

LAW ON FREE ZONES

("Official Gazette of RS", No. 62/2006)

I GENERAL PROVISIONS

Subject

Article 1

The Law governs free zones location and operation requirements, free zones eligible activities, conditions for conducting eligible activities and prerequisites for free zones cessation of operations, as well as the establishment, legal status and jurisdictions of the Free Zones Administration.

Definitions

Article 2

Terms used in this Law shall have the following meaning:

- 1) **Free Zone** is an enclosed and marked part of the territory of the Republic of Serbia (hereinafter referred to as "Serbia"), where business activities are performed under conditions provided for under the present Law (hereinafter referred to as the "Zone");
- 2) **Zone Founder** is a local self-government authority, business company or entrepreneur that has passed a decision or entered an agreement with another founder on establishment of the zone, that, through the zone management company, submits the application for approval to designate the area;
- 3) **Zone Management Company** is a business company that provides conditions for smooth performance of business activities within the zone;
- 4) **Related Party** is a person or an entity with the status of a related party in terms of the law governing the corporate income tax;
- 5) **Zone User** is a legal entity or a natural person performing business activities in the zone;
- 6) **Zone Establishment** implies the adoption of a decision of the relevant local self-government authorities, business companies or entrepreneurs or the conclusion of an agreement on the establishment of a zone between the local self-government authority, business company or entrepreneur;
- 7) **Government Approval** is an act by which the Government designates the area of the zone;
- 8) **Zone Area** is the land designated by cadastral lots and expressed in appropriate units of measurement.

Guaranteed Rights

Article 3

Rights of the Zone Founders, Zone Management Company and Zone Users, provided for under this Law, shall not be diminished by other laws or regulations.

II AREA DESIGNATION

Zone Area Designation

Article 4

The zone area is designated by Government approval.

The application for approval for the zone area designation is submitted by the zone management company to the Government through the ministry in charge of finance.

Requirements for Application Submission

Article 5

The zone management company submits the application referred to in Article 4 of this Law, provided that:

1) founders of the zone management company are also the zone founders;

The zone founders may be founders of only one zone management company;

2) it is registered with the Business Registers Agency to conduct zone management activities;

3) the responsible person of the zone founder or the responsible person of the zone management company has not been convicted for criminal offences against economy, property, and has not been found guilty of illicit trade or malfeasance in office.

Requirements referred to in para. 1 of this Article shall apply to a related party connected with the zone management company as well as to a legal entity the legal successor of which is the zone management company;

4) the responsible person of the zone management company has not been a member of the management or supervisory board, or authorized person in a legal entity undergoing liquidation or bankruptcy proceedings;

5) the zone founder was not the founder of the zone management company, whose validity of the approval to establish the free zone ceases to be valid pursuant to the Government decision.

This requirement shall not apply to the local self-government authority.

Application Content

Article 6

The application referred to in Article 4 of this Law shall contain:

- 1) name, head office and tax identification number of the zone founder;
- 2) name, head office and tax identification number of the zone management company;
- 3) data on the share capital of the zone management company;
- 4) name and area of the zone with defined boundaries;
- 5) data on restructuring, if there is a business entity in the zone area that is in the process of restructuring;
- 6) economic feasibility study required for designating the zone area with a particular focus on the foreign investment assessment, anticipated effects assessment, primarily in terms of manufacturing of goods and provision of services, employment, transfer of modern technologies, and a list of activities to be performed in the zone;
- 7) other data that the applicant considers important for the decision making process.

Along with the application referred to in para. 1, the applicant shall also submit the following evidence:

- 1) the decision of the management body, contract or other acts of the zone founder pertinent to the zone's establishment containing:
 - name of the zone founder;
 - name of the zone;
- 2) the register in which the zone management company is registered or certified translation of the excerpt from the register;
- 3) CRB certificate for responsible persons pertinent to criminal offences referred to in Article 5, para. 1, item 3 of this Law, that shall not be older than 30 days from the application submission date;
- 4) proof that the zone founders have ownership rights or leaseholder rights or right of use of the land where the zone area is to be located;

5) proof that spatial, construction, energy, organizational, technical and environmental requirements will be provided, as well as other conditions necessary for performance of the business activities within the zone;

6) opinion of the local self-government authority on the justification of the establishment of the zone.

Should the local self-government should adopt measures aimed at zone development promotion, the decision of the local self-government authority in that respect shall be attached along with the application referred to in para 1. of this Article.

Article 7

The ministry in charge of finance shall assess the economic feasibility of the submitted application referred to in Article 4, para. 2 of the present Law and submit its opinion to the Government.

Designation of the zone area is considered economically feasible if, the submitted study and other presented evidence demonstrates that positive effects will be accomplished in terms of attraction of foreign investments, production of goods and provision of services, employment, transfer of state-of-the-art technologies, business restructuring and that the business operations in the zone will contribute to the realization of the development strategy and economic policy measures set by the Government.

The Government shall set criteria referred to in para. 2 of this Article for economic feasibility assessment for the zone area designation.

Article 8

The Government shall issue the approval for the zone area designation within 30 days from the day of the duly submitted proposal.

The act referred to in para. 1 of this Article shall, *inter alia*, state the name of the zone, area, as well as the name and head office of the zone management company.

The act referred to in para. 1 of this Article shall cease to be valid should the free zone fail to commence operations within two years from the day of the above act entering into force.

Article 9

Provisions of the present Law pertinent to the approval for the zone area designation shall also apply to the zone extension.

III ZONE ORGANIZATION AND MANAGEMENT

Zone Management

Article 10

The zone is managed by the zone management company registered to conduct the zone management.

The zone may be managed only by one zone management company.

The zone management company shall set organizational and technical requirements for performance of activities within the zone.

The document referred to in para. 3 of this Article shall prescribe the working hours of the zone, movement of persons and goods within the zone, obligations of the zone management company in relation to the provision of spatial, technical and organizational requirements for utilization of the zone, occupational safety measures within the zone, environmental protection measures, rights and responsibilities of the zone users toward the zone founder, etc.

The zone management company shall submit the document referred to in para. 3 of this Article for approval to the Free Zones Administration.

The zone management company shall conclude agreements with users setting rights and responsibilities containing elements referred to in the document stated in para. 3 of this Article.

Article 11

The zone management company shall submit a report on business operations in the zone to the Free Zones Administration within 90 days of the end of the calendar year.

The report on business operations in the zone shall contain the following data:

- income of the zone management company;
- number of users and business activities performed;
- total value of goods produced and services provided within the zone;
- total volume of export and import in the zone;
- foreign investments;
- number of staff at the zone management company and number of staff at users.

The minister in charge of finance shall prescribe forms and content of the report referred to in para. 2 of this Article.

The ministry in charge of finance shall submit an annual report on business operations of the free zones in Serbia along with proposed measures to the Government.

Should the Government assess that business operations conducted within the zone fail to accomplish objectives envisaged by the economic feasibility assessment for zone area designation, should the zone management company breach Article 34 of the present Law, or if it is determined that the zone management company failed to implement measures for termination of the agreement with users failing to adhere to requirements pertinent to performance of business activities within the zone, or if it breaches provisions of Article 35 of the present Law, or any of the offenses provided for by the law governing the customs system and customs procedure, the ministry in charge of finance may propose to the Government to revoke the approval for zone area designation.

Article 12

Zone users may be zone founders, the zone management company as well as other legal entities and natural persons (hereinafter referred to as the “Users”).

Users perform business activities in the zone pursuant to the relevant legislation and based on the agreements governing mutual rights and responsibilities of the zone management company.

Users shall keep business books for business operations performed in the zone or separate accounting for a segment of its business operations performed in the zone.

At request, users shall submit data on business operations to the Free Zones Administration.

Zone Organization

Article 13

The zone shall be fenced, visibly marked and designated as a free zone both on entrances of and exits from the zone as well as from the riverbank.

The zone may consist of several parts, provided that those parts form a functional whole.

The zone and its parts, if it consists of several parts, shall be fenced, marked and organized so to ensure that trade in goods and movement of persons to/from the zone be performed only by using designated entrances and exits from/to the zone.

Fences, entrances and exits shall be properly organized, secured and provided with night lighting.

The zone management company shall ensure premises for custom service operations.

The custom surveillance and control pursuant to provisions of the law governing the custom system and custom procedure shall apply to goods entering or exiting the zone as well as goods in warehouses in the zone.

Commencement of Work

Article 14

The fulfillment of the conditions for the commencement of work of the zone is determined by the minister in charge of finance, at the proposal of the commission formed by the representatives of the competent authorities.

The Commission referred to in para. 1 of this Law shall determine whether spatial, energy and environmental requirements have been fulfilled as well as other technical conditions for operations in the zone, including prerequisites for operations of the custom services as well as conditions in terms of the implementation of custom surveillance measures.

The minister in charge of finance shall issue a decision within 30 days from the day of receiving the Commission's proposal.

The law governing general administrative procedure shall apply to the decision-making procedure.

The decision referred to in para. 3 of this Article is final in the administrative procedure.

It will be considered that the zone has become operational as of the day of passing the decision referred to in para. 3 of this Article.

IV BUSINESS OPERATIONS IN THE ZONE

Business Operations in the Zone

Article 15

Pursuant to the present law and agreement with the zone management company, the user may perform production and provide services in conformity with the regulation.

Business operations and provision of services within the zone shall not jeopardize the environment, health, material goods or safety of the country.

Article 16

Foreign trade operations in the zone are performed freely, in accordance with the agreement.

Export of goods and services from the zone and import of goods and services into the zone are free and are not subject to quantitative restrictions; import and export are not subject to commercial policy measures.

Goods whose import or export is banned shall not be imported into or exported from the zone.

Article 17

Goods brought in and taken out of the zone, as well as goods warehoused in the zone, will be treated as customs goods.

Users shall inform the relevant custom authority on goods brought in and taken out of the zone as referred to in para. 1 of this Article.

Goods may be temporarily taken out of the zone to other parts of the territory of Serbia or taken into the zone from other parts of the territory of Serbia for the purpose of inward and outward processing.

The user may temporarily take goods out of the zone to other parts of the territory of Serbia or take goods into the zone from other parts of the territory of Serbia for the purpose of testing, attestation, repair or marketing presentation.

The relevant custom authority shall approve the custom-approved treatment of goods referred to in para. 3 and 4 of this Article in conformity with the law governing customs systems and custom procedures.

Article 18

The certificate that certain goods are produced in the zone is issued by the customs authority that performs the custom surveillance in the zone, under the prescribed conditions.

Article 19

No customs duties or other import duties are paid on the import of goods intended for the performance of activities and construction of facilities within the zone.

Article 20

Goods from the zone placed on the market on the territory of Serbia are subject to the obligation of payment of custom duties and other import duties.

The person who places the goods referred to in para. 1 of this Article on the market on the territory of Serbia is obliged to report it to the customs administration, in order to conduct the appropriate customs procedure.

Article 21

The obligation to pay customs and other import duties for the goods referred to in para. 1 of Article 20 of this Law, arises on the day when the goods are moved from the zone to the territory of Serbia.

The amount of customs and other import duties for goods referred to in para. 1 of this Article shall be determined according to the condition of the goods and according to the regulations in force on the day of acceptance of the customs declaration.

The customs value of goods referred to in paragraph 1 of this Article, as well as the amount of customs debt shall be determined in accordance with the provisions of the law governing the customs system and customs procedure.

Article 22

The user is obliged to enable the implementation of customs surveillance and control measures and to keep the prescribed records on the goods that are imported, i.e. brought into the zone, exported, i.e. taken out of the zone and used in the zone.

Article 23

Payment, collection, transfer, purchase and sale in foreign currencies and in dinars within the zone are conducted pursuant to regulations on foreign exchange operations.

Article 24

The establishment and operation of banks in the zone is carried out in accordance with the regulations on banks.

The performance of insurance activities in the zone is performed in accordance with the regulations on insurance.

Article 25

Labor relations between employees and employers (users) in the zone are regulated by employment contract, in accordance with the regulations governing work and labor relations.

Article 26

Provisions of the law governing value added tax shall apply to the entry of goods into the zone and the provision of services in the zone.

The user or the zone management company may receive tax relief in accordance with the regulations governing corporate income tax, property taxes and personal income tax.

V CESSATION OF OPERATIONS

Termination of the Approval for the Zone Area Designation

Article 27

The approval for the zone area designation shall cease to be valid by an act of the Government:

- 1) if during the operation of the zone it is determined that the technical conditions provided for under this Law for its establishment have permanently ceased;
- 2) if the responsible person in the zone management company, as well as the responsible person in the legal entity, whose legal successor is the zone management company, has been convicted for criminal offences against the economy, property, or conducted illicit trade or malfeasance in office;
- 3) at the proposal of the ministry responsible for finance, as referred to in Article 11, para. 5 of this Law;
- 4) at the request of the zone management company.

The act on the termination of the validity of the approval for the zone area designation is passed by the Government, on the proposal of the ministry in charge of finance.

Termination

Article 28

The zone shall cease to operate after the expiration of the period of 90 days from the day of the adoption of the Government act on the termination of the validity of the approval for the zone area designation.

Article 29

The zone management company and/or the user is obliged to clear imported goods, return them abroad or hand them over to the custom administration for free disposal within 60 days from the expiration of the deadline referred to in Article 28 of this Law.

Customs and other import duties shall be paid on the goods referred to in para. 1 of this Article, according to the condition of the goods and according to the regulations in force on the day of acceptance of the customs declaration.

Notwithstanding provision of para. 2 of this Article, no customs duty shall be paid on equipment imported into the zone for the purpose of performing activities in the zone at least three years before the cessation of operation of the zone.

Provisions referred to in para. 2 of this Article do not exclude the application of other regulations on the basis of which the right to exemption from payment of customs duties and other import duties is exercised.

Article 30

The user of the zone retains the right of ownership on constructed facilities, imported goods and rights i.e. brought into the zone and in case of the cessation of operations of the zone, is entitled to continue operations pursuant to the regulation governing doing business outside the zone.

VI FREE ZONES ADMINISTRATION

Article 31

The Free Zones Administration is established, as an administrative body within the ministry in charge of finance, to perform state administration tasks in the area of free zones.

The Free Zones Administration is headed by a director.

Jurisdictions of the Free Zones Administration

Article 32

The Free Zones Administration performs the following tasks:

1) Development of zones, in compliance with the state's interests:

- Implement national policy aimed at zones development for the purpose of increasing the inflow of direct investments and employment;
- Participate in drafting the legislation concerning zone operation;
- Review applications for approval of zone area designation and submit its opinion to the ministry in charge of finance;
- Initiate and coordinate with competent state authorities revision of matters of specific expertise concerning the operations in the zones, for the purpose of proper implementation of the present Law and ensuring its compliance with regulations of Serbia;
- Organize and coordinate cooperation between the competent state authorities, the zone management company, interested investors, and the users;
- Provide expert support to investors in the process of decision-making pertinent to investments in the zones;

- Provide expert support to investors and zone management companies at all stages of the implementation of programs in the zones;
- Organize direct contacts between interested investors and zone management companies;
- Provide expert support to interested investors in the development of their programs in the zones;
- Cooperate with the Serbian Chamber of Commerce and other non-profit and voluntary organizations;
- Cooperate with foreign institutions and experts, in respect of the zones;
- In cooperation with the zone management companies, create the environment favoring the development of infrastructure in the zones.

2) Promotion of zones:

- Cooperate with the Serbian Investment and Export Promotion Agency (SIEPA) with regard to the promotion of investments and operations in the zones, through presentation of special benefits and business opportunities in accordance with the plan and program adopted by the ministry in charge of finance;
- Inform investors about the advantages of investing in the zones;
- Create and update the database on the zones and advantages of business operations in Serbia, in cooperation with SIEPA.

3) Control and supervise zones:

- Review reports on zones operation and propose their adoption to the ministry in charge of finance;
- Propose to the minister in charge of finance the form and content of the application for approval of the zone area designation, business operations and supervision of operations of zones and users, for the purpose of harmonizing procedures in all zones in Serbia;
- Propose to the competent state authorities additional measures of control of business operations in the zones, if necessary.

VII SUPERVISION OF LAW ENFORCEMENT

Article 33

Supervision over the implementation of the provisions of this Law shall be performed by the competent authorities within the scope of their powers.

VIII PUNITIVE PROVISIONS

Article 34

A fine of 10,000 to 1,000,000 dinars will be imposed on the zone management company for the following misdemeanors:

- 1) if it fails to pass an act on the conditions under which the users of the zone may perform activities in the zone (Article 10, paragraph 3);
- 2) if it fails to submit a report on operations in the zone within the prescribed deadline (Article 11, paragraph 1);
- 3) if it allows the performance of activities in the zone endangering the environment (Article 15, paragraph 2).

For the misdemeanor referred to in paragraph 1 of this Article, the responsible person of the zone management company shall also be fined in the amount of 500 to 50,000 dinars.

Article 35

A fine of 10,000 to 1,000,000 dinars will be imposed on the user - legal entity for the following misdemeanors:

- 1) if it fails to keep books for operations in the zone (Article 12, paragraph 3);
- 2) if, at the request of the Free Zones Administration, it fails to submit a report on operations in the zone (Article 12, paragraph 4);
- 3) if it endangers the environment by activities performed in the zone (Article 15, paragraph 2);
- 4) if it fails to keep the proper records on goods (Article 22).

The responsible person in the legal entity shall also be fined in the amount of 500 to 50,000 dinars for the misdemeanor referred to in paragraph 1 of this Article.

For the misdemeanor referred to in paragraph 1 of this Article, the user - a natural person shall be fined in the amount of 500 to 50,000 dinars.

IX TRANSITIONAL AND FINAL PROVISIONS

Article 36

Zones that started operations before the entry into force of this Law shall, within 90 days from the day of entry into force of this Law, submit to the ministry in charge of finance a request for approval for the zone area designation.

The zones referred to in paragraph 1 of this Article shall, at the request of the Free Zones Administration, submit data related to the economic feasibility study regarding the establishment of the zone in order to assess its performance; at request of the Free Zones Administration other necessary data and evidence referred to in Article 6 of this Law shall also be submitted.

Article 37

Until the formation of the Free Zones Administration, the ministry in charge of finance shall perform tasks performed by that administration, in accordance with the provisions of this Law.

Article 38

On the day this Law comes into effect, the Law on Free Zones ("Official Gazette of FRY", no. 81/94 and 28/96 and "Official Gazette of RS", no. 101/05) shall cease to apply.

Article 39

This Law shall come into force eight days after its publication in the "Official Gazette of Serbia".