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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANISATION

**A FEASIBILITY STUDY OF PLANNING, ESTABLISHMENT
AND OPERATION OF AN INDUSTRIAL FREE ZONE
IN MONROVIA, LIBERIA.**

VOLUME 2

CASE STUDIES OF SELECTED FREE ZONES

FEBRUARY 1975

**Sir Alexander Gibb & Partners,
Standard House,
London Street,
Reading, England.**

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S/F FREE ZONE
C/F LIBERIA

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CASE STUDIES OF SELECTED INDUSTRIAL FREE ZONES

INTRODUCTION

- SECTION 1 BATAAN EXPORT PROCESSING ZONE - PHILIPPINES
- SECTION 2 EXPORT PROCESSING ZONES IN TAIWAN
- A. Kaohsiung EPZ
 - B. Other Free Zones in Taiwan
- SECTION 3 JURONG EXPORT PROCESSING ZONE, SINGAPORE
- SECTION 4 SHANNON INDUSTRIAL FREE ZONE

INTRODUCTION

This volume includes the surveys which have been carried out by the local offices of the Consultants in to the export processing zones in Taiwan, the Philippines and Singapore. These locations were selected as examples of zones operating successfully in developing countries. An analysis of the operation of the Shannon Industrial Zone, which was visited by the team, is also included.

The study carried out in Singapore requires a word of explanation. There are a number of industrial estates within the Republic and although these may strictly speaking be regarded as Free Trade Zones, they have been included here to emphasise certain advantages and aspects of operation.

At present Singapore has no export duties or levies and import duties are restricted to alcoholic drinks, tobacco, cars and a few other luxury items. The whole country could in general terms be regarded as having the same incentives as an Industrial Free Zone. The Jurong Industrial Estate is the largest concentration of industrial development (41 acres) and its operation provides some lessons for the proposed Zone in Monrovia.

At present (1975) no industrial export processing zones exist in West Africa, and the survey revealed that only two countries - the Ivory Coast and Senegal - are contemplating their establishment. It is believed that studies are planned for Gambia, Morocco and Algeria. Visits were made to the Ivory Coast and Senegal and discussions held with the responsible officials and experts. In both cases projects are at the feasibility study stage. Senegal has passed legislation establishing a Zone company and it is expected that the Zone will become operational in 1976. In the Ivory Coast no decision has been made to proceed and only a brief pre-feasibility study has been carried out. An analysis of these studies is given in Appendix C, Volume 1.

While there are certain lessons to be learnt from the experience of these zones, it must be emphasised that Monrovia must formulate policies suited to its own conditions. The zones described have each developed within their particular environment and in general terms the degree of success achieved has been related, amongst other factors, to the regional situation and the state of the world economy at the time. The circumstances of the establishment of these zones and their operational procedures are described in the following Sections 1 to 4. What appear to be the essential features of an industrial zone may be summarised as follows :-

1. An independent legal authority free from outside interference must be set up.
2. The specific terms of reference and operating criteria of this authority must be laid down by statute.
3. The provision of standard factories and adequate infra-structural facilities is necessary to attract investment.
4. Documentation and administrative procedures must be as simple as possible.
5. Promotional activities must be undertaken and expenditure in this category is generally regarded as unrecoverable but justifiable.

Table 1 following this introduction summarises the information obtained from the zones in Taiwan, the Philippines and Singapore.

TABLE 1
SUMMARY OF INFORMATION ON SELECTED INDUSTRIAL ZONES

1. (a) Name of Estate (b) Date of Establishment	Malaysia		Singapore	
	Penang	Subang Report Processing Zone	1969	Jarong Industrial Estate and others
2. Land area-				
(a) Detailed siting possibility to major urban areas and centers of economic activity	Existing Subang Housing City. (pop. 2,000,000) Budget 262 million.	Subangson Bay, 106 million by road from Kuala, 75 million by air.		Singapore on a whole functions as an I.P.C. Jarong is located on the Southern coast of Singapore Island.
(b) Transport infrastructure-				
(1) Airfield	Best and well communications to most parts of Subang.	Existing road to Kuala due to be replaced in part by expressway in 1976. No rail access.		Good network throughout Singapore and road and rail links with West Malaysia.
(2) Main roads	Existing in an international port with facilities for both coastal and deep-sea shipping available.	Malacca wharf handles bags, coastal and deep-sea vessels. New pier complex due for completion in 1976.		Jarong has an international port used by both coastal and deep-sea vessels.
(3) Airports	Seven miles from Existing International Airport	IPR airport plan abandoned; surveys being conducted of new site 12 miles from the zone.		Singapore International Airport.
3. Size of Estate-				
(a) physical area	170 acres	1,559 acres, of which 813 for industrial use and 746 for housing.		Jarong 8,270 acres; other estates 1,078 acres in all.
(b) number of factories	146 (declined in recent years)	10 operating, 13 existing building completion. 12 building starts in 1974 or later.		704 operating; 143 in planning and construction stage. Estimates also: 700 factories.
4. Inventory of all (or major) establishments on estate				
(a) nature of business	20 largest enterprises.	35 enterprises operating, awaiting building completion or anticipating construction starts.		Industrial and service industries.
(b) nature of operations	20 industrial.	30 industrial, 5 service.		
(c) main products	7 manufacturing. 4 processing. 5 assembly.	20 manufacturing. 2 construction. 1 processing. 1 printing/packaging. 3 service.		85 manufacturing. 10 processing. 25 assembly. 40 service. 15 manufacturing.
	14 electronics. 5 textiles. 1 heavy industry	17 textiles/gamuts/leaves. 4 light metal fabrication 3 plastics/chemicals 3 shipping/automobile 3 building. 1 electronics. 1 wood. 1 printing/publishing. 1 handicrafts. 1 transport.		electronics. textiles. plastics. metal industries.

	Spain	Belgium	Malaysia
(a) main centers of new industries	Level. Japan. Hong Kong. UK. Belgium.	Level. Japan. UK.	Level. Malaysia. Indonesia. Japan.
(b) main centers of new industries	9 under 1.25 acres. 9 1.25 - 2.5 acres. 2 2.5 acres +	17 under 1.25 acres. 3 1.25 - 2.5 acres. 3 2.5 - 10 acres. 3 10 acres + 9 not available.	288 under 1.25 acres. 278 1.25 - 2.5 acres. 168 2.50 - 3.75 acres. 168 over 3.75 acres.
(c) number of persons employed.	Number employed	Number employed	Number employed per factory
	Less than 500 501 - 1,000 1,001 - 1,500 1,501 - 2,000 2,001 - 2,500 not available	Less than 500 501 - 1,000 1,001 - 1,500 1,501 - 2,000 2,001 - 2,500 not available	1969 64 1970 52 1971 107 1972 (Rep.) 114 1973 119

	Spain	Belgium	Malaysia
5.(a) factors that influenced choice of this site for the IRE	Site of underdeveloped land. Proximity to main harbors.	Availability of labor. High cost of alternative sites, land government owned.	Need to develop away from Singapore city. Proximity of Singapore port and the natural harbor in which to develop Jantung Port. Low priced, state owned land. Small population on site, solving problems of relocating people.
(b) influence of port facilities	To address balanced industrial development of Spain. Availability of labor at reasonable cost.	Proximity to labor supply. Proximity to commercial centers, Manila. Availability of transport facilities and infrastructure.	Very important.
(c) Is any part of the IRE claimed from the state?	This greatly influenced the choice of site.	Part already has 3 berths and 6 mobile cranes; port facilities important in selecting site. No dredging.	70% state out of 6,500 reclaimed from the sea.
(d) (i) basis for choosing sites;	IRE was selected by harbor dredging. Land - rented only - at market value.	Rents for plots at subsidized levels below existing market value in Greater Manila. Leases for 15 years, renewable after 10. Rent high, 0.05 per sq. foot in 1974, rising to high 0.11 per sq. foot in 1989.	Rent at 4% of land value per annum - 30 years lease - provision of value every 5 years.
(ii) basis for sale of buildings	Buildings - sold only - at cost.	No buildings sold so far.	Buildings sold at market - within 40 years. @ a 9,560 sq. ft. building. 10¢ per sq. ft. rent - 20¢/sq. ft. per sq. ft. purchase price.

2000

2000

2000

5. cost's
 (a) System determining sustainability of industries to the 1990s
 (b) International development
 (c) Investment offered to firms set up in the 1990s (in order of importance as specified by the firms concerned)
 (d) Assessment of post bond costs.

Foreign exchange earnings
 Labor productivity
 Use of indigenous resources
 Introduction of modern industrial technology
 Absorption of modern capital
 Industrial development
 Export credits imposed by major countries.

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Year	Number of firms	Number of employees	Number of investments	Number of investments	Number of investments
1987 Dec.	28	5,400	17,000	17,000	17,000
1988 Dec.	48	17,000	26,000	26,000	26,000
1989 Dec.	105	26,000	40,000	40,000	40,000
1990 Dec.	172	40,000	49,000	49,000	49,000
1991 Dec.	176	49,000	54,000	54,000	54,000
1992 Dec.	176	54,000	54,000	54,000	54,000
1993 Dec.	171	54,000	54,000	54,000	54,000
1994 Dec.	146	54,000	54,000	54,000	54,000

1985 are restricted to Group I development only. Revised data from phase 1:
 I - Industry Investment Light
 II - Development almost complete
 III - to establish infrastructure
 Total investment (to and from III) to approximately 110 facilities.

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Not in order of importance:
 Supply of labor
 Lack of labor discipline
 Poor building, furniture and financial facilities
 Poor electrical power facilities
 The skilled - Japanese industries, the skilled - five years experience, the skilled - an expanded bonus up to five years
 In the investment paid to foreign laborers, completion or reduction of the work and regulations if not found in country of residence
 Political stability
 Cheap and efficient power supplies
 Geographical position

Investment offered to firms set up in the 1990s (in order of importance as specified by the firms concerned)

Investment offered to firms set up in the 1990s (in order of importance as specified by the firms concerned)

All seems to be okay and the evidence of post facilities is therefore mixed. A more recent development has been the use of old transport for light industries providing high value goods, e.g. electronic assembly and optics.

The industries planned for the year would probably still establish in the area if it was not post bond to other industries and more investment. However, no labor was used here to be a reversible decision from a post. Phases II and III medium and heavy industry may consider post bond more independent because of transport costs.

The firms would not have used on labor one as that no suitable one reported and possibly to further facilities in important. But firms consider the value of a post bond was, but it is not the most important factor.

SECTION 1

BATAAN EXPORT PROCESSING

ZONE - PHILIPPINES

SECTION 1

BATAAN EXPORT PROCESSING ZONE

GENERAL INFORMATION ON THE EPZ

	<u>Page No.</u>
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1.2 Proximity to Major Urban Areas and Centres of Economic Activity	1-1
1.3 Details of the Transport Infrastructure of the Area	1-1
1.4 Details of Port Facilities	1-2
1.5 Physical Area of the Estate	1-3
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**ANNEX 1-A Approved Establishments in the Bataan
Export Processing Zone As of November 15, 1974 1-14**

Figure No. 1-1 Development Plan

**Follows
Page No. 1-1**

SECTION 1

BATAAN EXPORT PROCESSING ZONE

GENERAL INFORMATION ON THE EPZ

1.1 Name of Estate

The Philippine Foreign Trade Zone has been renamed Bataan Export Processing Zone (BEPZ) to refer specifically to the free trade zone in Mariveles, Batnan and to distinguish it from other free trade zones that may be established in some other parts of the country in the future. Figure No. 1-1 shows the development plan.

1.2 Proximity to Major Urban Areas and Centres of Economic Activity

The BEPZ is 170 kilometres or about four hours away by land from Manila, the centre of commercial and industrial activities in the Philippines. However, upon the completion of the Bataan Superhighway in 1976, travel time will be reduced to two and a half hours.

Across the Manila Bay, the BEPZ is 55 kilometres from Manila, about two hours' ride by fast boat or 50 minutes by hydrofoil, or about 30 to 40 minutes by helicopter.

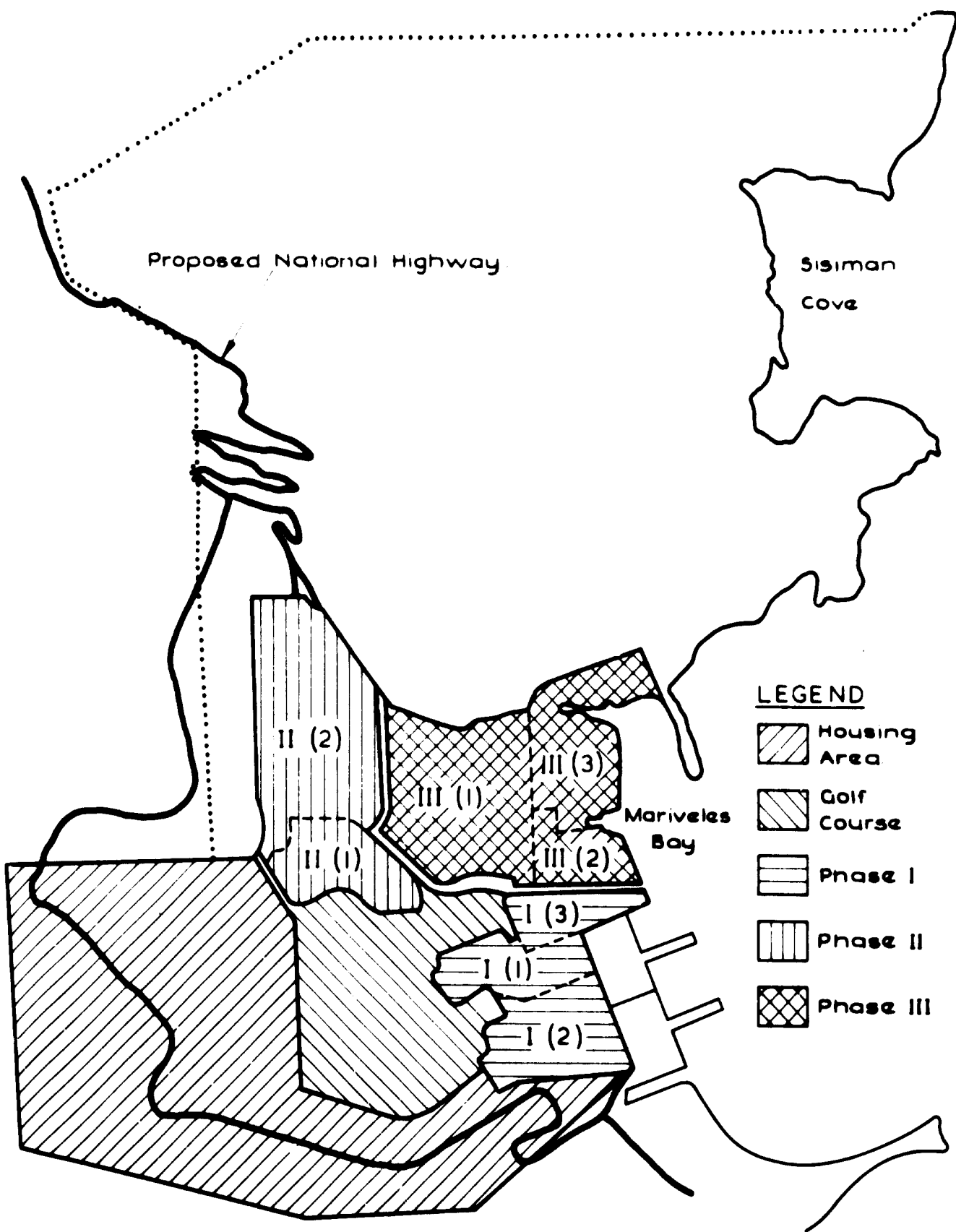
1.3 Details of the Transport Infrastructure of the Area

(a) Inland transport facilities - roads

The roads inside the BEPZ are of the crushed gravel-asphalt type with concrete gutters and sidewalks. They are of varying widths, ranging from 10 to 30 metres. The total length of roads completed at present is about 14 kilometres.

The 170-kilometre road network leading to the BEPZ from Manila is a combination of first and second class roads which are fairly well maintained. A proposed 58-kilometre Bataan Superhighway which will run from Dinalupihan to the BEPZ is expected to be completed by 1976. Unlike the old national highway which is a two-lane road cutting through the heavy traffic areas in the coastal towns of Bataan, the proposed highway will be a four-lane road which will bypass these town centres.

BATAAN EXPORT PROCESSING ZONE DEVELOPMENT PLAN



LEGEND






	Housing Area
	Golf Course
	Phase I
	Phase II
	Phase III

FIGURE No.1-1

In addition to the above major road improvements, a proposed coastal road extending northward from Manila to the Province of Bataan will be started upon completion of the coastal highway presently under construction, which extends southward to Cavite.

The movement of cargo into and out of the BEPZ by road is being handled by various companies, some of which operate container services.

(b) Sea transport facilities

At present only a few interocean vessels dock at the existing Mariveles wharf mainly because of the relatively small volume of cargo of BEPZ enterprises. The existing dock belongs to Batnan Shipyard and Engineering Corporation (BASECO). Part of this dock is utilized by BEPZ enterprises until the completion of the proposed modern pier complex in 1976.

(c) Air transport facilities

The construction of the proposed airport within the BEPZ has been found to be too costly because of the terrain in the selected location. However, a request has been made to the Civil Aeronautics Board to make a survey on alternative sites for an airport for the BEPZ. A site has been selected near an industrial estate in Limay which is about 20 kilometres from the Zone. To date, the Department of Public Works is preparing a study for the implementation of the proposed airport.

1.4 Details of Port Facilities - Expansion of Port Capacities and Provision of New Berths

As stated earlier, the completion of the new pier for the Zone is projected for 1976.

The facilities of BASECO which are currently being used pending the completion of the proposed modern pier include six 45-ton cranes for the loading and unloading of cargo. They have sufficient equipment and personnel to service three ocean going vessels at one time. The technical descriptions of the existing pier are as follows :-

Length of pier	- 494 metres
Draft	- 30 feet
Capacity of vessels able to dock	- 20,000 to 50,000 DWT
Area of container yard open space	- 20,000 sq.m.
Warehouse storage capacity	- 10,000 sq.m.

1.5 Physical Area of the Estate

As originally conceived in the Master Plan of the BEPZ, the entire Zone reservation area of 1,598 hectares was to be developed in two stages each consisting of three Phases. The overall scheme has subsequently been reduced to Stage I only which calls for the development of 631 hectares.

Of the 631 hectares earmarked for development, 329 hectares are allocated to industrial use and 302 hectares to housing.

Phase I of the industrial area which is intended for labour intensive light industries has been fully developed. Part of this Phase is earmarked as the Zone Administration area which includes the administration building and service facilities.

Phase II which is almost fully developed and Phase III which includes 41 hectares occupied by BASECO are intended for medium to heavy industries such as integrated textile manufacture, major automobile components manufacture, and ship repair and construction.

The 302-hectare low cost housing complex currently being developed, will have schools, hospitals, supermarkets, recreational centres, and other facilities. In addition, it will include dormitories for unmarried workers and apartment buildings for workers with families. At present, seven apartments which can accommodate 112 families and two dormitories which can accommodate 450 single workers have been completed.

1.6 Number of Factories, Warehouses, Plants, etc.

To date, 10 companies are already operating at the BEPZ. Thirteen others are awaiting the completion of their factory buildings to start actual operations, while an additional three are expected to start construction before the end of 1974.

Six Standard Factory Buildings (SFB) have already been completed, four of which have been leased out. SFBs have three-storeys and are built by EPZA for lease to small-scale light and labour intensive industries. These buildings have workshop areas of 2,784 square metres per floor. A total of 14 SFBs are programmed to be constructed by EPZA. When fully developed, Phases I, II and III are expected to accommodate about 113 factories.

1.7 Inventory of Establishments on the Estate

An updated list of approved EPZ enterprises, classified into operating, about to operate, or otherwise, is shown in Annex 1-A.

1.8 The Organization and Scope of the EPZ Authority

The Foreign Trade Zone Law (Republic Act No. 5490) promulgated on June 21, 1969, provided for the conversion of the municipality of Mariveles into a port of entry and the creation of the Foreign Trade Zone Authority (FTZA) to plan, develop, and manage the Foreign Trade Zone (FTZ).

Presidential Decree No. 66, which was issued on November 20, 1972, superseded R.A. 5490 and effected a number of significant changes, the principal ones of which are the conversion of the FTZA into the Export Processing Zone Authority (EPZA), a government corporation with the power to incur debt, and grant additional incentives to Zone enterprises, as well as to establish, develop, and manage other export processing zones in suitable locations in the country.

Pertinent excerpts from the decree are presented below :-

"Section 1. Declaration of Policy - It is hereby declared to be the policy of the Government to encourage and promote foreign commerce as a means of making the Philippines a centre of international trade, of strengthening our export trade and foreign exchange position, of hastening industrialization, of reducing domestic unemployment, and of accelerating the development of the country, by establishing export processing zones in strategic locations in the Philippines."

"Section 2. Creation of an Export Processing Zone Authority. - To carry out the above policy, a corporate body is created named as the Export Processing Zone Authority under the direct supervision of the Office of the President. The functions of the Authority are declared governmental."

"Section 4. Purposes and Specific Powers.

- (a) To operate, administer and manage the Bataan Export Processing Zone and such other zones as may be established. To provide and maintain facilities and services necessary in the conduct of business or commerce in the export processing zones.
- (d) To determine and regulate the enterprises to be established within an export processing zone in order not to adversely affect the operations of existing industries outside said zone; to operate such zone as a public utility wherein rates and charges shall be fair and reasonable; and the Authority shall afford uniform treatment to all who may apply for the use of the Zone.
- (g) To fix, assess and collect storage charges and fees, rentals for lease of lands, buildings, warehouses, facilities and other properties owned by the Authority. To fix and collect fees and charges for the issuance of permits, licenses and the rendering of services not enumerated therein.
- (h) To exercise exclusive jurisdiction and sole police authority over all areas owned and administered by the Authority. The Authority shall have supervision and control over the movement of all cargoes, wares, articles, machineries, equipment, supplies or merchandise of every type and description."

"Section 5. Capitalization. - The capital of the Authority shall consist of (1) its existing assets and such other properties as may be contributed by the Government, (2) all capitalized surplus, and (3) cash contribution by the Government in the amount of P200* million (US\$20.57 million)."

"Section 6. Board of Commissioners. - The corporate powers of the Authority shall be vested in and exercised by the Board of Commissioners of seven members to be composed of the Deputy Governor of the Central Bank of the Philippines, the Vice Chairman of the Board of Investments, the Under Secretary of the Department of Finance, and the Under Secretary of the Department of Trade as ex-officio members; the remaining members shall be appointed by the President with the consent of the Committee on Appointments. The President shall designate from among the members its Chairman who shall be at the same time the Administrator of the Authority."

"Section 11. Powers and Duties of the Board.

- (b) To recommend to the President the establishment of other export processing zones as it may deem advisable.
- (f) To recommend to the President the application of compulsory arbitration in the settlement of any labour dispute affecting any industry or business in the Zone. If in the opinion of the President the labour dispute would seriously impair Zone operations, he shall certify said labour dispute to the National Labour Relations Commission or the Court of Industrial Relations for immediate compulsory arbitration.
- (g) To recommend to the Commissioner of Immigration the entry into the Philippines of foreign nationals for employment."

* Increased to P400 million (US\$57.14 million) by Presidential Decree No. 545. The conversion rate used in this report was US\$1.70 = P7.00.

'Section 19. Power to Issue Bonds or Incur Indebtedness. - The Authority is authorized to incur domestic indebtedness and issue bonds in the Philippines provided that the total principal indebtedness does not exceed P300 million (US\$42.86 million); it can contract foreign loans to the extent of US\$50 million. The Government will unconditionally guarantee all such indebtedness and loans.'

'Section 21. Non-profit Character of the Authority: Exemption from Taxes - The Authority shall be a non-profit corporation and shall devote all returns from capital investment and excess revenues from operations for expansion purposes. Consistent with this provision, the Authority shall be exempt from all taxes, duties, and fees payable to the Government or its agencies and instrumentalities.'

1.9 Factors Influencing the Choice of Site

The principal reasons for selecting the Zone for plant sites were given as follows by firms interviewed.

- (a) Duty-free importation of capital equipment and raw materials.
- (b) Other tax incentives such as accelerated depreciation, loss carry over, exemption from local taxes except real estate taxes, and others.
- (c) No limitation on foreign ownership of companies.
- (d) Attractive lease rates on land and building.

1.10 The Basis of Charging Rents in the EFZ

Rentals paid by Zone enterprises are subsidized at a level below cost. On the use of land for the three Phases, the rates are as follows :-

	Annual Rental Rate per Sq.M.	
	<u>In Pesos</u>	<u>In US Dollars</u>
July 1, 1974 to June 30, 1977	14.00	\$0.57
July 1, 1978 to June 30, 1980	5.00	0.71
July 1, 1981 to June 30, 1983	6.00	0.80
July 1, 1984 to June 30, 1986	7.00	1.00
July 1, 1987 to June 30, 1989	8.00	1.14
July 1, 1990 onward	To be set by resolution of the Authority	

The above rates apply to industrial lots in all three phases, on a fiscal year basis starting July 1, 1974.

All industrial lots in the Zone are for lease for a period of 15 years, renewable for 10 years at the option of the lessee.

In view of the rapidly rising construction costs experienced by the EPZA, the rentals for the Standard Factory Buildings are not subject to individual negotiation. As a matter of policy, however, these rentals are established at lower levels than those charged in Greater Manila.

1.11 Timetable of the Development of the Zone

As previously stated, the development of the BEPZ has been narrowed down to Stage I which includes Phases I, II and III. At present, the development of the Zone is almost complete. Phases I and II are not complete with all the necessary utilities and infra-structures with the exception of 27 hectares in Phase II, the development of which is programmed to start in January 1975. Phase III consists of the 43 hectares occupied by the National Shipyard and Steel Corp. (NASSCO) village with about 700 residences and the 41 hectares occupied by BASECO.

According to the timetable of the EPZA in 1973, the Zone was expected to be fully occupied by 113 firms at the end of fiscal year 1979/80. Later estimates, however, include projections up to 1976/77 only, with 80 firms expected to be in actual operation by that time. This timetable is presented below :-

<u>Fiscal Year</u> ^A	<u>Number of Operational Factories</u>	<u>Employment</u>
Actual		
1972/73	3	2,270
1973/74	4	6,530
Projected		
1974/75	25	15,000
1975/76	50	25,000
1976/77	80	40,000

At present, ten firms employing more than 6,500 workers are in actual operation inside the Zone. An additional thirteen firms including the Ford car body-stamping plant are expected to commence operations by the start of 1975. The total employment of these thirteen firms is estimated at 5,200.

1.12 Incentives Offered to Firms

The legislation** establishing the EPZ in Bataan offers the same basic incentives as do other zones. These may be summarised as follows :-

- (a) Exemption from customs and internal revenue for goods processed in the zone.
- (b) Raw material or merchandise purchased locally in convertible foreign currency will be regarded as exported.
Additional incentives offered include :-
- (c) Net-Operating Loss Carry Over as a deduction against taxable income during the five years following the loss.
- (d) Accelerated Depreciation - fixed assets may be (1) depreciated to the extent of not more than twice the normal rate of depreciation or depreciated at the normal rate of depreciation if the expected life is ten years or less; or (2) depreciated over any number of years between five years and expected life if the latter is more than ten years and the depreciation thereon allowed as a deduction from taxable income.

* Fiscal year ends June 30.

** Presidential Decree No. 66

- (e) Foreign Exchange Assistance is available for Zone registered enterprises through the Central Bank of the Philippines and its authorized agents.
- (f) Financial Assistance is available for new enterprises investing in the Zone.
- (g) Exemption from Local Taxes and Licenses. Any business enterprise engaged in the production, processing, packaging or manipulation of export products will be exempt from the payment of any and all local government imposts, fees, licenses and taxes, except for real estate taxes.

1.13 Customs Procedures and Exchange Control Regulations

(a) Customs Procedures in the EPZ

As one of their incentives, Zone enterprises enjoy the privilege of simplified import-export documentation and procedures which assure the release of all imports and exports within 48 hours. Under the system, certain procedures and formalities required of other firms have been eliminated. Among the requirements which were eliminated are the filing of the report of export sales to the Bureau of Customs and the exemption from securing clearances from the Bureau of Internal Revenue.

(b) Procedures for Imports

The following are the procedures followed in importing goods into the BEPZ

- (1) Zone enterprises must apply for an Import Permit using six (6) copies of an EPZA Form supported by a firm offer or pro-forma invoice. A filing and processing fee of P100.00 is charged.
- (2) Distribution of the six copies is as follows :-
 - (i) 1st and 2nd - Importer
 - (ii) 3rd - Customs Collector of Mariveles Port
 - (iii) 4th to 6th - EPZA

- (3) In opening a letter of credit the authorized banks require the importer to present the Certificate of Clearance to Import goods into the Zone issued by EPZA together with an approved copy of the import permit. For imports of banned items, the Bank requires a Certificate of End-Use of Banned Items issued by EPZA, and a final approval by the Central Bank.
- (4) Upon arrival of shipment, an EPZA Import Tally Form is completed in six (6) copies, to be distributed as in (2) above.
- (5) Clearance will be made on the Import Tally by both Customs and EPZA inspectors for the entry of goods into the Zone only after actual checking of cargo and submission of shipping manifest, bill of lading, packing list and other documents.
- (6) Transporting of imported goods from the pier area to Zone factories or warehouses will be under guard by both Customs Guard and Zone Police.
- (7) Unloading in Port of Manila or MIA must be advised to EPZA in advance. Movement of cargo from Manila to Zone will be under guard by both EPZA and Customs Police.
- (8) Upon delivery of goods, the importer must submit to Import-Export Division (IED) the following documents: consular and commercial invoices, packing list, bank release certificate and other necessary papers. Use of goods will not be allowed until after submission of such documents.
- (9) Goods for the Zone landed at Port of Manila or MIA will be treated as transshipments and will be brought to Zone under Customs and EPZA guard. To facilitate transshipment, Zone importers should instruct their supplier to enter in the bill of lading and other shipping documents the following notation :

"BATAAN EXPORT PROCESSING ZONE, BATAAN VIA MANILA"

2

Should temporary warehousing in Greater Manila be required only Customs bonded warehouse may be used.

- (10) Goods may be unloaded only in the presence of Import-Export personnel. In their absence the escort Zone Police may allow unloading, provided goods are not brought directly into the plant.
- (11) A special form is available for damaged cargo and is filled in by an EPZA commodity inspector.

(c) Procedures for Exportation

The following are the procedures followed for exporting goods from the BEIZ* :-

- (1) Zone enterprises shall apply for an Export Permit with an authorized agent bank on a CBI Form filed in six (6) copies.
 - (i) Processing of applications will be done by agent banks only after authority has been granted by EPZA to withdraw goods from the Zone.
 - (ii) A filing fee of P 100.00 per application shall be charged.
- (2) The Registered exporter shall be exempt from the following :-
 - (i) Filing of Report of Foreign Sales.
 - (ii) Filing of Export Entry.
 - (iii) Export clearance issued by BIR.
- (3) Commodity clearance for Zone exports will be given half-yearly or annually by the Bureau of Standards.
- (4) Registered exporter must pay all charges prior to actual loading of cargo.

* In accordance with Letter of Instruction No. 167 issued by the President of the Philippines February 25, 1974.

(5) Loading of cargo must be done in the presence of a Customs Inspector.

(6) In cases where export cargo will be loaded at the Port of Manila or at Manila International Airport, it must be transported from the Zone under guard by both Zone and Customs Police.

(d) Foreign Exchange Regulations in the EIZ

The Central Bank is the government agency with regulatory powers over all foreign exchange transactions in the Philippines and Zone enterprises are subject to its policies and regulations in matters concerning receipts and disbursements of foreign exchange.

The Central Bank has laid down specific guidelines covering foreign borrowings and investments. Under its regulations, new foreign borrowings and inward foreign investments, including sales of foreign exchange for outward lending or investment, will require the Bank's prior approval.

(e) Foreign Borrowings

Generally, firms using foreign credit are required to maintain a debt-equity ratio of at least 75:25 for the duration of the credit.

ANNEX 1-A

Approved Establishments in the Batam Export Processing Zone
As of November 15, 1974

Industrial Grouping	Nature of Operations	Specific Products	Projected Annual Output*	Projected Annual Exports (US\$000)	Raw Material Source		Land Area Required (Square Metres)	Projected Employment at Full Operations
					Domestic	Imported		
1. Wearing apparel	Manufacturing	Seva garments	81,000 units	2,100	30%	70%	2,784 sq.m.**	170
2. Shipping	Construction	Shipbuilding and repair	n.a.	n.a.	n.a.	n.a.	n.a.	1,280
3. Wearing apparel	Manufacturing	Garments	100,000 dozens	1,821	-	100	2,784**	400
4. Leather	Manufacturing	Leather shoes	900,000 pairs	4,603	5	95	7,900	650
5. Wearing apparel	Manufacturing	Men slacks and other garments	150,000 dozens	3,000	-	100	2,784**	1,020
6. Wearing apparel	Manufacturing	Suits	372,000 sets	6,690	-	100	10,400	1,071
7. Leather	Manufacturing	Leather shoes	180,000 pairs	4,520	30	70	6,000	325
8. Wearing apparel	Manufacturing	Suits for men	n.a.	3,642	-	100	2,784**	270
9. Light metal fabrication	Manufacturing	LPC cocks and fuel filters	Year of Operation 1 2 3 to 5	Quantity 0.7 million pcs. 1.0 1.44				
10. Wearing apparel	Manufacturing	Knitted garments	150,000 dozens	3,000	3	97	2,784**	361
				31,570			41,000	5,679

<u>Industrial Grouping</u>	<u>Nature of Operations</u>	<u>Specific Products</u>	<u>Projected Annual Output*</u>	<u>Projected Annual Exports (US\$000)</u>	<u>Raw Material Source Domestic Imported</u>	<u>Land Area Required (Square Metres)</u>	<u>Projected Employment at Full Operations</u>
<u>Assisting Completion of Building</u>							
1. Electronics	Manufacturing	Refrigerator compressors	20,000 units	3,520	12% 86%	2,475 sq.m.	320
2. Wood	Processing	Sawn lumbers and wood mouldings	21,000 MBF	1,339	10 90	2,784	409
3. Automobile	Manufacturing	Car body stamping	36,200 vehicle sets	13,700	- 100	260,550	721
4. Textile	Manufacturing	Knitted fabrics	n.a.	19,300	- 100	20,000	645
5. Textile	Manufacturing	Acrylic yarn - knitted goods	n.a.	1,339	- 100	2,784**	409
6. Wearing apparel	Manufacturing	Knitted garments	Year of Operation	722	20 80	1,392**	174
			1	20,000 doz.			
			2	25,000			
			3 to 5	30,000			
7. Light metal fabrication	Manufacturing	Machine screws and bolts	1.75 million pcs.	668	- 100	n.a.	34
8. Wearing apparel	Manufacturing	Garments	Year of Operation	4,600	15 85	2,784**	461
			1	45,000 doz.			
			2	180,000			
			3	340,000			
			4 to 5	360,000			
9. Leather	Manufacturing	Ladies shoes	1 155,520 pairs	1,113	10 90	2,784**	120
			2 207,360				
			3 to 5 260,000				
10. Publishing and printing	Printing and packing	Printed matters	n.a.	n.a.	n.a. n.a.	n.a.	307

<u>Industrial Grouping</u>	<u>Nature of Operations</u>	<u>Specific Products</u>	<u>Projected Annual Output*</u>	<u>Projected Annual Exports (US\$000)</u>	<u>Raw Materials Source</u>	<u>Domestic</u>	<u>Imported</u>	<u>Land Area Required (Square Metres)</u>	<u>Projected Employment at Full Operations</u>
6. Metalworks	Manufacturing	Tools and dies, stamped car parts	n.a.	6,746	10	90	30,000 sq.m.	141	
7. Chemical	Manufacturing	Nylon-6 filament, polyester filament	4.68 million kilos 4.5 million kilos	19,291	-	100	60,300	281	
8. n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
9. Transporta- tion	Manufacturing	Sailboats	n.a.	864	n.a.	n.a.	1,000	155	
10. Banking	Commerce	-	-	-	-	-	n.e.	n.a.	
11. Banking	Commerce	-	-	-	-	-	n.e.	n.e.	
12. Banking	Commerce	-	-	-	-	-	n.e.	n.a.	
			Sub-total	75,463			252,300	3,964	
			TOTAL	168,878			598,749 sq.m.	14,612	

* Annual volume outputs are based on production of one shift per day.

** These are the net working areas in standard factory buildings (SFB). One floor has a net working area of 2,784 square metres while one-half floor has 1,392 square metres.

n.a. not available.

SECTION 2

EXPORT PROCESSING ZONES IN TAIWAN

SECTION 2

EXPORT PROCESSING ZONES IN TAIWAN

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SECTION 2

EXPORT PROCESSING ZONES IN TAIWAN

2A KAOSIUNG EPZ

2A.1 Name of Estate

Kaosiung Export Processing Zone (KEPZ)

The KEPZ Administration administers the Zone for the Kaohsiung Harbour Bureau

2A.2 Proximity to Major Urban Areas and Centres of Economic Activity

The KEPZ is located in the Kaohsiung Harbour, Kaohsiung City. Kaohsiung City has a population of about 960,000 and the suburban area has about 920,000 inhabitants.

2A.3 Details of the Transport Infrastructure of the Area

(a) Inland Communications

Kaohsiung is connected by roads to all parts of Taiwan and directly by rail to most of Taiwan. Kaohsiung Harbour is an international port.

(b) Sea Communications

Both coastal and deep shipping services are available in the KEPZ.

(c) Air communications

The KEPZ is about seven (7) miles from the Kaohsiung International Airport.

2A.4 Details of Port Facilities

Details of port facilities, distinguishing between those with direct access to the KEPZ and those in the vicinity :

	<u>KEPZ</u>	<u>NON-KEPZ</u>
(a) Cargo handling capacity in tons per year	10 million	19 million
(b) Maximum size of ship (tonnage) acceptable alongside wharf	75 thousand	75 thousand
(c) Maximum size of ship (tonnage) acceptable in harbour	75 thousand*	75 thousand*
(d) Specialized facilities	All modern cargo-handling and storage facilities are available inside and outside the KEPZ	

* 100 thousand tons in 1976

2A.5 Size of Estate

Physical area - 68.5 hectares.

The KEPZ was reclaimed by dredging which resulted in spoil just enough to satisfy the reclamation needs.

2A.6 Number of Factories, Warehouses and Plants

Factories - 146 (as of October 1974).

Warehouses - 2 with 24,000 metric tons combined capacity.

2A.7 Inventory of Factories on the Estate

Annex 2-A presents details of the 20 largest companies established at the estate. Section 2A-12 below gives a picture of the build-up of the zone in terms of factories approved and in operation.

2A.8 EPZ Administration

The Zone is administered by the Kaohsiung Branch, Export Processing Zone Administration, Ministry of Economic Affairs, Republic of China.

2A.9 Factors influencing the Choice of Site for the EPZ

Advantages of the site for the EPZ as opposed to other possible sites were :

- (a) Use of undeveloped land.
- (b) Proximity to modern harbour.
- (c) Need to achieve balanced industrial development of Taiwan.
- (d) Availability of labour at reasonable cost.
- (e) The KEPZ is in the Kaohsiung Harbour. The availability of modern port facilities greatly influenced the choice of this site.

2A.10 Basis for Charging Land Rents and Sale of Buildings at KEPZ

(a) Building Costs

The standard factory buildings are three-storey buildings. The average construction cost for reinforced concrete buildings in Kaohsiung is NT\$3,636.36 (US\$95.69) per square metre. The above-mentioned construction costs do not include the cost for improvement of soil foundation.

Since the Zone is on reclaimed land, the soil bearing strength is rather weak, approximately 5 tons per square metre. If an enterprise intends to construct multi-storeyed buildings or install heavy equipment, it is advisable that the soil foundation be first improved.

Furthermore, all buildings and structures to be constructed in the Zone shall be built with fire-resistant materials, and of the permanent type. In principle, multi-storeyed buildings shall be constructed.

(b) Land Rental Rates

All land in the Zone is owned by the government and is available for lease only.

Land rental in the Zone is NT\$230 (US\$6.05) per 100 square metres per month.

Factors that determine the admissibility of industries in the KEPZ

- (i) Foreign exchange earnings.
- (ii) Labour intensity of industries
- (iii) Use of indigenous materials.
- (iv) Introduction of modern industrial techniques.
- (v) Attraction of foreign capital.
- (vi) Balanced industrial development.
- (vii) Export quotas imposed by major customers.

2A.12 Timetable of Development of the Zone

Historical data on establishment of firms and employment is as follows:

	<u>Number of Firms</u>			
	<u>Approved to Operate</u>	<u>Construction Starts</u>	<u>In Operation</u>	<u>Number of Employees</u>
1967 (December)	109	59	50	5,686
1968 (December)	126	48	80	17,005
1969 (December)	161	35	126	28,803
1970 (December)	162	10	152	40,822
1971 (December)	161	5	156	42,843
1972 (December)	164	8	156	50,248
1973 (December)	151	0	151	53,947
1974 (October)	148	2	146	46,626

2A.13 Incentives Offered to Firms to Set Up in the KEPZ

Incentives offered are as follows in order of importance :-

(a) Simplified procedures

In order to do away with red-tape and bureaucratic procedures, the KEPZ Administration and its supporting agencies are authorized to set for various government agencies in handling all phases of operations within the Zone, resulting in considerable savings in time.

(b) Relatively low-cost labour

(c) Tax Incentives

The following tax incentives are automatically granted to firms established in the KEFZ, which result in very simple procedures in the processing of imports and exports :-

- (i) Exemption from Customs Duties - No customs duties on importation of raw materials, parts, and machinery, and on exportation of finished products from the Zone.
- (ii) Tax Concessions - No sales tax, no commodity tax and a 5-year tax holiday on corporate income tax is granted to enterprises eligible for encouragement (usually to enterprises engaged in activities classified as preferred).
- (iii) Taxes - Corporate Income Tax (profit-seeking enterprise income tax) - Exempted for 5 years if eligible for encouragement. From the sixth year on the maximum corporate income tax shall not exceed 35%.

Deed Tax - For purchase of new factory buildings, the firm is exempted from this tax.

Taiwan has not entered into any double taxation agreements with other countries.

(d) Warehousing and Transportation Services

Complete and inexpensive warehousing and transportation facilities and services are available to all export enterprises in the Zone.

(e) Abundant Supply of Power and Water at reasonable cost

(f) Financing

- (i) Factory building loans - For purchasing of standard factory buildings or construction of self-designed factory buildings, bank loans up to 70% of purchase price or construction cost are available on a 10-year installment basis.
- (ii) Export loans - Loans at reasonable rates are granted to export enterprises against export letters of credit.

2A.14 Specific Information on Individual Firms

An analysis of the operation of four companies established in the KEPZ is presented below. These case studies show in detail how the Zone operates and particularly the impact the Zone has had on their growth. The companies are not named, in order to preserve confidentiality. Table 2-1 summarises their operation. Annex A gives details of the 20 largest firms established in the KEPZ.

TABLE 2-1

ANALYSIS OF THE OPERATIONS OF FOUR COMPANIES ESTABLISHED IN THE KEPZ

Type of Manufacturer	Garment Manufacturer I	Metal Company I	Electronics Company I	Electronics Company II
Date of Establishment	February 1974	November 1972	March 1967	February 1970
Ownership structure of firm	100% foreign-owned	100% foreign-owned	100% foreign-owned	100% foreign-owned
Proportion overseas/local participation	100% overseas	100% overseas	100% overseas	100% overseas
Licensing Agreements	None	None	None	None
Sales Agreements	100% export to customer	100% sold to parent company	None	None
Nature of business carried out	Manufacturing	Assembly	Manufacturing and assembly	Manufacturing
Size of Plant (approximate)				
(a) Physical area	4,792 square metres	3,830 square metres	5,500 square metres	4,675 square metres
(b) Volume and value of output	US\$328,033.00	US\$3,875,750.00	US\$3,540,108.00	US\$1,659,438.00
Number Employed (Total)	178	167	400	502
(a) Male	18	112	88	72
Female	160	55	312	430
(b) Skilled	150	90	53	400
Semi-Skilled	20	73	107	102
Unskilled	8	-	240	0

TABLE 2-1 (contd.)

Electronics Company I Electronics Company II

Metal Company I

Garment Manufacturer I

Type of Manufacturer

(c) Nature of skills and occupations

	Garment Manufacturer I	Metal Company I	Electronics Company I	Electronics Company II
Workers (Factory)	124	74	0	351
Professionals (Factory)	14	6	19	25
Administration	12	10	34	24

(d) Age grouping

	Garment Manufacturer I	Metal Company I	Electronics Company I	Electronics Company II
Under 16	0	0	0	2
16-19	122	20	20	185
20-24	25	47	249	74
25-29	15	60	120	54
30-39	14	30	6	155
40-49	1	10	2	27
50 and above	1	0	3	5

No.

(e) Wage rates (monthly)

	Garment Manufacturer I	Metal Company I	Electronics Company I	Electronics Company II
Workers (Factory)				
Under US\$35	0	0	0	0
US\$35 - \$40	0	0	0	32
US\$40 - \$50	40	0	0	68
US\$50 - \$60	30	0	160	173
US\$60 - \$70	30	0	30	95
US\$70 - \$80	22	96	30	51
US\$80 - \$90	11	23	26	14
US\$90 - \$100	5	17	25	8
US\$100 - \$120	4	11	20	0
above US\$120	0	4	12	0

TABLE 2-1 (contd.)

Electronics Company I Electronics Company II

Metal Company I

Garment Manufacturer I

Type of Manufacturer

Professionals (Factory

Under US\$50

US\$50 - \$75

US\$75 - \$100

US\$100 - \$200

US\$200 - \$300

US\$300 and above

Administration

Under US\$50

US\$50 - \$75

US\$75 - \$100

US\$100 - US\$200

US\$200 - US\$300

US\$300 and above

(f) Total annual cost of direct labour

Annual usage of raw materials :

(a) Volume or value of each product used as raw material

(b) Total annual cost of materials

(c) Origin of raw material

0	0	0	0	0
10	0	0	4	0
7	0	0	18	9
2	0	0	15	16
0	0	0	2	4
0	6	0	3	5
0	0	0	0	0
6	0	0	7	3
4	0	0	9	7
3	0	0	16	10
1	4	0	3	5
3	6	0	8	4

US\$127,300.00

US\$22,663.00

US\$162,390.00

US\$153,951.00

US\$3.50

US\$309.00

US\$0.84

not available

US\$203.903

US\$3,458,974.00

US\$1,983,945.00

US\$31,159.00

90% Local
5% Japan
5% Hong Kong

60% local
25% Japan
10% Italy

70% U.S.A.
25% Japan
5% Taiwan

85% U.S.A.
10% Local
5% Asia

TABLE 2-1 (contd.)

Type of Manufacturer Garment Manufacturer I Metal Company I Electronics Company I Electronics Company II

(d) Method of shipment to the Plant

	Garment Manufacturer I	Metal Company I	Electronics Company I	Electronics Company II
i) Rail	None	None	None	None
ii) Road	None	None	1%	15%
iii) Sea through port facilities	99%	100%	90%	25%
iv) Air	1%	None	9%	60%

Annual usage of other inputs

(z) Electricity

i) Annual consumption in kilowatts	700,000 KW	520,560 KW	1,372,590 KW	1,500,000 KW
ii) Annual cost	US\$30,000.00	US\$19,389.00	US\$28,216.00	US\$39,474.00

(b) Water

i) Annual consumption in thousand gallons	2,700,000 gallons	2,337,000 gallons	3,276,000 gallons	6,315,800 gallons
ii) Annual cost	US\$900.00	US\$779.00	US\$1,092.00	US\$2,105.00

(c) Usage of transport facilities

i) Road - annual tonnage	None	None	None	None
- annual cost	None	None	Not available	US\$789.00
ii) Rail - annual tonnage	None	None	None	None
- annual cost	None	None	None	None
iii) Sea - annual tonnage	250 tons	Not available	Not available	Not available
- annual cost	Not available	Not available	US\$131,580.00	US\$5,000.00
iv) Air - annual tonnage	0.06	Not available	Not available	Not available
- annual cost	Not available	Not available	US\$26,316.00	US\$30,000.00

TABLE 2-1 (contd.)

Type of Manufacturer	Garment Manufacturer I	Metal Company I	Electronics Company I	Electronics Company II
Annual overhead and other costs	US\$94,283.00	US\$416,405.00	US\$267,915.00	US\$556,030.00
Value of capital employed by the firm				
(a) Plant and equipment (major types and sources)	US\$392,515.00	US\$591,757.00	US\$992,355.00	US\$680,000.00
(b) Transport equipment	US\$7,320.00	US\$26,687.00	US\$7,526.00	US\$10,000.00
(c) Port Facilities	None	None	None	None
(d) Material handling equipment outside the plant	None	US\$22,665.00	None	None
(e) Power generation	US\$55,505.00	None	None	None
(f) Other services	US\$231,284.00	US\$21,517.00	US\$134,771.00	Not available
(g) Current assets	US\$393,095.00	US\$829,910.00	US\$1,640,414.00	US\$1,000,000.00
Volume on value of product marketed				
(a) Local domestic consumption	None	None	US\$3,369,000.00	None
(b) International markets by country of consumption	USA 40% Canada 20% United Kingdom 20% Japan 10% German 5% Middle East 5%	USA 100%	US\$282,000.00 Singapore 66% Hong Kong 20% Others 14%	USA 85% Europe 12% Asia 3%
(c) Method of shipment to local area or to overseas country of consumption				
i) Road	None	None	100%	None
ii) Rail	None	None	0	None
iii) Sea	99%	100%	0	30%
iv) Air	1%	None	0	70%
			<u>Local</u>	<u>Overseas</u>

2A.15 Reasons for Establishment of Firms in the KEPZ

The four firms discussed in Section 2A.14 were interviewed in order to give an indication of the relative importance of the factors that influenced the companies to establish in the KEPZ. The factors are listed in order of importance.

Garment Manufacturer I

(1) Government or Industrial Development Corporation assistance, and inducements to new industry :

(a) Tax incentives and development grants

(i) Duties on plant and equipment

(ii) Duties on imported materials and finished products

(iii) Incomes, profits, dividends, taxation and repatriation conditions

(iv) Provision of land under favourable short/long term conditions

(v) Government grants such as those towards the cost of the enterprise especially with regard to the construction cost of premises

(vi) Other fiscal/financial inducements.

(b) Government provision or participation in the provision of

(i) Factory buildings

(ii) The industrial, commercial, financial infrastructure

(iii) Transport and communications facilities

(iv) The service infrastructure

(v) Ancillary industries

(2) Availability and cost of labour :

(a) Wage rates and total cost of labour

(b) Size and nature of the labour force

(i) Skills

(ii) Education

- (c) Availability of suitable labour. the regional/national unemployment situation.
- (3) Geographical position :
 - (a) Availability and cost of obtaining raw materials
 - (b) Accessibility to markets and cost of delivery of end-products.
- (4) Government promotion of the EPZ to potential new firms.
- (5) Previous establishment of an industrial infrastructure containing firms complementary to those of the new entrant.
- (6) Availability of a well-founded service infrastructure including:
 - (a) Transport facilities
 - (b) Electric power
 - (c) Water supply
 - (d) Sewerage and drainage, etc.
 - (e) Other public utilities and services.
- (7) Availability of commercial/financial services and the presence of a developed business/commercial community.

Metals Company I

- (1) Government or Industrial Development Corporation assistance, and inducements to new industry :
 - (a) Government provision, or participation in the provision, of
 - (i) Factory buildings
 - (ii) Transport and communications facilities
 - (iii) The service infrastructure
 - (iv) The industrial, commercial, financial infrastructure
 - (v) Ancillary industries

(b) Tax incentives and development grants

- (i) Duties on imported materials and on finished products**
- (ii) Incomes, profits, dividends, taxation and repatriation conditions**
- (iii) Duties on plant and equipment**
- (iv) Provision of land under favourable short/long term conditions**
- (v) Other fiscal/financial inducements**
- (vi) Government grants such as those towards the cost of the enterprise especially with regard to the construction cost of premises.**

(2) Availability and cost of labour :

(a) Size and nature of the labour force

- (i) Skills**
- (ii) Education**

(b) Availability of suitable labour, the regional/national unemployment situation

(c) Wage rates and total cost of labour

(3) Availability of a well-founded service infrastructure including :

- (a) Transport facilities**
- (b) Electric power**
- (c) Water supply**
- (d) Sewerage and drainage, etc.**
- (e) Other public utilities and services**

(4) Geographical position

- (a) Availability and cost of obtaining raw materials**
- (b) Accessibility to markets and cost of delivery of end-products**

- (5) Availability and cost of capital, local and international.
- (6) Availability of commercial/financial services and the presence of a developed business/commercial community.
- (7) Previous establishment of an industrial infrastructure containing firms complementary to those of the new entrant.
- (8) Government promotion of the EZ to potential new firms.

Electronic Company I

- (1) Government or Industrial Development Corporation assistance, and inducements to new industry :
 - (a) Government provision, or participation in the provision, of :
 - (i) The service infrastructure
 - (ii) The industrial, commercial, financial infrastructure
 - (iii) Transport and communications facilities
 - (iv) Factory buildings
 - (v) Ancillary industries.
 - (b) Tax incentives and development grants :
 - (i) Duties on plant and equipment
 - (ii) Duties on imported materials and on finished products
 - (iii) Provision of land under favourable short/long term conditions
 - (iv) Government grants such as those towards the cost of the enterprise especially with regard to the construction cost of premises
 - (v) Incomes, profits, dividends, taxation and repatriation conditions
 - (vi) Other fiscal/financial inducements.

- (2) Availability and cost of labour :
 - (a) Size and nature of the labour force :
 - (i) Skills
 - (ii) Education
 - (b) Availability of suitable labour the regional/national unemployment situation
 - (c) Wage rates and total cost of labour.
- (3) Availability of a well-founded service infrastructure including :
 - (a) Other public utilities and services
 - (b) Transport facilities
 - (c) Electric power
 - (d) Water supply
 - (e) Sewerage and drainage etc.
- (4) Geographical position :
 - (a) Availability and cost of obtaining raw materials
 - (b) Accessibility to markets and cost of delivery of end-products.
- (5) Previous establishment of an industrial infrastructure containing firms complementary to those of the new entrant.
- (6) Government promotion of the EPZ to potential new firms.
- (7) Availability of commercial/financial services and the presence of a developed business/commercial community.

Electronic Company II

- (1) Government or Industrial Development Corporation assistance, and inducements to new industry :
 - (a) Government provision, or participation in the provision, of :
 - (i) The service infrastructure
 - (ii) The industrial, commercial, financial infrastructure

- (iii) Transport and communications facilities
 - (iv) Ancillary industries
 - (v) Factory buildings.
- (b) Tax incentives and development grants :
- (i) Duties on plant and equipment
 - (ii) Duties on imported materials and on finished products
 - (iii) Provision of land under favourable short/long term conditions
 - (iv) Government grants such as those towards the cost of the enterprise especially with regard to the construction cost of premises
 - (v) Income, profits, dividends, taxation and repatriation conditions.
- (2) Availability and cost of labour :
- (a) Wage rates and total cost of labour
 - (b) Size and nature of the labour force
 - (i) Skills
 - (ii) Education
 - (c) Availability of suitable labour, the regional unemployment situation.
- (3) Availability of a well-founded service infrastructure including :
- (a) Electric power
 - (b) Water supply
 - (c) Sewerage and drainage etc.
 - (d) Other public utilities and services
- (4) Other factor - political stability.
- (5) Availability of commercial/financial services and the presence of a developed business/commercial community.

- (6) Geographical position
 - (a) Availability and cost of obtaining raw materials
 - (b) Accessibility to markets and cost of delivery of end-products
- (7) Previous establishment of an industrial infrastructure containing firms complementary to those of the new entrant.
- (8) Government promotion of the EPZ to potential new firms.

ANNEX 2-A

DETAILS OF THE TWENTY LARGEST FIRMS ESTABLISHED IN THE KEPZ

<u>Main Products</u>	<u>Nature of Operations</u>	<u>Sources of Raw Material</u>	<u>Approximate Geographical Area of Plant in Square Metres</u>	<u>1974 First Half Year Export Sales in US\$ Millions</u>	<u>Number of Persons Employed in June 1974</u>
Television Receivers, Transistor Radio, Cassette Tape Recorder & Parts	Assembly	Japan Local	23,692	21.65	1,477
Transistor Radio, Transformer, Tape Recorder & Parts	Assembly	Japan Local	10,321	11.23	2,304
Computer, Memory Plane & Stocks, Variable Capacitor & Trimmers, Carbon Resistor, Integrated Circuits	Manufacturing	Holland	7,849	8.97	1,944
Metal Oxide Semi-Conductor	Manufacturing	USA Japan	3,255	7.47	2,209
AM & FM Transistor Radio, Amplifier, Tape Recorder	Assembly	Japan Local	5,347	5.49	1,006
Transistor Radio, Variable Resistor	Assembly	Japan Local	3,945	5.20	791
I.F.T., O.S.C., Wire Coil, P.V.C. Transistor Radio & Electronics Parts	Manufacturing	Japan Local	6,019	5.05	2,692
Shirts	Processing	Japan Hong Kong	6,134	4.95	2,205
Transistor Radio	Assembly	Japan Local	3,817	4.83	674

ANNEX 2-A (contd.)

Men's & Boy's Shirts, Dress Shirts, Ladies' Dress	Processing	Hong Kong Japan	5,610	4.63	2,248
Transistor Radio	Assembly	Japan Local	4,599	3.21	538
Steel Band, Steel Pipe	Manufacturing	Japan	7,700	3.10	154
Shirt & Blouses	Processing	Hong Kong Japan	7,134	2.89	589
TV Antenna, Accessories, Radio	Assembly	U.S.A. Japan Hong Kong	3,384	2.83	869
I.F. Transformer, Oscillator Coil, Spring Coil Condenser, Polyethylene Variable Condenser	Manufacturer	Japan Local	7,206	2.32	2,142
Lead Speaker, Damper Cone Paper & Voice Coil	Assembly	Japan Local	2,532	2.28	493
Wigs, Leather Garment	Processing	Hong Kong Local	3,358	2.21	711
Baseball Gloves, Lacrosse Gloves	Processing	Japan	5,850	2.20	612
Tape Recorder	Manufacturing	Japan	1,195	2.12	219
Electronic Components	Manufacturing	U.S.A.	1,570	2.12	620

Sources : 1. Brief Description of the Export Enterprises in the Export Processing Zone, June 1974, Export Processing Zone Administration, Ministry of Economic Affairs (in Chinese).
2. Directory of Export Enterprises in the Export Processing Zones, May 1974, Export Processing Zones Administration, Ministry of Economic Affairs.

2B. OTHER FREE ZONES IN TAIWAN

As a result of the achievements of Kaohsiung Export Processing Zone (KEPZ), the government decided in 1969 to open up two more new free zones, the Nantze EPZ (NEPZ), and the Taichung EPZ (TEPZ). These two EPZ's do not have direct access to a port. Significant information on the NEPZ and the TEPZ is presented below.

2B.1 Location

(a) Both are near major urban areas: the NEPZ is situated in Kaohsiung City, 25 kilometres north of the KEPZ; the TEPZ is located about 9 kilometres north of Taichung City which is the largest city in central Taiwan. Both areas have abundant labour supply.

(b) Transportation Infrastructure

(i) Inland communications :

Kaohsiung and Taichung are connected by roads to all parts of Taiwan and directly by rail to most of Taiwan.

(ii) Sea communications :

The NEPZ is about 20 kilometres from the Kaohsiung Harbour the TEPZ is about 200 kilometres from the Keelung Harbour which is also an international port with both coastal and deep sea shipping service available.

(iii) Air communications :

The NEPZ is about 26 kilometres from the Kaohsiung International Airport the TEPZ is about 16 kilometres from a local airport and 174 kilometres from the Taipei International Airport.

2B.2 Nature

(a) NEPZ

The NEPZ has a physical area of 90 hectares. Its establishment is actually an expansion of the KEPZ. It is designed to accommodate about 200 export enterprises. 101 were approved as of October 31, 1974, 75 have already started production and 26 are under construction.

Most industries in the NEPZ are labour intensive. The major ones are electronic products, plastic products, metal products, chemical products, and handicrafts. The establishment of the plastic product industry and the chemical product industry is attributed to the proximity of the petrochemical complex in Kaohsiung, which serves as the farmers' main local supplier.

(b) TEPZ

In order to utilize the labour force in the central part of Taiwan, the government established the TEPZ in 1969. The disadvantage of its location is the distance from an international airport or an international port. For this reason, the exporting industries encouraged in the TEPZ are not only labour intensive but also of high value products, such as precision machinery and instruments, electronic products and photographic and optical goods.

TEPZ, with an area of 23 hectares and with a capacity for 50 enterprises, is the smallest of the three EPZs. As of October 31, 1974, 43 exporting enterprises were approved, 35 are in production and 8 are under construction.

2B.3 Transportation

The Transportation Service Centre in each EPZ provides services to all enterprises in the zones. This adds to the transportation costs of the products processed. Emphasis in these zones is therefore given to high value products.

2B.4 Method of Financing

(a) Finance of Export Processing Zones

The construction expenses of zone infrastructure and the zone administration expenses for the first three years were financed by donations and loans from the Council of International Economic Corporation and Development (CIECD).

For the recovery of zone expenses, import license endorsement fees, public facilities maintenance fees, export certificate fees, and export trade promotion fees are imposed, and a 10-year charge on infrastructure cost upon the land lease is assessed on export enterprises in zones.

Zone finance viability is not necessary but preferred. In 1973, zone revenues exceeded zone expenses. The same situation is expected in 1974.

(b) Finance of Private Operating Companies

The companies established in the EPZs have to secure loans for themselves. Many companies obtain their loans through their overseas head offices. However, there are various short-term loans and long-term loans available in the Republic of China.

SECTION 3

JURONG EXPORT PROCESSING ZONE, SINGAPORE

SECTION 3

JURONG EXPORT PROCESSING ZONE, SINGAPORE

SINGAPORE INDUSTRIAL AREAS

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SECTION 3

JURONG EXPORT PROCESSING ZONE, SINGAPORE

SINGAPORE INDUSTRIAL AREAS

3.1 Name of Estate

Singapore contains four major industrial estates of which the largest is at Jurong. The others are at Kranji, Senoko and Loyens. For tariff purposes the whole of the Singapore Republic is treated as an export processing zone.

Singapore has a population of just over 2 million people, a size which is not sufficient to support any substantial industrial development. Accordingly, the port and transshipment facilities have played a major part in the economic progress of the country particularly through the trade passing through the industrial estates, but also with the development of oil storage and mooring facilities for tankers. The latter has led to the development of five refineries.

Trade from the Export Processing Zones is mainly sea-borne, although there have been one or two recent developments such as electronic assembly and optical instrument industry which are using air transport.

3.2 Proximity to Major Urban Areas

All the industrial estates are within 14 miles of Singapore city and within 10 miles of major port facilities.

3.3 Transport Infrastructure

(a) Inland Communications

There is a good metalled road network covering the entire island. There is also a road link to West Malaysia over the Johore Causeway.

Singapore is linked to West Malaysia by the Malayan railway system which crosses the Johore Causeway and terminates near Keppel Harbour where a branch line provides a connection to the docks and warehouses. A branch line also links up with Jurong Industrial Estate, where a complex of tracks feed various parts of the estate.

There is no inland water link other than a short stretch of the Singapore River which serves some warehouses from ships anchored in the roads.

(b) Sea Communications

There are coastal shipping services to Indonesia, West Malaysia, East Malaysia, Thailand, Burma, Philippines, Hong Kong and Taiwan.

Singapore is one of the world's leading seaports, being used by more than 200 major shipping lines providing services to all parts of the world including container services to Europe, Japan and the U.S.

(c) Air Transport Communications

There are air services, both passenger and freight from Singapore International Airport to all parts of the world, excluding South Africa.

3.4 Port Facilities

Port facilities are situated along the southern coast from Singapore River to Jurong on the west. These facilities are under the administration of the Port of Singapore Authority (PSA). The port areas comprising 950 acres of land and 225 sq. miles of water are :

- (a) Keppel Harbour, with wharves extending 3 miles along the southern coastline, the berths, except those at Empire Dock, have a depth of 33 ft. at zero tide.
- (b) Container Port at East Lagoon, comprising 3 main berths of 3,000 feet with 44 ft. at zero tide which allow 3 container vessels to berth at the wharves at the same time, and one feeder berth of 700 feet with 34 ft. at zero tide.
- (c) Teluk Ayer Basin, with 2,100 feet length of wharves and a depth of 14 feet at zero tide for coastal vessels and lighters, a finger pier is also available with a length of 1,240 feet and a depth of 21 feet.
- (d) Sembawang Port, at the northern end of the island where PSA operates 2 berths with a total of 1,197 feet while the depth

of water is 34 feet at zero tide this port is suitable for handling low-value, high-volume homogeneous cargoes and has facilities for handling containers.

- (c) Jurong Port, essentially a bulk-handling port serving the Jurong Industrial Estate: 3,000 feet wharf with 5 berths and a depth of 36 feet at zero tide is available for ships.

All port facilities have direct access to the industrial zones.

The Authority is developing a major coastal port along the West Coast to provide 4,200 ft. of berths for lighters and coastal vessels and 115 acres of back-up land on which there will be 2.6 million sq.ft. of transit shed and warehouse space. Reclamation work and the construction of wharves has been completed, and the whole project is expected to be completed by 1975.

3.5 Physical Area of the Jurong Estate

The area set aside for industrial estates on which development had been completed in December 1973 was about 10,000 acres, of which 8,200 acres were in Jurong.

3.6 Number of Factories, Warehouses, etc.

By the end of 1973 Jurong had a total of 504 industrial establishments in production employing about 60,000 workers. A further 143 factories were under various stages of construction. The eventual aim for Jurong is an industrial estate of 14,000 acres with over 700 factories and a total employment of 85,000 workers. To service this area 67 miles of modern metalled roads have been constructed.

3.7 Organisation of the Authority

There is no EPZ authority as such, but the Jurong Town Corporation is entrusted with the responsibility of managing all industrial estates and sites in Singapore including the social amenities for the advancement of the well being of the people living and working in such industrial estates. The Corporation has a Chairman and 15 members who are appointed by the Government and represent :

- (a) Commissioner of Police
- (b) Public Works Department
- (c) Commissioner of Lands
- (d) Ministry of Environment
- (e) Ministry of Finance
- (f) Public Utilities Board
- (g) Housing and Development Board
- (h) Port of Singapore Authority
- (i) National Trades Union Congress
- (j) Industry

The executive head is the chairman who is assisted by a Chief Administrative Officer and a Deputy Administrative Officer. There are five divisions in the Corporation :

- (a) Construction Division
- (b) Design Division
- (c) Industrial Estates Division
- (d) Secretariat Division
- (e) Finance Division

The Corporation is expected to be financially viable. It is financed by loans from the Government of the Republic of Singapore and from other sources, interest being paid on all loans at varying rates, from 4% to 9½% per annum, the bulk of which is at 5½% per annum. At December 31, 1973, the Corporation's profit and loss account showed :

- (a) a surplus before interest charges of \$45,038,000 of which \$7,514,000 was attributable to the port
- (b) a surplus after interest charges of \$18,110,000, of which \$4,796,000 was attributable to the port.
- (c) revenue of \$39,510,000 for rents of industrial premises, and \$12,511,000 for port charges;
- (d) a return on capital employed for 1973 of 8.1% before interest and 3.3% after interest charges.

Fixed assets of the Corporation as at 31st December 1973 were S\$603,000,000 at cost price and their written down value was S\$590,000,000. The costs comprise :

	Cost S\$ million	Net Book Value S\$ million
(a) land acquisition	170	170
(b) land development	166	166
(c) port development, including structure and equipment	65	57
(d) buildings	183	178
(e) social amenities	19	19
	<u>S\$603 M</u>	<u>S\$590 M</u>

3.8 Factors Influencing Choice of Site

The choice of the Jurong site was governed by four main factors :

- (a) the need to develop away from the city
- (b) the proximity of the Singapore port, and the existence of a natural harbour for development into the Jurong Port
- (c) low price State owned land
- (d) small population on the site, thus easing problems of relocating people.

The Site consisted of hills and mangrove swamp. Reclamation was achieved mainly by levelling the hills and 71 million cubic yards of soil were moved between 1961 and 1971. Of the 6,500 acres reclaimed in 1971, about 270 were recovered by dredging material lifted when constructing the Gul sea channel. This did not require additional dredging.

3.9 The Basis of Charging Rents in the EPZ

Land values in Jurong Industrial Estate range from \$2.30 to \$3.00 per square foot. Lease rentals are calculated at 6% of the value per square foot per annum and are normally available on a 30 year lease with an option to renew for a further 30 years. Revision of land value is made once every 5 years with a guarantee that the increase will not be more than 50% of the preceding value. The period of the lease depends also on the location of the site, the type of industry and total investment made. There is no element of subsidy.

The Jurong Town Corporation designs and constructs standard factories to house light industries and these are available for sale or rental to industrial enterprises requiring ready built premises for immediate occupation. The smallest factory building occupies a floor space of 9,360 square feet and can be either rented at a price of \$27,000 per annum or sold at a price of \$133,000, while the largest factory building which has a covered area of 35,000 square feet may be rented for \$81,000 per annum or sold for \$400,000. The maximum lease period for all standard factory buildings and land in the light industrial area is 60 years.

The factors determining the admission of industries have changed since the Zone was established. Initially they were to provide work by promoting labour intensive industries and, as there is a limited home market, to provide export earnings. There is now no surplus labour and the emphasis is on providing modern technology to use skills rapidly becoming available within the indigenous population, and to start up more capital intensive operations.

3.10 Time Table of Development

The development history of Jurong Industrial Estate in terms of land allocated to industrial establishments, factories operating and labour employed was as follows :

Year	Land area allocated (acres)	Factories operating	Number Employed
1963	249	50	-
1964	414	Not known	-
1965	500	80	-
1966	712	Not known	-
1967	929	100	-
1968	1,204	153	Not known
1969	1,581	202	17,000
1970	2,180	271	25,000
1971	2,938	337	36,000
1972	3,174	430	50,000
1973	3,494	504	60,000

As can be seen from the above Table, development was slow in the early years and it was not until 1967 (5 years after the establishment of the Zone) that there was any fast growth. There has been a slow-down in recent years as a result of the general world economic situation. By 1973 there were 60,000 people employed in the Zone.

3.11 Factors which Attracted Firms

The main factors which attracted firms to the area were :

- (a) the supply of labour, the majority educated in English
- (b) the lack of labour disputes; for example, over a period from 1970 - 1973, stoppages and man-days lost were :

<u>Year</u>	<u>Stoppages</u>	<u>Man-days lost</u>
1970	5	2,514
1971	2	5,449
1972	10	18,233
1973	5	2,295
1974 (six months till June)	-	NIL

- (c) first-class banking, insurance and financial facilities

- (d) good efficient port facilities
- (e) tax reliefs for approved new and expanded industrial undertakings
- (f) political stability
- (g) government equity participation, up to 50% in smaller manufacturing firms producing items not previously made in Singapore
- (h) cheap and efficient power supplies

3.12 Incentives Offered to Firms

The main attractions of Singapore are its geographical situation, the advanced development of its port and trading facilities and the banking and financial facilities which are readily available. For a 100 years Singapore has been a financial and trading centre for the whole of South-East Asia, rivalled only by Hong Kong. To encourage industrial development, which was needed to supplement the trading base, tax incentives are offered in the form of Economic Expansion Incentives which cover five main areas described below. Of six companies interviewed in our Survey, four gave tax incentives as a major reason for setting up in Singapore. The following are the tax incentives offered :

- (1) pioneer industries; industries which are considered as not being carried on a scale adequate to the economic needs of Singapore, are given tax relief for five years;
- (2) expansion of established enterprises; expanding existing approved enterprises are given tax relief on part of "expansion income" for a period of up to five years;
- (3) foreign loans for production equipment; tax exemption on interest is granted to foreign lenders on certain conditions;
- (4) royalties, fees and development contributions; tax exemption or reduction is granted on payment of royalties under certain conditions;

- (5) production for export, tax relief on "additional export profits" for five years after granting a certificate.

(a) Pioneer Industries

A 'Pioneer Industry' is an industry which is considered as not being carried on in Singapore on a scale adequate to the economic needs of Singapore and for which there are favourable prospects for development. The tax relief period of a pioneer enterprise commences when production of marketable quantities starts and is granted for a period of five years to companies which incur or are intending to incur fixed capital expenditure of not less than S\$1 million.

Fixed capital expenditure in this context means capital expenditure incurred by the pioneer enterprise on its factory in Singapore, and on any plant or machinery used in Singapore in connection with its pioneer product. It should be noted that such expenditure must be in relation to the pioneer product and not to other products.

A pioneer enterprise cannot carry on another trade or business during the tax relief period unless written permission has been granted for such separate business for which separate accounts must be maintained.

Dividends which are declared out of the profits of pioneer enterprises are exempted from tax. Where losses are incurred during the tax relief period such losses may only be set off against pioneer income, they cannot be carried forward after the tax relief period.

A pioneer enterprise must submit returns of income to the Tax Department every year, and the Comptroller of Income Tax shall issue to the pioneer enterprise a statement showing the amount of such income for that accounting period. If this statement of income has become final and conclusive (i.e. not objected to by the pioneer enterprise) then it shall be credited to a separate account from which tax-free dividends may be distributed.

(b) Expansion of Established Enterprises

The tax incentives for established enterprises which are not pioneer enterprises are in respect of increased manufacture. These incentives are only granted if the Minister is satisfied that the increased manufacture of the product of any industry would be of economic benefit to Singapore. Such an industry would be declared an "approved industry" and its product an 'approved product' for the grant of expansion certificates.

Applications for an Expansion Certificate may be made by any company intending to incur new capital expenditure for the purpose of the manufacture or increased manufacture of an approved product. To qualify for this incentive an expanding enterprise must incur or intend to incur new capital expenditure of at least S\$10 million.

The tax relief period of an "expanding enterprise" commences on its "expansion date" and will continue for a period determined by the Minister, but is not to exceed five years. Tax exemption applies only to a part of the "expansion income" as computed in accordance with the following rules :

- (1) the expansion income means the income for any accounting year during the tax relief period, and ascertained in accordance with the provisions of the Income Tax Ordinance;
- (2) such expansion income is compared with pre-relief income (i.e. the corresponding income for the accounting year preceding the tax relief period);
- (3) no tax relief is given if the expansion income is equal to or smaller than the pre-relief income
- (4) if the expansion income is greater, then the tax relief is applicable only to that portion of the expansion income as calculated in this manner :

$$\frac{\text{New Capital Expenditure}}{\text{New Capital Expenditure} + \text{Cost of Previous Capital Expenditure}}$$

(c) Foreign Loans for Productive Equipment

The tax incentive applicable for foreign loans is intended to make it attractive for a foreign lender to supply credit facilities to any company in Singapore for purchasing productive equipment such as plant and machinery for industrial use. Conditions which must be satisfied before a certificate is granted for such a foreign loan are :

- (1) the loan must be for an amount not less than S\$200,000;
- (2) such productive equipment purchased shall not be sold, transferred or disposed of before the loan has been fully repaid, unless prior written permission has been granted by the Minister
- (3) the foreign lender does not suffer increased tax liability in his own country because of the tax exemption on the loan interest.

Once the certificate has been obtained

- (1) interest on the loan is not subject to tax in Singapore.
- (11) no deduction of tax at source from such interest is required.

The period of tax exemption to the foreign lender will normally be similar to the repayment period, but it takes effect only from the year of assessment 1967 and onwards.

(d) Royalties, Fees and Development Contributions

It is possible for a company to apply to the Minister to certify that payments for royalties, fees or technical knowledge are approved royalties, fees or contributions. The effect of such a certificate is to reduce or exempt the tax leviable on the royalties, fees or contributions. For example, if a Singapore company pays royalties to a foreign person (i.e. a non-resident), the normal tax treatment is to tax such payments at source before remitting such payments overseas. By obtaining a certificate from the Minister, the tax which a non-resident has to pay on the royalties, fees or

contributions is reduced from the normal rate of 40% to 20%. Alternatively, where the Minister is satisfied that it is expedient to the public interest to do so, the whole payment of 40% can be exempted from tax.

The tax relief or exemption provided above can only apply if the Comptroller is satisfied that such relief or exemption does not result in an increase in liability to tax by the non-resident person in his country of residence. This is important because otherwise the benefit is not reaped by the non-resident nor by the local manufacturing company. For example, if the tax rate of 40% is reduced to 20% it is possible for the non-resident person to reduce the amount of royalty and still gain by it because of reduced tax liability in his own country.

(e) Production for Export

The Minister may approve any product manufactured in Singapore, or the produce of deep-sea fisheries as an export product or export produce. Any company which is manufacturing or engaged in such product or produce may apply for an Export Enterprise Certificate. The conditions for the issue of such a Certificate are that the export sales (f.o.b. price) must not be less than 20% of the value of total sales and must also be above S\$100,000 per year.

The tax relief period for a non-pioneer enterprise is for five years commencing with the first approved export year. For a pioneer enterprise, the tax relief period for both pioneer status and approved export is eight years. In certain circumstances the relief period can be extended to fifteen years.

The amount of tax relief is arrived at by ascertaining the excess of the export profit over the average annual export profit of the three years immediately preceding the date of application for approval as an export enterprise. The relief is equivalent to 90% of the qualifying export profit and such profits are exempt from tax.

SECTION 4

SHANTON INDUSTRIAL FREE ZONE

SECTION 4

SHANNON INDUSTRIAL FREE ZONE

SHANNON FREE AIRPORT DEVELOPMENT COMPANY (SFADCO)

	<u>Page No.</u>
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**ANNEX 4-A Shannon Customs Free Airport
Legislation**

Figure No. 4-1 Layout of Industrial Estate

**Follows
Page No.4-1**

SECTION 4

SHANNON INDUSTRIAL FREE ZONE

SHANNON FREE AIRPORT DEVELOPMENT COMPANY (SFADCO)

4.1 Introduction

The Shannon Free Airport, Ireland, was the first Free Zone to be set up and is one of the more successful operating zones in the world. The motives for its establishment differed from those in other countries, and the advantages offered due to geographical and other reasons are inevitably of a different nature from those provided by locations such as Monrovia. It is nevertheless useful to examine the operating experience of the industrial estate and to evaluate its growth. Conclusions drawn from this experience relevant to the proposed zone in Monrovia have been incorporated in Volume 1 of this Report. Figure 4-1 shows the layout of the Industrial Estate at Shannon.

4.2 The Establishment of the Industrial Estate

The impetus given to the development of the Industrial Estate was the need to attract traffic to replace losses when flights began to overfly as a result of the development of long range jets. The Customs Free Airport was set up by legislation in 1947. The legislation of 1959 expanded the concept into one of a manufacturing zone and set up SFADCO. Amendment Acts of 1965, 1968 and 1970 set up the company in its present form. SFADCO is at present responsible both for the Airport and for regional development in the Mid-West region of Ireland, as well as for the manufacturing zone.

4.3 The Aims of SFADCO and Factors Influencing its Growth

In the early years, SFADCO's task was to find commercial reasons why airlines should use Shannon, and a programme was evolved to stimulate the flow of passengers and cargo. This involved the construction and promotion of warehouses and factories, the provision of housing and related community facilities, the development of tourist facilities and the encouragement of air traffic through Shannon.

SHANNON FREE AIRPORT DEVELOPMENT COMPANY
LAYOUT OF INDUSTRIAL ESTATE
FACTORY UNITS

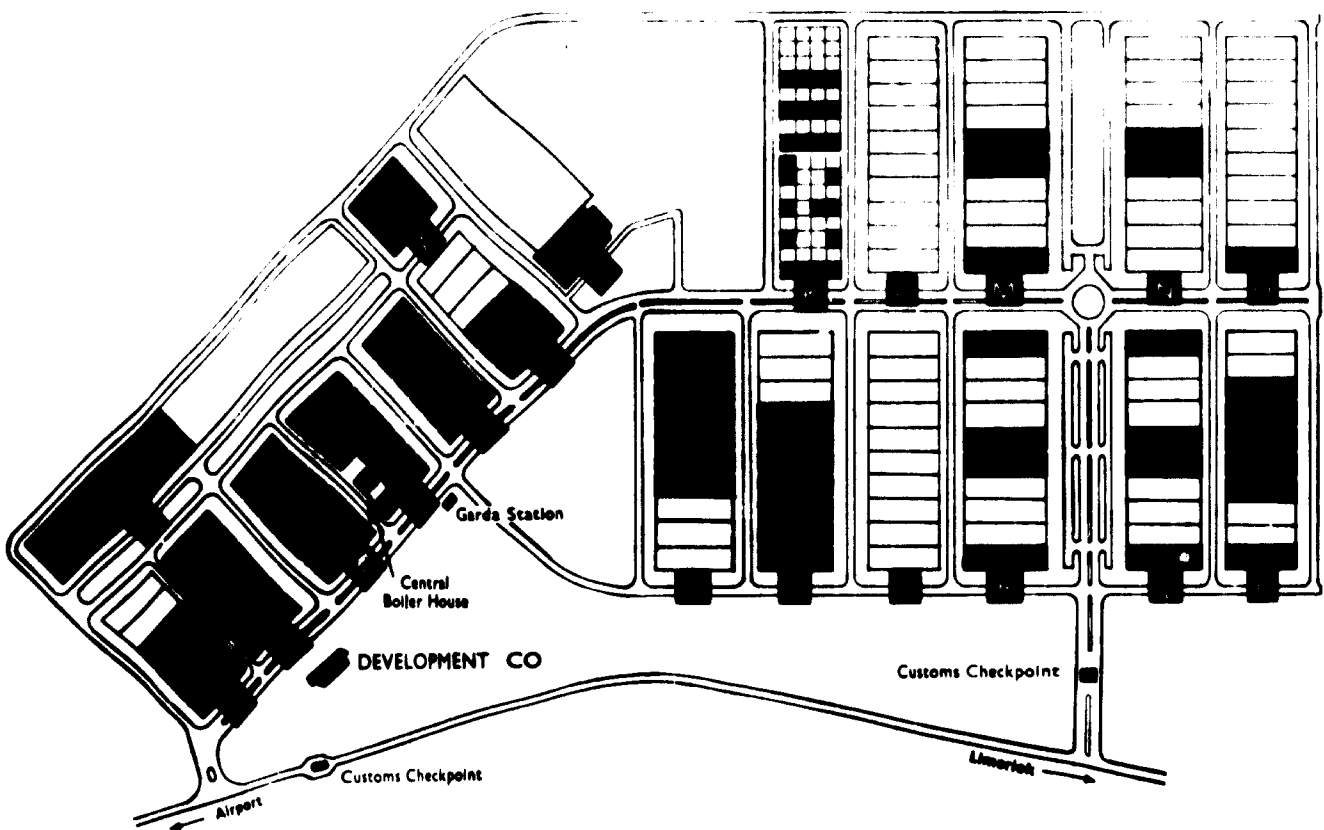


FIGURE No. 4-1

Since 1968 the company has expanded its functions to include industrial development in the Mid-West Region of Ireland in its brief.

The aims of SFADCO have thus expanded considerably over the years and at present as much emphasis is given to development outside the Zone as to attracting industries to it. The Zone itself could therefore be regarded as moving into a new phase of development where the criteria for the admission of industries to the Zone can be more selective and orientated towards more sophisticated and technological industries as well as those which are more self-contained and not dependent on "captive" markets of their parent companies.

A number of factors were prominent in attracting industrial development to Shannon. Incidental factors were Ireland's location on a main transportation axis between Europe and America, and the fact that the country was English-speaking and had close connections with the USA. Experience of operation has shown that the following operational factors, evaluated in order of importance, were of great influence to potential investors :-

- (1) Tax exemptions
- (2) Government grants
- (3) Labour availability at a relatively low cost compared with other locations
- (4) Prepared sites and advance factories
- (5) Simplification of administration and customs procedures

(a) Tax exemptions

At the start of the operation of SFADCO full tax exemption on profits was granted to companies until 1981. This has been extended till 1990. On the other hand this advantage has been lessened to some extent by the advantages given to companies setting up in Ireland as a whole, where full exemption is granted until 1985 and reducing allowance until 1990.

(b) Government Grants

These are given in the form of allowances on capital expenditure on new plant and machinery as well as annual allowances for depreciation, and in some cases :

- (1) Non-repayable grants of up to 40 per cent of new plant were given (not reduced to 25 per cent), and
- (2) Full training costs paid by the Government.

(c) Labour Availability and Cost

This was one of the main attractions of Shannon to potential investors. However, in recent years the advantage has been minimised as Irish wage rates have approached rates ruling elsewhere.

(d) Standard Factories

The total area of the Industrial Estate in Shannon is 280 acres of which 31 acres have been fully developed. 117 advance factory units had been provided until 1974, of which 71 were standard, 20 were small and 26 special. In addition, office accommodation has been provided for service companies. The size of standard factories has been increased from 16,750 sq.ft. in Phase One to 18,750 sq.ft. at present. Small units provided are 5,800 sq.ft. The factory bay can be divided into the following :

A. Office area	1,875 sq.ft. (10%)
B. Production area	11,250 sq.ft. (60%)
C. Factory Toilets)
D. Loading Bay)
E. Boiler House) 1,875 sq.ft. (10%)
F. Corridors)
G. Yard	3,750 sq.ft. (20%)
Total area	<u>18,750 sq.ft.</u>

The bays are laid out in blocks of ten (2 end bays and 8 internal bays). All infrastructural facilities are provided, including electricity, water and drainage, heating and ventilation.

The factories were constructed in such a way that adjacent bays could be taken over for expansion of existing units. Total area covered by the factories was 3 to 4 acres. Clients have an option to purchase factories after five years. These are sold at cost price.

(e) Simplification of Administrative and Customs Procedures

Although the original intention was to use mainly the airport facilities, a large proportion of the trade is in fact port oriented via Waterford and Dublin. Goods are bonded in transit across Ireland and paperwork is rapidly processed through Customs at Shannon.

(f) Other Factors

Communications internationally and nationally have also played a large part in attracting potential investors. The political stability of the country is another attractive factor.

4.4 The Development and Growth of SFADCO

The growth of the Industrial Estate of Shannon is indicated in Table 4-1 :

		<u>TABLE 4-1</u>			
		<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1974</u>
1.	<u>Investment (fm.)</u>				
	State	0.3	3.3	9.0	14.2
	Private	0.2	4.5	12.0	14.5
	Total	0.5	7.8	21.0	28.7
2.	<u>Employment</u>				
	Male	150	1538	2899	2894
	Female	<u>100</u>	<u>1389</u>	<u>1605</u>	<u>1681</u>
	Total	250	2927	4504	4575
3.	<u>Exports (fm.)</u>	n.a.	<u>1965</u>	<u>1970</u>	<u>1973</u>
	Air		18.8	35.0	n.a.
	Surface		<u>3.9</u>	<u>4.7</u>	<u>n.a.</u>
			<u>22.7</u>	<u>39.7</u>	<u>46.9</u>
4.	<u>Imports (fm.)</u>				
	Air	n.a.	12.4	18.2	n.a.
	Surface		<u>3.6</u>	<u>5.1</u>	<u>n.a.</u>
			<u>16.0</u>	<u>23.3</u>	<u>23.9</u>

	<u>1961</u>	<u>1965</u>	<u>1970</u>	<u>1974</u>
<u>Industrial Estate</u>				
<u>Airfreight (tonnes)</u>				
(1) Imports	259	479	1000(est)	982
(2) Exports	300	527	2598	2248
		Source : SFADCO Reports		

The general trend observable from the above statistics is of a slow build-up until 1962, followed by a fast growth between 1962 and 1966. This slowed down until 1970. Since then there has been a decline, mainly reflecting the general economic downturn of the world economy.

The first phase development of Shannon consisted of an estate of 30 acres with standard factory units of 16,500 sq.ft. This took eight years to develop. By 1974 the area for the Industrial Estate had expanded to 280 acres, of which the total constructed area amounted to 1.8 million sq.ft. consisting of :

Factory Bays	91
Special factories	14
Warehouses	12
Office blocks	4

The total number of firms which had set up factories on the Estate by 1974 was 64, of which 35 are manufacturing firms. This represents an average of 2 to 3 manufacturing firms a year. In terms of job creation an average of 500 jobs per year were created until 1970, since when the trend of employment has remained relatively steady. The average employment per factory is estimated to be 80 most companies however employ much less (average 40 to 50 persons) as the total number is boosted by three factories employing 1100, 500 and 400 respectively.

4.5 Investment in Shannon

An indication is given below of the source of investment in Shannon.

TABLE 4-2

Sources of Investment

<u>Firms, Country of Origin</u>	<u>Total</u>	<u>(of which manufacturing)</u>
Ireland	18	2
U.S.	23	18
US/UK	1	1
US/SA	1	1
UK	6	3
Japan	1	1
Italy	1	1
Sweden	1	1
Switzerland	2	1
Canada	1	1
Austria	1	1
Others	8	2
Total	64	33

Source : SFADCO.

The major investment has therefore been from American firms.

4.6 Direction of Trade

Most companies have primarily been established to serve their parent companies in the States, as indicated in the direction of trade in Table 4-3.

TABLE 4-3

Shannon Trade by Areas 1973

<u>Area (origin for imports destination for exports)</u>	<u>Imports - %</u>		<u>Exports - %</u>	
	<u>£(000)</u>		<u>£(000)</u>	
Member countries of EEC	5,979	25	16,807	36
United Kingdom	3,662	13	7,394	16
Other EEC countries	2,917	12	9,413	20
Member countries of EFTA	1,902	8	3,516	8
Other OECD member countries in Europe	1	-	305	0.4
Dollar countries :				
U.S.A.	1,748	7	20,146	43
Canada	68	1	430	0.5
Other dollar countries	-	-	146	0.1
All other areas	<u>14,161</u>	<u>59</u>	<u>5,590</u>	<u>12</u>
TOTAL	23,859		46,940	

Source : SFADCO

The major trading areas have been the USA and EEC countries.

In terms of quantity about 50 per cent of the goods moving in and out of the Zone have used the ports of Waterford and Dublin.

4.7 Range of Products Manufactured

The following types of firms are currently established in the Shannon Free Airport Zone :

1. Engineering products :
 - Pumps for lubrication and coolant systems.
 - Epoxy formulations for industrial manufacture and tooling.
 - Deburring equipment.
 - Tungsten Carbide Drilling tools.
 - Special cutting tools.
 - Fine wire, gauze and mesh.
 - Precision fasteners and tools.
 - Wire drawing dies.

- | | |
|---|---|
| 2. Electronic and electrical products : | Aircraft Arrester systems.
Electrolytic capacitors.
Components for radios and other electronic equipment.
Gas sensing semi-conductor elements.
Scientific measuring equipment and gas analysis apparatus.
Data processing equipment.
Electrical switchgear.
Electronic terminals.
Hygrometers and other electronic equipment. |
| 3. Textiles : | Ladies jerseywear.
Wool and rayon fabrics.
Fur hats.
Knitted fabrics and yarns. |
| 4. Plastics Industries : | Plastic bag closures and bag-closing machines.
Plastic components. |
| 5. Miscellaneous : | Natural and synthetic diamonds.
Pianos and piano actions.
Printing and printing equipment accessories.
Intensive care equipment for infants.
Safety helmets.
Precious stone processing. |

In addition to the above, there are numerous service, warehouse and office operating companies covering a wide range, including industrial training, trading, banking, consultancy, accountancy, mail order, electrical and engineering contractors, maintenance of aircraft, stamp trading and data processing.

The Zone is at present endeavouring to attract firms with more technological emphasis, and indeed some firms in the electronic field have already expanded their production range in Shannon to more complicated products such as Trinitron T.V. guns, and capacitors.

4.8 Promotional Policies for SFADCO

In addition to the incentives offered, SFADCO has carried out very active promotional policies on a world-wide basis, both through its own offices and those of the Industrial Development Authority in London, Europe, and in the United States. Three main policies are used :

Advertising
Direct Mail
Individual profiles

Direct mail shots have not been effective and emphasis is now being given to the other two methods, particularly individual industry profiles. This approach involves indentifying growth sectors and selecting individual firms to which an individual presentation is made.

Promotion has been emphasised from the start as being a key factor in the success of the Zone. This is reflected in the fact that promotional expenses are paid through a government grant and are not charged as operating costs through the rent paid by investors. In 1972 industrial promotion represented a figure of almost 10% of general expenses. This compares with a figure of almost 50 per cent in 1960 which was the first full year of operation. It has been estimated that the promotional expenditure on each job created at Shannon was £3500.

The criteria on which industries were originally admitted to the Estate have been made more stringent and the aim is now to attract more sophisticated industries. At the same time the emphasis is shifting from the employment of female to skilled male workers. However, in the early years of the establishment of the Estate only basic restrictions were placed on prospective entrepreneurs (e.g. in terms of pollution and broad category of industry) and every effort made to avoid needless objections. Factories setting up on the Estate are required to export at least 95% of their output.

4.9 Customs Procedures

Manufacturing companies can only set up operation at Shannon under a special licence issued by the Irish Minister for Industry and Commerce. This licence is given under certain conditions, the basic one being that at least 95% goods or services produced should be for export, or for firms on the estate which are exporting firms.

The licence is granted under the Free Customs Airport (Amendment) Act 1958. When in operation, manufacturing companies can move goods into and out of the Free Customs Zone by three methods :

- (a) Moving goods directly through the Airport by using Air-Freight to Shannon.
- (b) Moving goods through an Irish sea-port or other Airport.
- (c) Moving goods directly from (or to) the Irish Republic.

(a) Airfreight

This method is the most straightforward, since the Airport itself is within the Free-Customs Zone. No customs documentation is required, either for importing or exporting. However, the Customs Office receives a copy of the cargo manifest for statistical purposes, and in this way Customs Authorities have an up-to-date record of goods moved directly through the Airport.

(b) Goods moved through another Port - Airport in Ireland

Although the Free-Customs Zone Industrial Estate at Shannon was set up primarily as a means towards developing air traffic at the airport, about two-thirds of all tonnage moved into and out of the Industrial Estate comes through sea-ports in Ireland. This has necessitated the drawing up of special regulations and the creation of special procedures to deal with the importation and export of goods to and from the Free-Customs Zone going overland through Ireland. Goods imported into Ireland and intended for the Free-Customs Zone are entered on a bond note - Transhipment Bill - at Port of entry.

The goods are sealed (if this has not been done beforehand), and travel under bond to the Free-Customs Zone boundary. The carrier presents the bond note - Transhipment Bill - to the Customs Officer at the boundary who satisfies himself that the seals are intact, that there are the stated number of packages etc. before allowing the goods through.

With regard to goods moved out of the Free-Customs Zone and through the country to a sea-port the same procedure applies. For Customs purposes, these goods are deemed to be transhipped through the State under bond. The bond in practice is usually a general one taken

out by the Shipper to cover all of his consignments. Penalties are very severe amounting to a fine of 5% of annual turnover.

(c) Goods going to or coming from the Irish Republic

Every person conveying goods into the Zone from another part of the State must carry with him a Carriers Manifest in duplicate signed by him and giving the particulars required by the form. The Manifest in duplicate must be produced in the first instance with the goods to the preventive officer at the Customs Post at the Zone entrance. The Manifests are signed and stamped by the preventive officer and one copy is returned to the Carrier as a pass for the goods. The Carrier's copy of the Manifest is then presented with the goods and the relative export specification or shipping bills to the officer at the proper custom station within the Airport. The officer examines the goods to ensure that they correspond to the particulars shown on the manifest and other export documents before allowing them to be exported, giving a certificate of exportation on the specification or shipping bills. This applies to goods moving through the Free-Customs Zone and using the facilities of the Airport for export.

If goods are moved temporarily from the Irish Republic for processing in the Free-Customs Zone, particular care is taken to ensure that satisfactory identifying particulars of the goods are given on the relative specification, and the exact process or processes for which the goods are being removed into the Free-Customs Zone, stated. Where practicable, samples of the goods are taken and attached to the copy of the specification retained at the customs station for comparison with the goods on their re-importation into the Republic. On re-importation the goods are considered for liability for special duty - the importer is required to make entry on a special form in all cases, outlining the processes which the goods have undergone in the Zone, particulars of the various materials in the processing and an estimate of the special airport duty chargeable in respect of each material used. This is to cover a situation where duty free materials are used in the processing of these goods.

Every person conveying goods from the Free-Customs Airport by road into another part of the state must carry with him a Carrier's report in duplicate signed by him and giving the details of the goods required by the form which in fact is used for both incoming and outgoing goods. The Report must be presented by the Carrier with the goods to the officers at the Customs Station on leaving the Free-Customs Zone. The Report is then stamped and signed by the officer. Since the companies which set up within the Free-Customs Zone are required by law to export all or practically all of their product, this procedure has been created mainly to cater for goods arriving by air at the Free-Customs Airport and destined for areas within the state but outside the Customs Zone.

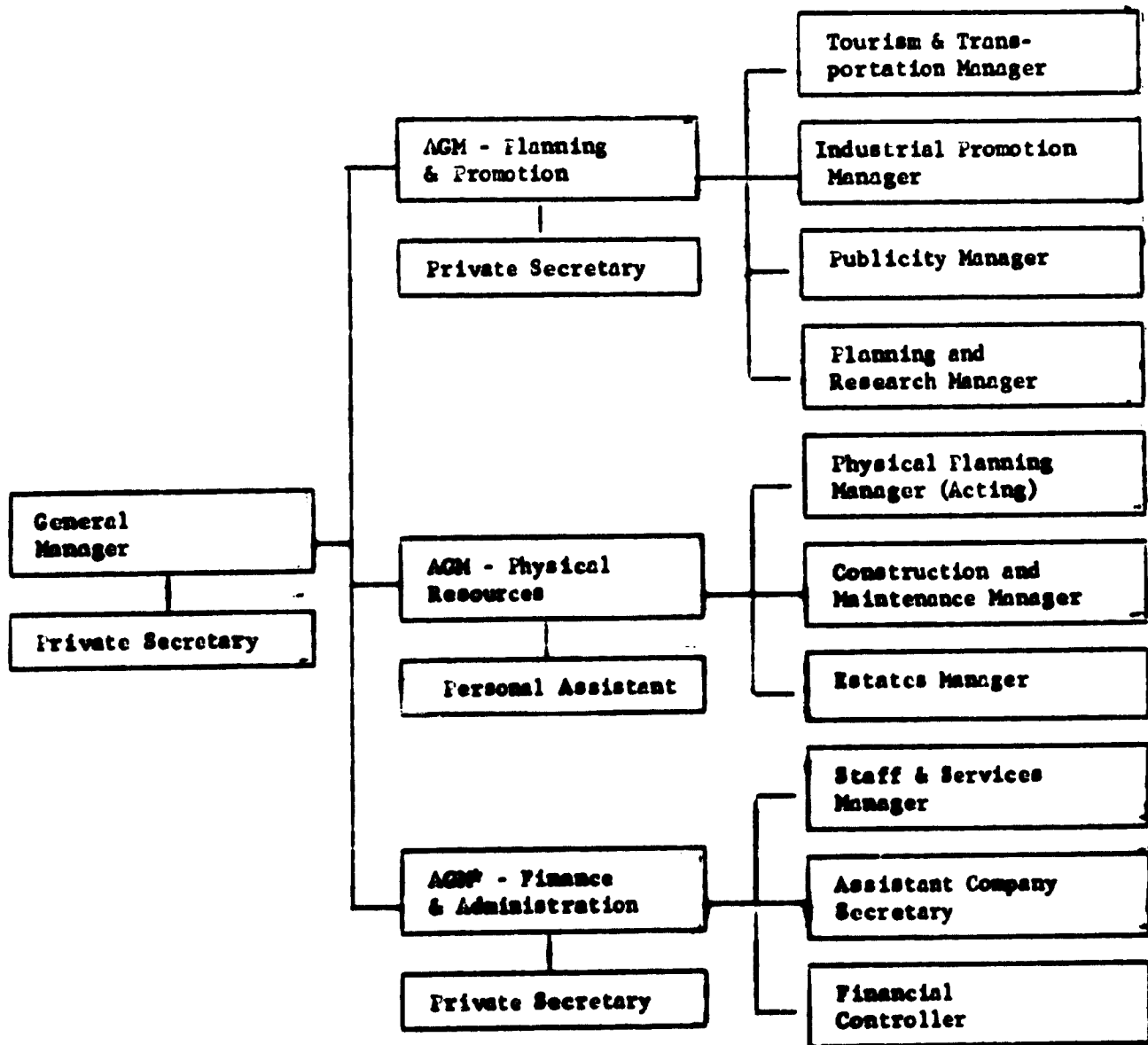
With regard to goods which are moved temporarily into the state from the Free-Customs Zone for exhibition, further processing, sub-contract work, etc., a special form is used. This form outlines the requirements which have to be fulfilled by the firm before it is allowed to remove the goods into the state. It covers both the removal of the goods and their return to the Free-Customs Airport. It is presented in duplicate - one copy being retained by the customs officer, the other accompanies the goods. The goods are covered by bond while they are outside the Free-Customs Zone.

4.10 Administration and Organisation

The administration of the industrial estate is the function of the Shannon Free Airport Development Company. The organisation structure of the company is shown in Chart 4.1. The Company acts as estate manager, i.e. it builds factories, leases them to industrialists, collects rents, maintains the property, undertakes security, etc. Basic to this task is the promotion of industry. Through the Company, licences are issued to the industrialists by the Minister for Industry and Commerce allowing them to set up operations within the Free-Customs Zone. The Company is not responsible for the control of Free-Customs Zone aspects of the industrial estate. This is the responsibility of the Irish Customs Authorities. The Customs Authorities were already located at the Airport before the setting up of the industrial estate and it merely required an extension of their activities to cover the control

CHART 4.1

GENERAL MANAGEMENT & DIVISIONAL STRUCTURE



* Also Company Secretary

aspects of the Free-Customs Zone. It is obvious that a Company such as the Shannon Free Airport Development Company could not be responsible for the attraction, promotion and continuing development of industry, while at the same time endeavouring to ensure that industry complied with a set of regulations and procedures. The customs administration within the Free-Customs Zone is organised along the traditional customs lines - one preventive officer has overall responsibility for the functioning of both the Customs Free Zone and the normal customs administration connected with the Airport itself; he acts as the final arbiter in all disputes and questions of procedure, and as such makes himself freely available and accessible to industrialists on the estate. The accessibility of such a person is thought to be of extreme importance by the industrialists on the industrial estate.

4.11 Control

Control of the Free-Customs Zone rests completely with customs administration within the Zone. Control is ensured in three basic ways :

- (i) creation of adequate documentation procedure
- (ii) the existence of a physical boundary
- (iii) the right of frequent inspection by the customs authorities of the factories on the estate.

Both (i) and (ii) above are interlinked - the documentation dovetails with the existence of special customs stations at the main entrances and exits to the Free-Customs Zone. All carriers of goods moving into and out of the Zone are required to stop at these customs stations and present their documentation. They can be searched, seals can be broken and a general visual inspection can be carried out of goods. More important is the statistical record of all incoming and outgoing goods kept by Customs through this documentation procedure. The Customs Authority will also have records of goods coming directly from the Airport itself into the Customs-Free Zone.

This will enable the Authorities to keep an accurate check on the operation of each Company on the estate. It will form the basis for their frequent inspection of the accounts, stocks of raw

material, semi-finished goods and finished products etc. of the various firms. In practice inspection at Shannon is carried out on a monthly basis - each manufacturing firm is inspected roughly once every four weeks. Under various acts of Parliament heavy penalties can be incurred by firms which do not comply with the regulations as laid down, or who are found to be engaged in activities contrary to those for which a license was issued. The ultimate penalty in this regard is the revocation of the manufacturing license for any Company which contravenes the law.

4.12 Procedure for Admission

When a company proposes to set up a factory in the industrial estate, discussions are held with the Zone authority when the total profile of the project is considered. The client then submits a formal proposal including requests for a license, grants, building, etc. SFADCO then carries out special assessments of the clients credit rating, financial feasibility of the project, market studies, etc.

Upon approval, the client pays a registration fee and on the installation of the machinery a grant may be claimed from SFADCO for new specified machinery.

4.13 Financial Objectives and Profitability

As a totally owned State Company, SFADCO does not have an objective to be profitable in financial terms, its achievements being measured in both quantifiable and non-quantifiable terms. The following are the company's sources of finance :

(a) Share Capital used for capital investment in industry (and tourism).

(b) loans (repayable) from the Government

These are mainly used to build houses in Shannon New Town which is adjacent to the Industrial Estate. In addition, housing subsidies are also available.

(c) Grants in Aid

These are used to cover the operating costs of the Company for one year, including general expenses, advertising and promotion, as well as grants given to industry setting up on the Estate.

(d) Rentals

Rentals for housing is used to repay loans to the Government. Factory rent is used to supplement the grant in aid in order to cover operating costs. However, since such costs as promotion are not required to be paid back, deficit financing will always be needed from the Government. The rents charged to clients are usually used to amortise the construction cost and a percentage is charged for maintenance. A review period (usually of seven years) is written into each lease, and clients are given an option of purchase after five years, at a price which reflects the construction cost of the factory. A charge is made for extra construction in factories (e.g. offices). However, a nominal ground rent is charged so that complete control over development remains in the hands of the Company.

In addition, factories pay local rates for the supply of water and electricity.

As noted elsewhere, the Government is emphasising regional development as a whole and a policy is being implemented to standardise the rent charged on all Government industrial estates in the country. Currently this is set at 90 pence per sq.ft. (\$2.11 per sq.ft.)

4.14 Impact of the Industrial Free Zone

It is estimated that for every job created at Shannon, promotional expenditure of £3,500 has been spent. This amount has been paid for by government grant-in-aid. While no detailed evaluation has been made in terms of the benefits obtained, this cost appears to be amply covered by the advantages which have occurred through the establishment of foreign industry in the Zone.

In quantifiable terms, it has been noted that 64 firms have invested in Shannon, of which 33 are manufacturing companies. Almost 5000 jobs have been created in the Zone as a result of this investment. Total trade in the estate exceeded £70 million (\$168 million) in 1973. Less quantifiable is the impact of the Zone on local manufacturing and service industries. In a few cases zone industries are locally ordering components such as printed circuit boards, and aluminium castings. A multiplier figure of 2 has been suggested as being appropriate to the Shannon Free Zone.

Private investment in the Zone reached £14.5 million by 1974 which represents almost £1 million per annum. The value added by these firms was in the region of £10 million (\$24 million) in 1974.

In addition to the above quantifiable advantages, great emphasis has been placed in Shannon on the social benefits. Of particular importance has been the growth of a skilled labour force. This is reflected in the current policy of SFADCO to be more selective in the type of industry to be attracted to the Zone. Another major result has been the establishment of Shannon New Town as a result of the growth of the Airport but primarily of the Industry Estate Zone. The population of the town is now 6500 and amenities have been provided, such as schools, shopping centre, bars, restaurants and recreation facilities.

4.15 Return on Investment

An approximate calculation of the measurable gains and losses to the State shows a return of 20 per cent on investment for 1973 as follows :

1. Direct and Indirect tax revenue (1/3 of wages paid out to workers on the estate and new towns)	£2.33 million
2. Social Welfare Savings (4% of workers unemployed @ £15 per week unemployment benefit)	£1.65 million
3. Rent receipts	£0.62 million
4. Foreign exchange earnings (arbitrary)	£1.00 million
	<hr/>
	£5.60 million
	£1.11 million
Less 60% of SFADCOs operating costs	<hr/>
	£4.49 million

This represented a return over state investment which was estimated as follows :

Industrial Estate	£8.744 million
Housing	£8.730 million
Grants	£3.357 million
Other	<u>£1.000 million</u>
TOTAL	<u>£21.861 million</u>

4.16 Shannon and the EEC

Under the Treaty of Accession to the E.E.C. goods which are produced in Shannon are classified as Irish manufactured products for the purposes of tariff calculation. Under the terms of agreement these are to be eliminated in five equal stages between 1st April 1973 and 1st July 1977 on trade with other E.E.C. members. However, Shannon is subject to E.E.C. regulations governing customs free zones, and Duty is paid on raw materials entering Shannon from third countries for manufacturing finished products exported to E.E.C. countries. No duty is paid on the value added in Shannon. Under a special clause under the Inward Processing Scheme, firms in Shannon do not need customs clearance for imported goods, nor do they need to put down a bond. However, adequate records and processing schedules will need to be kept for customs examination at any time. On balance the advantages of a large duty free market which the E.E.C. offers to firms setting up in Shannon clearly exceed any disadvantages arising from the need to pay duty on imported raw materials from third countries.

Insofar as incentives are concerned, these are covered by a special protocol under which :

- (1) Ireland will honour any commitments made in respect of grants and export tax reliefs to new firms manufacturing for export.
- (2) In the case of firms coming to Ireland after the date of accession to the Community, the existing incentives would apply until the Community revises them.

ANNEX 4-A

SHANNON CUSTOMS-FREE AIRPORT

LEGISLATION

Notes on the provisions of

THE CUSTOMS-FREE AIRPORT (AMENDMENT) ACT, 1958

and

THE FINANCE (MISCELLANEOUS PROVISIONS) ACT, 1958

SHANNON CUSTOMS-FREE AIRPORT

LEGISLATION

1. Briefly, the effect of the above-mentioned Acts, which became law on 25th November, 1958, is :-
 - (a) to simplify the procedure introduced in 1947 in the original Customs-free Airport Act for the operation and control of business within the Airport;
 - (b) to provide for complete exemption from taxation for a twenty-five year period of profits from certain businesses established within the airport;
- and
- (c) to put goods made in the airport for home consumption in the same position as regards customs and excise duties as like goods made elsewhere in the State.

CONTROL OF TRADING ACTIVITIES IN AIRPORT

2. Under the Customs Free Airport (Amendment) Act, 1958, the setting up of a new business in the Airport requires to be licensed. Applications for licences should be addressed to the Secretary Department of Industry and Commerce, Kildare Street, Dublin 2. Licences may be granted subject to such conditions as the Minister for Industry and Commerce thinks proper.
3. A licence cannot be revoked unless there is a breach of a condition attached to it or the licensee has been found guilty of an offence against the Customs Acts in relation to materials or goods covered by the licence. The conditions attached to a licence will be varied only with the consent of the licensee. In the case of a transfer of a licence, the transferee must notify the Minister of the transfer.
4. Neither the Control of Manufacturers Acts nor the Industrial Development (Encouragement of External Investment) Act, 1958, applies to businesses started under licence within the Customs-free Airport.

EXEMPTION FROM INCOME TAX AND CORPORATION PROFITS TAX

5. The provisions relating to exemption from Income Tax and Corporation Profits Tax are contained in Part II of the Finance (Miscellaneous Provisions) Act, 1958.
6. The exemption applies to profits arising within a period of *twenty-five years from the 25th November, 1958, from the trading operations of a qualified "company" which are certified by the Minister for Finance to be "exempted trading operations" for the purposes of Part II of the Act. A "qualified company" is any body corporate, whether incorporated in the State or elsewhere, which carries on a trade, wholly or partly, within the airport.

*Terminal date extended to the 5th April 1990 under the Finance Act, 1969.

7. Trading operations may be certified by the Minister for Finance to be exempted trading operations only if they are within one or more of the following categories, namely :-
- (a) the sale for export of goods produced, manufactured or processed in the Airport;
 - (b) the sale for export of imported goods;
 - (c) the repair or maintenance within the Airport of aircraft;
 - (d) the rendering, within the Airport or outside the State, of services entailing the use of aircraft or air transport;
 - (e) other trading operations which contribute to the use or development of the Airport;
 - (f) trading operations ancillary to any of those described under heads (a) to (e).
8. Exemption from tax does not extend to profits attributable to trading operations carried on in the State outside the Airport or to profits from the sale of goods or the rendering of services, to persons resident in the State outside the Airport even if the relevant sales, etc., are made in the Airport. Profits arising from trading in Great Britain or Northern Ireland are also excluded from the exemption.
9. A certificate by the Minister for Finance cannot be issued until after the company concerned has commenced to trade in the Airport but when issued, it has effect as from the date on which the company commenced to carry on its exempted trading operations. A certificate may be revoked only if the company ceases to trade in the Airport or fails to comply with any condition subject to which the certificate was given.
10. Where a company's trade consists partly of exempted trading operations and partly of other trading operations, the profits from the latter operations are, for tax purposes, computed as if the company were carrying on two trades consisting respectively of the exempted operations and of the other operations. Expenses or receipts common to both classes of operation are suitably apportioned and deductions in respect of wear and tear of machinery or plant or other capital allowances are adjusted as appropriate.
11. A Company must make a return of its total profits notwithstanding that some or all of the profits arise from exempted trading operations. In addition, it may be required to furnish the Revenue Commissioners with such further accounts and particulars as they think necessary for the purpose of Part II of the Act.

12. Income Tax is not deductible from a dividend paid out of profits from exempted trading operations and the dividend is not regarded as income of the shareholder for tax purposes. For this purpose a dividend which is paid partly out of profits from exempted trading operations and partly out of other profits is treated as consisting of two dividends paid respectively out of the profits of each class.
13. A company must account to the Revenue Commissioners for Income Tax on charges, such as debenture interest or patent royalties, payable under deduction of tax, in so far as such charges are paid out of profits from exempted trading operations. Where the profits out of which the charges are paid are in part exempt and in part taxable a proportionate part of the charges is treated as paid out of the profits of each class.

CUSTOMS DUTY ON GOODS BROUGHT FROM THE AIRPORT INTO THE REST OF THE STATE

14. The provisions relating to the Customs duty on Airport made goods are contained in Part III of the Finance (Miscellaneous Provisions) Act, 1958.
15. Goods made in the Airport for home consumption, other than goods made from ingredients of a kind subject to import restrictions in the State are, where the conditions set out in the following paragraph (16) are fulfilled, exempted from the customs duties normally applicable to imported goods and are liable only to any duties applicable to the ingredients used in their manufacture. (As regards goods made from ingredients subject to import restrictions, see paragraph 18 below). "Made in the Airport" means produced, manufactured, processed or packaged in the Airport, and "ingredients" include any articles or materials used in making the goods and any articles packaged in the Airport as well as packaging materials.
16. The conditions referred to in paragraph 15 are that the producer shall :-
 - (a) maintain records showing :-
 - (i) in respect of any articles, materials or ingredients used or packaged in the course of the production, manufacture, processing or packaging, the date of receipt, from whom and whence received, the value and quantity and, in the case of articles, materials or ingredients so used, the quantity used per unit of the finished goods, and
 - (ii) in respect of such finished goods, particulars of disposal, including selling price and quantity sold in the case of every sale;

- (b) keep available, for a period of not less than two years, for inspection by Officers of Customs and Excise, such records and all invoices and other documents relating to transactions in any of the articles, materials, ingredients or finished goods:
 - (c) allow Officers of Customs and Excise at all reasonable times to inspect such records, invoices and other documents and to examine and take samples of any of the articles, materials, ingredients or finished goods.
17. Where an ingredient in goods coming within the provisions in paragraphs 15 and 16 is liable to a duty to which a licensing provision is attached, admission free of that duty may be allowed on the recommendation of the Minister for Industry and Commerce or the Minister for Agriculture, as appropriate, to whom any applications in the matter should be addressed.
18. The following classes of imports from the Free Airport are not eligible for the concessions mentioned in paragraph 15 above :-
- (a) Goods made in the Airport from ingredients subject to import restrictions in the State;
 - and
 - (b) Goods in respect of which the duty on the ingredients cannot be determined because of non-compliance with the conditions mentioned in paragraph 16 above.

These classes of imports from the Airport are therefore liable to the duties (if any) chargeable on like goods imported into the rest of the State from abroad. Goods in class (a), however, are eligible for any preferential rates applicable to like goods made in the United Kingdom or Canada, subject to the usual conditions for the grant of preference (see paragraph 20 below).

19. Goods imported into the rest of the State via the Airport without having undergone therein any process of manufacture or packaging are, subject to the usual conditions (see paragraph 20), eligible for any preferential rates of duty to which they would have been entitled if they had been consigned in the first instance to a part of the State other than the Free Airport.
20. Particulars of the standing conditions for the grant of customs preference are contained in Notices Nos. 27A and 260, obtainable at any Custom House or from the Secretary, Revenue Commissioners, Dublin Castle, Dublin 2.

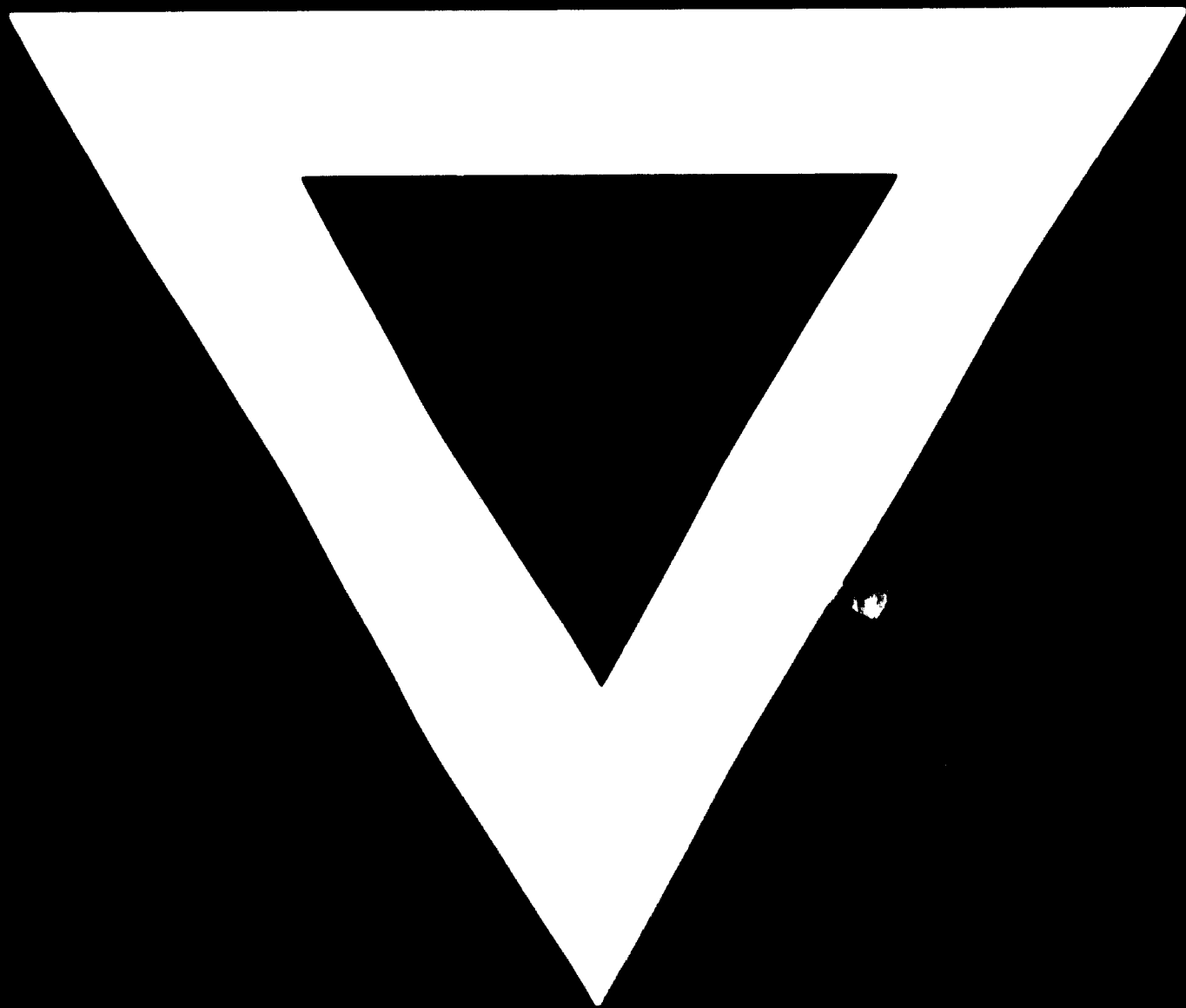
PROVISIONS FOR THE PREVENTION OF ABUSE OF THE CUSTOMS FACILITIES IN THE FREE AIRPORT

21. The Customs-free Airport (Amendment) Act, 1958, (Section 10) makes it an offence, subject to a customs penalty of either treble the duty-paid value of the goods or £100, whichever is

the greater, to dispose irregularly or to assist in the irregular disposal, of any goods brought into the Airport free of duty for purposes authorised by the Customs-free Airport Acts.

22. The Finance (Miscellaneous Provisions) Act, 1958, (Section 13) provides for the charge of duty on unexplained deficiencies in stocks of dutiable goods brought into the Airport free of duty under the provisions of the Customs-Free Airport Acts and provides a penalty of double the amount of duty for failure to pay the duty within 21 days of demand lawfully made therefor.





76. 05. 19