

# Understanding Free Trade Zones



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## Free Trade Zone - An Introduction

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A Free trade Zones (FTZ) also known as Free Economic Zones (FEZ), Free Economic territories (FETs) or Free Zones (FZ) are one or more areas of the Country where tariffs & quotas are eliminated, and bureaucratic requirements are lowered in order to attract companies by floating the incentives for doing business there.

Free trade Zones are proved to be an effective & useful tool to develop new markets and to increase earnings from foreign trade.

Most of the Free trade zones are located in developing countries. They are special zones where typical trade barriers such as import or export tariffs do not apply, bureaucracy is typically minimized by outsourcing it to FTZ operators. Companies can seek sheltered area best suited to their needs

The organizations set up in the Free Trade Zones may be given tax breaks as an additional incentive. Mostly these zones are set up in the underdeveloped part of the country, the rationale that the zones will attract employers and thus economic activities will take place in that area thereby increasing employment and cashflow.

Free trade zones in Latin America dates back to the early decade of the 20<sup>th</sup> century. The first free trade regulations were enacted in 1920 in Argentina and Uruguay. Rapid development was done in the 1960s & '70s.

The biggest advantage for private companies to invest in Free Zones (also known as business havens) is liberalized rights of establishment and access to competitive infrastructure, transport and logistics facilities and services, according to an OECD report

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### Benefits of free trade zones

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In general, Free Zones offer some or all of the below

- ❖ Enhance Global market presence in the country
- ❖ Enhance foreign Exchange Earnings
- ❖ Enhance employment
- ❖ Develop export-oriented industries
- ❖ Attract foreign capital in country
- ❖ Overall ease of doing business
- ❖ Zero or reduced Corporate & Personal taxes
- ❖ No Customs Duty
- ❖ No transaction tax (e.g. VAT/GST/Excise)

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## UAE And Free Trade Zones

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Free economic zones in the Middle East, especially the UAE, have come a long way in the past few decades, becoming liberal in terms of incentives and attracting diverse industries.

Located along the Persian Gulf within the Middle East, the UAE has benefited from global trade as a transshipment location between Asia and Europe. In addition, as the region lessens its dependence on oil exports, it is encouraging diversification into other industries

Within the UAE, most free zones are concentrated in Dubai

The general incentives offered by the UAE Free Zones are more or less the same.

i.e.:

- ❖ Up to 100% ownership,
- ❖ complete exemption from customs & excise
- ❖ repatriation of capital & profits
- ❖ extended leases
- ❖ Quick approval process
- ❖ Easy availability of legal, immigration and other facilities.

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## Jabel Ali Free Zone – A Pioneer

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Jabel Ali Free Zone is one of the world's largest free zones specialised in industry, trade, and logistics. Established in 1985, it has played a vital role in attracting international partners in the UAE. Its smooth functioning has resulted in a boost to the economy of both Dubai and the UAE.

Jabel Ali Free Zone demonstrated the potential of Free zones in the region. As per JAFZA website *"In over 3 decades, Jafza grew from 19 companies in 1985 to more than 500 in 1995, and over 7,500 today, which includes nearly 100 Global Fortune 500 enterprises"*

*"Today, Jafza proudly stands as a dynamic base for thousands of businesses from over 100 countries, sustains more than 135,000 jobs and attracts 23.9% of Dubai's foreign direct investment."*

It contributes more than 33% and 10% of Dubai's and UAE's Gross Domestic Product (GDP) respectively.

World's big companies that based in Jebel Ali for manufacturing and production such as Nestle, Mars, Unilever, PepsiCo, Kraft Foods, Heinz, and so on.

Jabel Ali Free Zones has been an inspiration for setting-up other free zones. Currently, there are 46 Free Trade Zones in the UAE.

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## List of Free Zones in UAE

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Free Zones in Dubai	
1	Dubai Airport Free Zone
2	Dubai Auto Zone
3	Dubai Cars and Automotive Zone
4	Dubai Design District
5	Dubai Flower Centre
6	Dubai Gold and Diamond Park
7	Dubai Healthcare City
8	Dubai Industrial City
9	Dubai International Academic City
10	Dubai International Financial Centre
11	Dubai Internet City
12	Dubai Knowledge Park
13	Dubai Logistics City
14	Dubai Maritime City Authority
15	Dubai Media City
16	Dubai Multi Commodities Centre
17	Dubai Outsource Zone
18	Dubai Science Park
19	Dubai Silicon Oasis
20	Dubai Studio City
21	Dubai Techno Park
22	Dubai Textile City
23	Energy and Environment Park
24	International Humanitarian City
25	Jebel Ali Free Zone Authority
26	Jumeirah Lakes Towers Free Zone
27	Dubai Production City

### **Free Zones in Abu Dhabi**

1	Abu Dhabi Airport Business City
2	Abu Dhabi Global Market
3	Abu Dhabi Ports Company
4	Higher corporation for specialized economic zones/ ZonesCorp
5	Industrial City of Abu Dhabi
6	Masdar City
7	TwoFour54

### **Free Zones in Sharjah**

1	Hamriya Free Zone Authority
2	Sharjah Airport Free Zone Authority
3	USA Regional Trade Center Free Zone

### **Free Zones in Fujairah**

1	Creative City Fujairah
2	Fujairah Free Zone Authority

### **Free Zones in Ras Al Khaimah**

1	RAK Investment Authority Free Zone
2	RAK Maritime City
3	Ras Al Khaimah Free Trade Zone
4	Ras Al Khaimah Media Free Zone

### **Free Zones in Umm Al Quwain**

1	Umm Al Quwain Free Trade Zone
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### **Free Zones in Ajman**

1	Ajman Free Trade Zone
2	Ajman Media Free Zone



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## UAE Free Zones & VAT

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Generally, free zones are considered as VAT free. However, in the UAE, all free zones are not VAT free.

As per provisions of UAE VAT Law & executive regulations, VAT Free Zones are known as "Designate Zones."

A Designated Zone is a specific fenced geographic area that has security measures and customs controls in place to monitor entry and exit of individuals and the movement of goods to and from the area.

Further, Free zones are identified explicitly by way of Cabinet Decision as Designated Zone. Where Free Zones are not a Designated Zone, it is treated like any other part of UAE.

A designated Zones are areas considered by the UAE cabinet outside the scope of UAE VAT for certain limited cases. All transactions are not considered as VAT free (Outside the scope of VAT); Accordingly, business in Designated Zone may be required to register, account for VAT, file VAT returns and pay VAT as per law & regulation.

## **VAT Provisions for Designated Zone Transactions**

VAT law & regulation provisions applicable to the business are complex in nature. Let us see some of the general rules

### **❖ Supply of services:**

Place of supply for service transactions are treated as same as mainland transaction. Hence, it is taxed as per mainland transactions.

### **❖ Goods supplied within a Designated Zone:**

A supply of goods made within a Designated Zone (i.e. where both the supplier and customer are in the Designated Zone) will generally be outside the scope of VAT provide the goods are not consumed within the Designated Zone.

### **❖ Import from Outside UAE:**

Goods that arrive into a designated free zone from outside the UAE are not treated as imported into the UAE. Therefore, no customs duty as well as VAT is charged on such arrival of the good.

❖ **Transfer of goods from UAE the mainland to Designated Zone:**

Supply or transfer of goods into a Designated Zone from a place in the UAE which is not a Designated Zone is not an export for VAT purposes and therefore will not give rise to zero-rated VAT treatment.

❖ **Transfer of goods between Designated Zones:**

It treated as out of the scope of UAE VAT, as long as the goods are not released into circulation, used, or altered in any way during the transfer between the Designated Zones, and the transfer is undertaken in accordance with the rules for Customs suspension per the GCC Common Customs Law.

❖ **Transfer of goods from Designated Zone to Mainland:**

A movement of goods from a Designated Zone to the mainland is considered an import of goods into the UAE and is hence Custom duty and VAT is payable on such import.

**-: The End: -**