

ON FREE ZONES

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Ulaanbaatar

CHAPTER ONE

General provisions

Article 1. Purpose of Law

1.1. The purpose of this Law shall be to regulate relations with respect to the establishment of free zones and their form, powers of governing bodies, monitoring mechanisms, to determine the legal basis for and the realization of special tax and custom conditions.

Article 2. Free zone legislation

2.1. Free zone's legislation shall consist of the Constitution of Mongolia, this Law and other legislative acts adopted in compliance with them.

2.2. If the International Treaty of Mongolia stipulates otherwise, the International Treaty shall be observed.

2.3. Legal relations other than stipulated by the free zone legislation shall be governed by respective laws of Mongolia.

Article 3. Free zone and its forms

3.1. "Free zone" shall mean part of the territory of Mongolia under special conditions for business and investment and which should be considered to be separate in terms of custom and taxation.

3.2. Free zone shall be of trading, industrial, agricultural, tourism, economic form.

3.3. Activities aimed at improving packaging, storage and protection of products and goods without losing their quality, increasing their value and sale transactions shall be carried out in a free trade zone.

3.4. Activities aimed at developing advanced, export oriented technology and production of market competitive products shall be carried out in a free industrial zone. .

3.5. Activities aimed at developing intensive agriculture and husbandry, production and sale of foodstuff shall be carried out in a free agriculture zone.

3.6. Various services shall be offered by a tourism free zone where adequate facilities and infrastructure up to international standards will be established.

3.7. Combined or merged types of activities specified in Items 3.3.-3.6. of this Law shall be carried out in a free economic zone.

Article 4. Special condition for free zone

4.1. A tax preferential condition, easy registration procedure and simplified entrance/exit procedures shall serve at free zones.

4.2. Passengers, products and transportation means shall enter a free zone only through a check-points under custom control under procedures to be approved by the Custom Office.

4.3. Articles banned for import to the territory of Mongolia shall be prohibited to enter into free zones.

4.4. Non tariff restrictions shall not be imposed on articles being brought in from abroad to free zone or taken out from free zone to abroad.

4.5. Transactions in the free zone shall be made in national or foreign currencies under a special currency regulation procedure to be approved by the Bank of Mongolia.

Article 5. Creation, change and dissolution of free zone

5.1. The State Ih Hural (Parliament) shall decide on the creation, forms, location and the size of territory, borders, change and dissolution of free zone in Mongolia upon the submittal of respective proposal by the Government.

CHAPTER TWO

Free zone management

Article 6. Governor of a free zone

6.1. A governor of the free zone shall be a representative of the state entitled to implement the management on the behalf of the Government.

6.2. Governor of a free zone shall be appointed and relieved by the Prime Minister of Mongolia.

6.3. Governor shall report to the Prime Minister.

6.4. Governor shall have an office. The Government shall decide the number of positions, staff members remuneration to be established by the Government depending on the free zone orientation and size of territory.

6.5. Governor shall use a seal, stamps and official letterhead in compliance with established standards.

Article 7. Powers of free zone Governor

7.1. The Governor of free zone shall exercise the following rights:

7.1.1. to represent the free zone and to make decisions within its powers;

7.1.2. to prepare a free zone development program and budget, and to implement after its approval;

7.1.3. to register investors, companies and their branches, representative offices that wish to operate in the free zone;

- 7.1.4. to sign contracts and make transactions on the behalf of the free zone.
- 7.1.5. to determine and implement on labour and employment policies in the free zone;
- 7.1.6. to accept and decide on applications from companies and organizations operating in the free zone to change their business area;
- 7.1.7. to dispose of the land, state owned buildings and facilities provided under the law and to supervise their utilization;
- 7.1.8. to coordinate activities of specialized inspection units within the free zone;
- 7.1.9. to appoint and relieve a general manager and staff members;
- 7.1.10. to issue land ownership and use permits to citizens, economic entities and organizations;
- 7.1.11. to cooperate closely with representative organs of investors to the free zone and private sector;

7.2. Governor may delegate the task specified in Item 7.1.3. to a private company on the basis of contract.

7.3. governor shall issue decrees within the given powers and in compliance with the law. In case the decree contradicts the law, either the Governor or the Prime Minister shall revoke and nullify it.

Article 8. General manager of free zone

8.1. A General Manager of a free zone shall be an official entitled for implementing economic management of free zone.

8.2. Free zone's General Manager shall be responsible for social, cultural, sanitary services, town improvements and land use and shall implement policies in their regard based on a contract with the local authorities and investor's council.

8.3. General manager shall report to the governor and inform the investor's council as to the following areas:

- 8.3.1. free zone development program and its implementation;
- 8.3.2. implementation of investment projects;
- 8.3.3. some issues of foreign cooperation of free zone;

8.4. General manager shall use an official letter head in compliance with established standards.

Article 9. Council of investors to free zone

9.1. A Council comprising of representatives of investors to the free zone entitled to protect their interests, attract new investment, support and promote the development of the free zone may be established.

9.2. Investors' Council activities shall be governed by a charter approved at a meeting of founders.

Article 10. Inspection unit

10.1. An independent inspection unit shall operate in the free zone. The Government shall decide the positions, structure of inspection unit depending on the form, specific purpose and location of the free zone.

Article 11. Free zone's budget

- 11.1. The free zone shall have a separate budget.
- 11.2. The free zone budget shall be approved by the State Ih Hural as a separate item of the state budget upon the submittal of respective proposal by the Government.
- 11.3. The budget revenues to the free zone budget shall be derived from the following sources:
- 11.3.1. income tax on companies, organizations and citizens in the free zone and other payments;
 - 11.3.2. payments and rental fee for the land, natural resources, state owned buildings and facilities, services within the free zone;
 - 11.3.3. state and local budget allocations to the free zone budget provided for the establishment of the zone;
 - 11.3.4. donations and assistance from companies, organizations and citizens;
 - 11.3.5. other revenues to the free zone budget;
- 11.4. The free zone budget shall be expedited for the following expenditures:
- 11.4.1. operational costs;
 - 11.4.2. costs of services provided to others;
 - 11.4.3. border protection of a free zone;
 - 11.4.4. inspection unit expenses;
- 11.5. The governor shall be the principal executor of the free zone's budget disposal.

Article 12. Relationship between the free zone governor, local government and People's Representatives Hural

- 12.1. The governor shall render all the assistance to the local government and the People's Representatives Hural in realizing their powers under the law and cooperate in the following areas:
- 12.1.1. to regulate population movement and civil registration;
 - 12.1.2. to assist in the improvement of local social, cultural and sanitary services;
 - 12.1.3. to raise employment and living standards of the local population;
 - 12.1.4. to allocate certain parts of the land tenancy fees to the local budget and to make other payments into the local budget in the amount established by the Government;
 - 12.1.5. to use properly and protect the land, natural resources, historical and cultural monuments;
 - 12.1.6. to implement jointly industrial infrastructure development projects of importance to the free zone, aimak and local level;

CHAPTER THREE

Activities in the free zone

Article 13. Registration of companies to operate in free zone

- 13.1. Companies planning to operate in the free zone shall meet the following requirements:
- 13.1.1. be engaged in trading, production and service complying with the purposes and business activities of the free zone;

13.1.2. to utilize technology and methods of their production and services that meet national and international standards;

13.1.3. to have an environmental impact assessment conducted;

13.2. A company planning to operate in the free zone shall submit to the free zone's governor office the following documents for registration:

13.2.1. an application form by entitled person reflecting management structure, registered name, business location, citizenship, type, form, amount and the area of investment, business activity area, period of investment and stages;

13.2.2. a certificate of an economic entity if the investor is a legal person;

13.2.3. a confirmed copy of the citizen's identification card and a brief autobiography if the investor is an individual;

13.2.4. if necessary, a special license for certain type of activities;

13.2.5. charter and contracts;

13.3. If the application meets the requirements specified in law, the free zone's Governor shall register in the state register and issue respective certificate within five days upon the receipt of the application.

Article 14. Governor's powers to register a company

14.1. The free zone governor shall exercise the following powers in regard of registering companies:

14.1.1. to check if a company was established in accordance to the law;

14.1.2. to annul the state registration in case the company fails, within one year, to conduct preparation works or production, offer services as reflected in its charter, or production and service was interrupted for 12 months after the beginning of operations;

14.1.3. to refuse to issue certificate on the following grounds:

a) charter and contracts do not meet the legal requirements;

b) business purpose does not comply with the free zone specialization;

c) business name has been already registered;

d) founders have no legal capacity;

Article 15. Business activities in the free zone

15.1. Business activities complying with the free zone's purpose shall be allowed as well as other services related to production, social and market infrastructure..

15.2. The State Ih Hural shall decide separately on business activities in the free zone otherwise prohibited by law.

Article 16. Regulation of land ownership

16.1. The Government, upon agreeing with the aimak's People's Representatives Hural on the free zone's territory and boundaries, shall submit respective proposal for the State Ih Hural's approval.

16.2. The Governor shall decide on ownership and land use by companies, organizations and citizens, including the size and term for which land lot will be owned or used.

16.3. Depending on the free zone's location and purpose, the Government may establish the amount of fee for land ownership and use based on the basic rates specified by the Law on land charges.

Article 17. Taxation and tax exemption in a free zone

17.1. The following taxes shall be levied or exempted on articles entering the free zone:

17.1.1. No excise, added value taxes, import custom duty shall be levied on articles imported to the free zone from abroad;

17.1.2. No export custom duty shall be levied on articles entering the free zone that were imported to custom zone of Mongolia and their import, excise and value added taxes already paid;

17.1.3. If required, an export custom duty shall be levied on Mongolian products entering the free zone, and their value added tax returned;

17.2. The following taxes shall be levied or exempted on products leaving the free zone:

17.2.1. the import custom duty, added value and excise taxes on articles entering the custom zone of Mongolia from the free zone;

17.2.2. articles specified in Item 17.1.2. shall be exempted from the import custom duty, value added and precise taxes when entering the custom zone of Mongolia from the free zone;

17.2.3. no import custom duty and value added tax shall be levied on Mongolian products returning from the free zone to the custom territory. In this case, goods shall be exempted from export custom duty but value added tax shall be levied.

17.2.4. No export custom duty, excise and value added taxes shall be levied on articles being exported from the free zone to abroad except cases when export custom duty is levied by law;

17.3. Other tax allowances and exemptions, except whose specified in Items 17.1 and 17.2 shall be regulated by law depending on the location and purpose of the free zone..

17.4. It is allowed to reduce for certain period or exempt national and foreign companies, organizations and citizens from land charges depending on their performance of obligations to own, use and protect the land under the contract with the free zone.

17.5. The State Ih Hural shall decide on reducing or exempting from, and the amount of land charges upon submittal of respective proposal by the Government.

Article 18. Free zone border protection and passage

18.1. Free zone shall have status of a state facility of special importance.

18.2. Internal security forces shall implement the duty of protecting the free zone's borders and controlling the passage to its territory.

CHAIRMAN OF THE IH HURAL

S. TOMOR-OCHIR