

# How to Establish a Free Industrial Zone in Ajara

## ADVANTAGES OF ESTABLISHING A FREE INDUSTRIAL ZONE IN AJARA:

- Autonomous Republic of Ajara received “5 Star Diamond Award 2012” for being Investor-Friendly Region
- According to “Easy of Doing Business 2012” (IFC/World Bank), We are number 16 out of 183 countries
- We are number 34 according to “Index of Economic Freedom 2012” (Heritage Foundation)
- According to Heritage Foundation, our Labor Code is the Most Liberal worldwide
- Human Development Report evaluated us as having Leading Adult Literacy Rate indicator
- Strategic Geographic location - connecting several important economic regions with more than one billion people, including European Union, CIS Countries, Turkey and the Caucasus Region
- We have low-cost skilled labor force
- We offer low-cost utilities such as electricity, gas, water
- No restriction of hiring expatriates
- A member of the World Trade Organization (WTO) since 14 June 2000
- No quantitative restrictions (quotas) on trade
- Simplified export and import procedures

## COMPANIES OPERATING IN FIZ CAN BENEFIT FROM OUR LIBERAL TRADE REGIMES:

MFN Tariffs with WTO Members (Most Favored Nation (MFN) trade status provides lower tariffs for WTO members - 153 countries)

Preferential Tariffs (GSP) with the USA, Canada, Switzerland, Japan and Norway (zero (3300) or lower tariffs(6900) are applied on goods exported from Georgia to those countries)

GSP Plus with the EU (GSP+ status allows Georgia to export 7200 products to the EU market duty free)

Free Trade Regime with Turkey, Azerbaijan, Armenia, Ukraine, Russia, Moldova, Turkmenistan, Uzbekistan, Kazakhstan, Belarus, Tajikistan and Kyrgyzstan

## INVESTMENT PROPOSAL - KHELVACHAURI FREE INDUSTRIAL ZONE (FIZ)

The government of Autonomous Republic of Ajara offers investors to establish a FIZ in Khelvachauri district located in Batumi along the road of strategic importance by which the Caucasus is connected to Eastern Europe;

Distance from the FIZ to Batumi airport is 3 km, to railway - 4 km, to sea port - 8 km and to Turkish-Georgian border - 15 km;

The zone area is 15 hectares with fully provided infrastructure such as electricity, water, gas and roads;

Probable leasing term is 49 years;

Leasing price per square meter is 1 GEL/0.57 USD per year.

Table 1 shows tax preferences in Khelvachauri Free Industrial Zone for companies producing in the FIZ comparing to companies producing outside the FIZ:

**TABLE 1: TAX PREFERENCES IN THE FIZ<sup>2</sup>**

	Taxes in the Country (2011)		Taxes in the FIZ	
1	Custom tax on import	5%/12%	Custom tax on import	0%
2	VAT on import	18%	VAT on import	0%
3	Export (except junk metal)	0%	Export (except junk metal)	0%
4	VAT on production	18%	VAT on production	0%
5	Property tax	1%	Property tax	0%
6	Personal Income tax	20%	Personal Income tax	20%
7	Corporate Income tax	15%	Corporate Income tax	0%
8	Excise tax	Differenced	Excise tax	Making of excise goods is prohibited

#### WHAT IS FREE INDUSTRIAL ZONE?

Free Industrial Zone (hereinafter “FIZ”) is the type of a free zone envisaged by Tax Code of Georgia where the business-friendly regulations and favourable tax and customs system apply.

FIZ is established for the limited time period for economic activity and the companies operating therein are subordinated to special regime, which is favourable from legal and commercial point of view.

#### WHERE CAN FIZ BE ESTABLISHED?

FIZ may be established in any part of the territory of Georgia, area of which exceeds 10 hectares, except for the protected territories envisaged by Georgian legislation.

#### WHAT ARE THE MAIN CHARACTERISTICS OF FIZ?

- Payment can be carried out in any currency within FIZ;
- Tax incentives;
- Simplified procedures;
- Exemption from the license/permit requirement as well as facilitation of obtaining license/permits, if required;
- Authorities of local self-governing bodies (City Halls, Municipalities, etc.) do not govern FIZ territories;
- As the law does not provide for the maximum or minimum time limit for operation of FIZ, it is left up to the choice of establisher; FIZ shall have entrance and exit as well as customs checkpoints located therein.

#### WHO CAN INITIATE FIZ IN AJARA?

FIZ can be initiated either by the Government of Georgia or by the request of any physical or legal entity (Manager).

No branch office of a legal entity or any other subdivision thereof shall be entitled to initiate foundation of FIZ, except for the permanent establishment of a foreign entity.

The goods produced by FIZ incorporated entities shall be granted certificate of origin indicating that the goods were produced in Georgia by the Ministry of Economy and Sustainable Development of Georgia.

#### HOW CAN ENTITY OPERATE WITHIN FIZ?

An entity can operate in FIZ by means of incorporation therein. FIZ incorporated entity can be of any organizational-legal form. Procedures of incorporation of entities are unified throughout the territory of Georgia including FIZs.

An entity established in FIZ can carry out its activities at the territory of Georgia outside the FIZ as a permanent establishment of a international entity.

Entities (either local or foreign) established outside the FIZ carry out their activities within the FIZ through their permanent establishments incorporated therein.

#### WHAT ARE THE GUARANTEE REQUIREMENTS FOR FIZ?

Manager shall provide the Government with respective bank guarantee beneficiary of which shall be the Georgia Revenue Service. The bank guarantee shall amount to EUR5 per one square meter of the land plot allocated for the arrangement of FIZ - not exceeding EUR2,000,000.00 (two million) in total.

The bank guarantee shall be valid for the entire time period of FIZ operation and it should be presented for the period of not less than three years.

There are two forms of guarantee: a) the bank guarantee and b) a deposit in state treasury.

Such guarantee may be substituted with:

- mortgage of the real property located in Georgia to the benefit of state, which must be of a value no less than the bank guarantee; or
- document certifying disposal of the value on the state treasury deposit.

The said bank guarantee shall be effective no later than 15 days from the day of effectiveness of the government resolution to establish FIZ and shall be valid until at least first day of launching the FIZ.

In addition, the Manager is obliged to provide the Government with a bank guarantee in order to insure obligations related to arranging of road infrastructure to FIZ border. The Government of Georgia can take responsibility to finance up to 50% of works for arranging of road infrastructure to FIZ border.

The amount of such bank guarantee shall be equal to the reasonable financial expenditure for arranging of road infrastructure to FIZ border as provided in respective construction project and incurred by the Ministry. The bank guarantee shall be valid for the entire period of road construction works.

#### **No guarantee or other collateral shall be required if:**

- The Manager undertakes to finance the infrastructure development works on the road leading to FIZ as approved by the Ministry of Economy and Sustainable Development of Georgia;

- The Manager contributes to financing of infrastructure development works on the road leading to FIZ, subject to the agreement with the Ministry of Economy and Sustainable Development of Georgia.

## Creation of FIZ in Ajara

FIZ can be established either by the request of the Manager or by the government ex officio.

### ESTABLISHMENT OF FIZ BASED ON THE REQUEST OF THE MANAGER

The Manager shall provide the government, namely the Ministry of Economic and Sustainable Development of Georgia, with an application containing the following information:

- Identification data of the applicant;
- Description of the borders of the FIZ;
- Design plan for the FIZ;
- Document certifying title over the land on which the FIZ is to be established or respective lease agreement thereon;
- Term for establishing the FIZ;

The following documents shall be attached to the application:

- Identification documentation of Manager which is a natural person;
- In case the Manager is a legal entity, documentation indicating firm name, tax registration data (date, information on authorised representative thereof), information on beneficiary owners of more than 10% of the shares of an entity shall be attached to the application;
- Topographic plan of the land plot indicating building facilities, subsoil and ground communications, surrounding land plots and other objects located therein;
- Excerpt from Public Registry certifying the ownership of the Manager or other person on the land plot where the FIZ is planned to be established;
- Cadastral map of the land plot;
- In case the land plot is owned by any person other than the Manager, or is subject to co-ownership, the notarised consent of such owner/co-owner to establish FIZ on the land in question must be attached;
- FIZ arrangement and development conception;
- Draft Charter of FIZ;
- Evidence confirming that the preconditions set out for establishing FIZ are met.

The application shall be considered and consent or rejection shall be communicated to the Manager within fifty (50) days from the day of submission of the application;

Ministry of Economic Development shall draft an Agreement on Counter Obligations to be executed by the government of Georgia and the Manager which shall be submitted to the government of Georgia for consideration and approval.

### ESTABLISHMENT OF FIZ BY THE GOVERNMENT OF GEORGIA EX OFFICIO

Whenever the establishment of the FIZ is initiated by the government the Manager of the FIZ to be established shall be determined by means of Tender;

## Restrictions

### Following restriction shall apply to any FIZ in Ajara:

- No building located at FIZ can be used for dwelling purposes;
- No hotel or other dwelling facilities shall be established in FIZ;
- No arms and defence technology shall be produced and/or sold in the FIZ;
- No nuclear or radioactive agents shall be produced and/or sold in the FIZ;
- No narcotic or psychotropic substances shall be exported, stored, produced and/or sold in FIZ;
- No excise-duty required production shall be exported, produced and/or sold within the territory of FIZ, except for importing such production for a personal use;

## Favorable Tax Regimes

Perhaps the main privilege of FIZ which attracts business investments in Georgia and makes the place most favorable to do business is the favorable tax and customs framework, which is as follows:

- FIZ incorporated entities having acquired status of International Enterprise are exempt from Property Tax;
  - No interest tax applies to the interest received from the FIZ incorporated entity having status of International Enterprise;
  - No import tax applies to the import of goods produced in the FIZ outside the FIZ;
  - Property located in FIZ is property tax exempt;
  - No VAT applies to goods produced in other country imported in FIZ;
  - Supply of goods/services among enterprises of FIZ is VAT exempt;
  - No foreign exchange controls, trade barriers of quotas;
  - No restrictions on capital repatriation;
  - Profit gained by an international enterprise from an activity carried out in FIZ is exempt from profit tax;
- Employees of the entities incorporated in the FIZ pay the revenue tax via declaration as FIZ incorporated enterprise is not considered as tax agent in relation to salary paid by it and does not have to withhold tax at the source of payment.

## State Regulation

Perhaps the main privilege of FIZ which attracts business investments in Georgia and makes the place most favorable to do business is the favorable tax and customs framework, which is as follows:

- FIZ incorporated entities having acquired status of International Enterprise are exempt from Property Tax;
- No interest tax applies to the interest received from the FIZ incorporated entity having status of International Enterprise;
- No import tax applies to the import of goods produced in the FIZ outside the FIZ;
- Property located in FIZ is property tax exempt;
- No VAT applies to goods produced in other country imported in FIZ;
- Supply of goods/services among enterprises of FIZ is VAT exempt;
- No foreign exchange controls, trade barriers of quotas;

- No restrictions on capital repatriation;
- Profit gained by an international enterprise from an activity carried out in FIZ is exempt from profit tax; Employees of the entities incorporated in the FIZ pay the revenue tax via declaration as FIZ incorporated enterprise is not considered as tax agent in relation to salary paid by it and does not have to withhold tax at the source of payment.

## SIMPLIFIED LICENSING/PERMITTING REGIME

Once carried out in FIZ some types of activities, which normally require license/permit are released from such restrictions. Hereby, some types of license/permit can be obtained by more simplified proceedings.

No license/permit is required for the following activities carried out in FIZ:

- Producing or packing nourishment production for new born babies;
- Producing nourishment production for children;
- Producing and/or distributing electric energy;
- Distributing and/or transportation of natural gas;
- Transiting production subordinated to the veterinary control;
- Operating dangerous producing building facilities;
- Local regular passenger transportation services;
- International shipments;
- Clinical examination and research of pharmacologic production;
- Producing drug and other pharmaceutical products, except for the narcotic agents;
- Establishing pharmacies;
- Importing non-iodized Salt.

## FREE INDUSTRIAL ZONES IN GEORGIA

### POTI FREE INDUSTRIAL ZONE- RAKIA GEORGIA

- More than 105 million USD in 2009-2013;
- More than 10 000 employees;
- Development of industry, logistical parks and business centres;

### KUTAISI FREE INDUSTRIAL ZONE- GEORGIAN INTERNATIONAL HOLDING

- More than 3 billion USD during 3 years;
- More than 20 000 employees;
- Industry development;

### FUTURE PROJECT- TBILISI GREEN FREE INDUSTRIAL ZONE -AIRPORT CITY

- Approximately 25 million USD during 43 months;
- More than 1000 employees;
- Production of goods, reproduction, construction and package thereof;