



UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
STATISTICS DIVISION

**International workshop on country practices in compilation of international merchandise trade statistics, Bangkok, Thailand,
12 – 15 December 2006**

Country Paper

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Industrial and Commercial Free Zones in Thailand

International Workshop on Country Practices in Compilation of International Trade Statistics,
12-15 December, 2006 Bangkok, Thailand



Introduction to Free Zones

- Definition : a designated area for industrial or commercial operation or any other operations contributing to economic growth and development. Foreign and domestic merchandise entering into Free Zone is eligible for tax and duty privileges as indicated by the Law.
- Free Zone is considered to be outside Thailand and Thai Customs territory



Introduction to Free Zones (cont.)

- Promote competitiveness and encourage companies to maintain and expand their operations
- Duty assessed on the finished product rather than on individual parts, materials, or components.



Benefits of Free Zones

- Relief from Import and Internal Taxes/Duties:

Import taxes and duties exempted for

- (1) Machinery, equipment, and parts
- (2) Foreign merchandise
- (3) Merchandise transferred from other Free Zones



Benefits of Free Zones

- Relief from Import and Internal Taxes/Duties (cont.):
 - No Value Added Tax (VAT), excise taxes, alcohol tax, tax stamp and fees under the Alcohol Act, Tobacco Act, and Playing-Card Act
 - A “ZERO” tax rate VAT for domestic merchandise entering into a Free Zone, (such merchandise subject to export duty or exempted from export duty under the Customs Act)



Benefits of Free Zones

- Relief from Export Duty on Re-Exports:

No taxes and duties on foreign merchandise brought into a Free Zone is owed until the merchandise leaves the Zone and enters Thailand for consumption. If the imported merchandise is re-exported to other countries, no Customs duty is charged.



Benefits of Free Zones

- Relief from Standard/Quality Control Requirements:

Merchandise or domestic raw materials entering into a Free Zone for manufacturing, mixing, assembling, packing, is relieved from standard/quality control requirements ; provided that such merchandise is re-exported to other countries.



Benefits of Free Zones

- Duty Exemption on Waste, Scrap, and Yield Loss:

If the processor or manufacturer is conducting its operations within a Free Zone environment, the merchandise is not considered imported, and therefore scrap, waste, or yield loss from an imported component is exempted from import and internal taxes and duties, if applicable.



Benefits of Free Zones

- Eligible for Export Tax Refund/Exemption Schemes:

Merchandise entitled to export tax refund/exemption schemes when exported is still qualified for such schemes after it entered into a Free Zone.



Assessment of Duties and Taxes

- Duties and taxes if the merchandise is removed from the Zone for domestic consumption. The following circumstances is considered as imports :
 - (1) Merchandise from a Free Zone Entering into Thailand for consumption;
 - (2) Merchandise transferred from a Free Zone into a bonded warehouse;
 - (3) Merchandise from a Free Zone sold to importers qualified for Customs privileges



Assessment of Duties and Taxes (cont.)

- Duties and taxes paid at the rate of finish products when the merchandise is removed or transferred from the Zone for domestic consumption.
- Merchandise is classified and appraised and taxes and duties are determined in its condition at the time of transferring from the Zone.
- The value of domestic materials shall be excluded when the applicable taxes and duties are determined.



Establishing a Free Zone

- Factors in determining whether to issue a grant of authority (license) for a Free Zone Project :
 1. Industrial Free Zone : Applicants for an Industrial Free Zone shall meet either of the following criteria:
 - (a) Granted authority from the Minister of Industry to establish an industrial activity zone; or
 - (b) Granted authority from, Ministry of Industry, to operate an industrial community zone of building or dependent factory type; or



Establishing a Free Zone (cont.)

- (c) Granted authority from the Industrial Estate Authority of Thailand to operate a general industrial zone; or
- (d) Granted authority from the Board of Investment to invest in an industrial zone or software industrial zone or ornament and jewelry industrial zone; or
- (e) Granted authority to operate any other industries contributing to economic growth and development.



Establishing a Free Zone (cont.)

2. Commercial Free Zone : Applicants for a Commercial Free Zone shall carry out import/export related business as follows:

- (a) Trade, services, or international transportation;
- (b) Distribution of goods, bonded warehouses, or international goods distribution centers;
- (c) Exhibition or fair;



Establishing a Free Zone (cont.)

(d) Repairing or engineering work;

(e) Other operations approved by the Customs Department.
A Free Zone may be composed of many subzones or a combination of any type of Free Zone.



Free Zones & Balance of Payments

- Free Zones are considered as part of Thailand's "economic territory"
→ all transactions of enterprises in the free zones with Thai residents = not recorded in BOP
- Only record transactions of enterprises in the free zones with "rest of the world"



Contact Point

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