

International Chamber of Commerce
Policy and Business Practices

ICC RECOMMENDATIONS ON ILLICIT TRADE IN FREE TRADE ZONES (FTZS)

POLICY STATEMENT

Prepared by the ICC Commission on Customs and Trade Facilitation

The International Chamber of Commerce (ICC), as the world business organization speaking on behalf of companies from all sectors in every part of the world, acknowledges that Free Trade Zones (FTZs)¹ can play an important role in fostering trade flows and attracting local and foreign investment. FTZs have the potential to boost the national economy, increase the productivity of supply chains and generate employment. In an attempt to simplify and reduce the cost of trade, national governments offer a range of benefits in these jurisdictions such as limited regulatory oversight and inspection of goods in transit, and reduced customs and tax regulations.

However, ICC is concerned about the lack of uniformity in national legislations, administration and monitoring of FTZs by national regulatory bodies – including Customs agencies. In recent years, along with the global proliferation of FTZs², the lack of oversight in a large number of FTZs has allowed for organized criminals to facilitate illicit trade flows in narcotics and counterfeited, pirated or stolen goods.

ICC believes that a common approach towards the administration of FTZs is vital to ensure that FTZs foster legitimate trade flows and economic growth and do not become ‘hotspots’ for illicit trade and organized crime. The security of an international supply chain is only as strong as its weakest link. In this regard, ICC makes the following recommendations:

- 1) ICC calls upon countries hosting FTZs to accede to the World Customs Organization (WCO) Revised Kyoto Convention (RKC), Specific Annex D, Chapter 2 on FTZs and to follow the guidelines addressed in the RKC on explicit Customs jurisdiction over FTZs, rules on origin of goods, and Customs transit and transshipment procedures.
- 2) ICC calls upon countries hosting FTZs to specify in their rule of law that, in line with the RKC, FTZs are only outside of the Customs’ jurisdiction insofar as duties and taxes are concerned. Therefore, other national legislations and international obligations – including applicable labour, health, intellectual property and environmental regulations – must be observed. To this end, Customs should have the right to carry out checks at any time on the goods stored in a free trade zone. It is essential to redress the balance between clear FTZ benefits (such as exemptions related to labelling, marketing and registration requirements) and protecting consumer health and safety, intellectual property rights and environmental regulations. Furthermore, if goods are transferred from an FTZ to the territory of the host country, Customs formalities must be observed and applicable duties paid – ‘leakages’ are to be prevented.
- 3) ICC calls upon Customs and FTZ-operators to work closely together: the absence of controls over the economic operations carried out in FTZs poses a risk for international supply chain security. ICC recommends that, to the greatest extent possible, the data systems of the Free Trade Zone Operator tracking commercial activity and the national Customs automated systems should be linked to directly transfer data on the activities in the Zone. Without coordination or access to data by Customs administrations, FTZs are easy targets for re-documenting shipments and hiding the origins, contents, and destinations of illicit goods.

¹ For the purpose of this Policy statement, the term ‘Free Trade Zones’ (FTZs) also includes so called Special Economic Zones, Foreign Trade Zones, Export Processing Zones and alike. The World Customs Organization Revised Kyoto Convention, Specific Annex D, Chapter 2 defines FTZs as “a part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory”.

² The number of FTZs around the globe has risen from under 100 in 1975 to over 3,500 in 2015. They are located in over 100 countries and 2000 FTZs are located in developing countries.

Opportunities for illicit trade are greatly reduced when the Customs administrations work inside the FTZ to observe and review operations.

- 4) ICC calls upon governments to ensure that strict penalties are in place, including criminal sanctions where appropriate, against perpetrators of illegal activities in FTZs.
- 5) ICC calls upon all member countries of the World Trade Organization (WTO) to implement the WTO Trade Facilitation Agreement (TFA). The TFA would enhance their national competitiveness by making cross-border trade processes quicker, easier and less costly. Furthermore, Article 7 of the Agreement provides the opportunity to strengthen the capacity of Customs administrations – most notably in developing countries – to put in place effective risk assessment procedures that facilitate trade while ensuring compliance with Customs and other related laws and regulations.

ICC therefore calls upon the WCO and the World Free Zone Organization to further promote best practices for regulatory standards for FTZs that foster legitimate trade flows and foreign direct investment while safeguarding supply chain security



About The International Chamber of Commerce (ICC)

The International Chamber of Commerce (ICC) is the world's largest business organization with a network of over 6 million members in more than 100 countries. We work to promote international trade, responsible business conduct and a global approach to regulation through a unique mix of advocacy and standard setting activities—together with market-leading dispute resolution services. Our members include many of the world's largest companies, SMEs, business associations and local chambers of commerce.

www.iccwbo.org

[@iccwbo](https://twitter.com/iccwbo)

INTERNATIONAL CHAMBER OF COMMERCE

33-43 avenue du Président Wilson, 75116 Paris, France

T +33 (0)1 49 53 28 28 F +33 (0)1 49 53 28 59

E icc@iccwbo.org www.iccwbo.org