

## INNOVATION IN LOGISTICS AND FREE ZONES

FEHER ANDREA\*<sup>1</sup>

<sup>1</sup>*Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of Romania" from Timișoara, Faculty of Agricultural Management, Romania*

\*Corresponding author's e-mail: feherandrea.usab@gmail.com

**Abstract:** *One of the most significant economic innovations of the end of the last century was the extension of the free zones which conquered the entire world economy. The justification for setting up free zones is supported by the need and opportunity of regional and national scale investment, the capitalization of domestic natural resources and the workforce available. With more than 25 years lapsed after the introduction of Law no. 84 of 1992 on the status of free zones and after a long run of events connected to Romania's accession to the European Union which led to the disappearance of all tax and economic facilities specific to free zones, the global economic crisis etc., we may find that free zones have not disappeared, as one would think, along with the disappearance of the offered advantages but, on the contrary, an increase in their numbers have been recorded at European Union level, particularly due to Croatia's accession.*

**Keywords:** free zones, tax advantages, customs taxes, logistics, innovation

### INTRODUCTION

Free zones have been initially set up in ancient times, in strong connection to water transportation, under the form of free ports, located on the most important trade routes. The first free port is known to be Carthage, mentioned in 1814 A.D. followed by several others and positioned from the Mediterranean Sea, the Baltic Sea and up to ancient China [2].

The concept of free zone was initially used in Italy when, in 1860, the locality of Haute-Savoie is declared a free zone. It is followed by a real expansion of free zones throughout the world, but mainly, at the crossroads of commercial routes, the great transport routes or in high areas of industrial and commercial interest.

The 20<sup>th</sup> century was marked by an unprecedented spread in the setup of free zones. The book „Atlas mondial des zones franches” (2010), coordinated by François Bost, is a benchmark work in the field and it stands as the result of the efforts of a team of sixteen geographers and cartographers. The work offers a comprehensive and nuanced view of the „free zone phenomenon”. In total, 1735 very different areas, from a status perspective, were identified in 133 countries, mainly within the developing countries and the Eastern Europe countries [1, 13].

The European Union is no exception to the presence of free zones, even though the economic policy of the Union, along the time, was quite to the contrary of such economic concept, specifically out of the desire to fully eliminate special tax facility areas, compared to the rest of the European tax territory.

The status of free zones may be called a global phenomenon. States on all continents support its existence as it has already proven its condition of economic and social development and diversification tool, for workforce capitalization, for currency contribution by exports [2]. Free zones act as a good indicator for globalization, where we are currently witnessing the accelerated relocation of industrial activities and services to cheaper territories, the increase of emerging economies, the search for solutions for competitiveness and innovation [4].

The current global economy has already changed the way goods are manufactured [5]. Currently, components manufactured in one country are more often assembled in another and, subsequently, sold in a third country. Under such globalization conditions, the use of tools optimizing such flows of goods becomes even more essential. To this end, free

zones are the most suitable optimization instruments, for the goods flows, as well as financial flows of companies.

### **MATERIALS AND METHODS**

The purpose of this work is to highlight some innovative ideas transposed in the field of distribution (logistics), setting an example by the operation of free zone conditions.

Materials underlying the compilation of the study were articles in the field, the national and community legislation, good practices in the field, as well as specialized webpages and the Eurostat database.

The research methods used were the fundamental (academic) research, with the purpose of acquiring new knowledge and developing the subject of study, as well as the applied research, oriented towards analyzing issues and finding remedies, thereby contributing to the founding of the decision.

### **RESEARCH RESULTS**

The occurrence and operation of free zones in Romania is regulated by Law no. 84 of 1992, amended and supplemented by Law 244 of 2004 on the status of free zones and the legislation (Government decisions) setting up the free zones in Galați, Brăila, Curtici-Arad, Giurgiu, Constanța Sud and Basarabi [3].

Under Article 1 of Law no. 84/1992, the free zone status may be instituted in the maritime and river ports of Romania, along the Danube – Black Sea Channel, or other navigable channels and within the territories in the vicinity of border crossing points.

The purpose of setting up free zones is to innovate or facilitate innovation by encouraging new technologies. This is found under Article 1 of Law 84/1992 providing the setup of free zones "for the purpose of promoting international exchanges and attracting foreign capital for the use of new technologies, as well as for increasing the possibilities of using the resources of the national economy" [15].

The advantages of the free zone status, for economic operators, may be of customs, tax and trade type, but such facilities have undergone changes in time. Until January 2005, the main advantage of free zones in Romania was the tax advantage, in the sense that any companies operating in these areas have benefited from corporate tax reliefs or payment of a reduced corporate tax. At first, the facility was embodied by the total relief of corporate tax, considering that, in the rest of the country, the corporate tax stood at 25%; then, there was a 5% corporate tax imposed, while in January 2005, any tax advantage was cancelled and all operators in the free zone were now paying the 16% single rate of corporate tax. From 1 January 2007, along with Romania's accession to the European Union, any bills of entry between member states have been removed, and in our country, as well, similarly to all other member states, the community principle of free circulation of persons and goods shall apply and no customs taxes and value-added taxes (VAT) shall be paid.

We find the customs and tax facilities at the level of trade relations with non-EU Member States [14]. The free zone is conceived as a perimeter where non-EU goods are deemed to be outside the customs territory of the European Union. For goods imported from non-EU countries and which are subsequently exported outside the European Union, no taxes shall apply.

In the event that an economic operator in the free zone imports any products from non-community countries and wishes to export such products, or the goods obtained further to their processing, in the European Union area, they shall pay the customs charges and the VAT only upon removing such products from the free zone and for the quantities related to a transaction. The main advantage now consists in avoiding the blocking of some important amounts concerning the customs tax related to a large batch of imported

products, which tax shall be paid in instalments, as products are removed from the zone in smaller batches. This may aid companies in optimizing their cash flows. Moreover, the storage of goods in the free zone has no time limit, meaning that the decision to export may be taken in a favorable market point, from the perspective of the sale price of products. Then, there is the possibility of bringing in subsets and components from different countries, to process them in the area and to re-export them as an end product. In the event that the good processed in the free zone contains at least 50% of components (raw material, materials, labor, utilities etc.) of the origin of the country where the free zone is located, a certificate of origin may therefore be requested from the relevant Chamber of Commerce. Considering all of this, an end product manufactured in one of the six free zones of Romania may become a product manufactured in Romania – namely, the EU.

Another advantage of operators in the free zone, as some studies may show [1, 3, 6], points to the savings to be made from carriage, in the event of importing a larger quantity of products, compared to purchases in smaller quantities, without storage.

**Table1.****Progress in the numbers of free zones with type I and type II control**

Member State	Number of free zones in 2007	Number of free zones in 2017	Member State	Number of free zones in 2007	Number of free zones in 2017
Austria	-	-	Italy	2	2
Belgium	-	-	Latvia	3	4
Bulgaria	6	6	Luxembourg	-	1
Czech Republic	8	8	Lithuania	-	10
Cyprus	3	1	Malta	1	1
Croatia	-	11	Netherlands	1	-
Denmark	1	1	Poland	7	7
Estonia	3	3	Portugal	1	1
Finland	4	2	Romania	6	6
France	2	2	Slovakia	2	-
Germany	8	2	Slovenia	1	1
Greece	3	4	Spain	4	7
Hungary	-	1	Sweden	-	-
Ireland	2	-	United Kingdom	6	1
<b>TOTAL E.U. (2007) – 74</b>					
<b>TOTAL E.U. (2017) – 82</b>					

Source: Centralized data after:

[https://ec.europa.eu/taxation\\_customs/sites/taxation/files/resources/documents/customs/procedural\\_aspects/imports/free\\_zones/list\\_freezones.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/customs/procedural_aspects/imports/free_zones/list_freezones.pdf)

Concerning the types of free zones acknowledged by the European Union, they are:

- Free zones with type I control – they are provided with a perimeter fence so that the goods or merchandise stored there, and under customs supervision, automatically hold a free zone status;

- Free zones with type II control – subject to the same rules regulating bonded warehouses. This means that, as opposed to traditional free zones, the goods/merchandise must be subjected to a bill of entry so as to be able to benefit from the free zone customs status.

In one form or another, free zones are found and maintained throughout the entire European territory. They are used within the economies of the European Union member states, more often, in logistic chains. A comparative analysis of the total number of free zones in the European Union (Table 1) [12], in 2007 and in 2017, highlights an increase in

free zones, increase due to Croatia's accession to the European Union; this country comes with a number of 11 territories with free zone status.

### CONCLUSIONS

The free zone status may act as a good instrument in the tax optimization of costs, for companies with a core business in import-export operations and, particularly, trade relationships with states outside the European Union.

For development of activities with a free zone status, beside the (customs and tax) facilities granted to the zone, there must be conditions favorable to combining capital with the other production factors (labor, raw material), as well as an adequate infrastructure.

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