is available for selected free zones in Bulgaria, Italy, Latvia, Lithuania, Luxembourg, Poland (Lublin and Kostrzyn), Portugal, and Spain.

⁴³⁸ Whether tax revenue should be included in the accounting of benefits, costs, or both, depends on assumptions on the role of incentives in attracting new investment. These, in turn, require deep contextual knowledge.

Cost / benefit item	Data requirement	Data use	Current data availability
			Data on wages is not available.
Difference between free zone wages and the shadow wage	Data on wages paid to workers in free zones; conversion factors	The extent to which wages paid to employees count as a benefit depends on whether they exceed the social opportunity cost of employment in the zone	Not available
Revenue accruing to firms based outside of free zones as a result of sales of goods and services to free zones' economic operators	Data or estimates on purchases and sales for inputs and services by economic operators based in a free zone	Purchases of goods and services to firms can increase the revenues and/or employment of firms based outside of the zone	Not available
Financial transactions (e.g. borrowing) between economic operators in free zones and financial intermediaries outside free zones	Data or estimates on domestic borrowing by economic operators in free zones	Financial transactions can stimulate banking and other intermediation activities within the host country or region	Not available



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