

MINISTRY PAPER /2015
TABLING OF THE SPECIAL ECONOMIC ZONES GREEN PAPER

1.0. PURPOSE

- 1.1. Tabling of the Green Paper on Special Economic Zones (SEZs).

2.0. BACKGROUND

- 2.1. Special Economic Zones (SEZs) represent a wide variety of geographically-demarcated areas that offer simple and efficient business regulations and procedures to investors. SEZs will replace Free Zones and will be promoted and facilitated as a strategy to attract and retain targeted investments and will catalyse and sustain economic activity across various sectors of the Jamaican economy. On February 3, 2014 Cabinet approved the development of the SEZ policy framework by way of Cabinet Decision No. 3/14 as a critical element of the Global Logistics Hub Initiative which had been previously approved on September 18, 2012, vide Decision No.33/12.
- 2.2. The SEZ Green Paper has been drafted and presented to the Growth Agenda Sub-Committee of Cabinet on November 13, 2014. The Ministry was subsequently directed by Cabinet, vide Cabinet Decision 41/14, dated November 17, 2014 to further engage a few organizations in order to clarify and improve specific areas of the draft SEZ Policy. These consultations were carried out and the policy has received acceptance from all key stakeholders.
- 2.3. Cabinet approved the tabling of the Special Economic Zone Green Paper in Parliament (vide Cabinet Decision 01/15 dated January 5, 2015) subject to a formal agreement of the Ministry of Finance and Planning in relation to matters on taxation and incentives. The Ministry of Finance and Planning has written formal letter on the taxation and incentives matter and has indicated that it has no objections to the tabling of the SEZ Green Paper (see letter is appended). Cabinet also instructed that there should be inclusion of information on the labour market reform. The relevant section of the Green Paper has been amended to reflect issues related to the SEZs and the labour market reform initiatives. The amended SEZ Green Paper is appended.

3.0. THE RATIONALE FOR THE MOVE FROM FREE ZONES TO SEZs

- 3.1. The Ministry's intention to upgrade the free zone regime to a modern SEZ regime is strongly influenced by three main factors. Firstly, the move toward a modern SEZ regime is being influenced by changes in global production and market conditions that are opening up new opportunities for small developing economies like Jamaica to actively participate in global value and supply chains. The Ministry through its efforts to develop the new SEZ policy regime is seeking to place the country at the centre of international trade lanes in order to attract large corporations that are eager to benefit from the near shore value proposition.

- 3.2. The second rationale is centred on the enormous potential of the SEZ regime to stimulate wide-scale economic activities, especially in new and emerging sectors. Through the SEZ regime and other initiatives, measures such as business climate reforms, creation & stimulation of sustainable business-to-business linkages, harmonization of fiscal incentives and other reforms will be intensified so that over time, the Jamaican economy will be transformed to one with greater emphasis on efficiency, transparency and predictability. As a result of these reforms, both businesses in SEZs and businesses in the rest of the economy will be better prepared and equipped to access a larger share of the global market, expand and diversify their economic activities and hire more workers. These are all critical factors and conditions that must be satisfied in order to drive sustained growth and development in Jamaica.
- 3.3. Finally, the intention to develop a new SEZ regime ensures conformance under the World Trade Organization's (WTO) rules for middle-income countries such as Jamaica. The existing free zone regime stipulates rigid eligibility requirements in terms of qualifying activities and the amount of manufactured goods that have to be exported (qualifying manufacturing entities are allowed to supply up to 15% of production to the domestic market which attract applicable duties and charges). The new SEZ regime seeks to bring the country into compliance with the WTO Agreement on [Export] Subsidies and Countervailing Measures by 2015 and thereby minimise the potential for challenges from other World Trade Organisation (WTO) Members.

4.0 . MAIN POLICY CONSIDERATIONS

- 4.1. The SEZ Green Paper explores the major policy considerations that will directly affect SEZs. These policy issues have been prioritized through extensive policy consultations involving industry experts, senior government officials, international development partners and private sector interest groups. Through this consultative process, the Ministry has been able to evaluate the strengths, weaknesses, threats and opportunities of several factors that are likely to impact SEZ development, specifically along the lines of international trade, market access, business regulation & facilitation, linkages, sustainable development, employment, incentives, taxation, among other areas.
- 4.2. The Jamaica Export Free Zone Act (1982) as currently constituted lacks the level of detail and policy coherence needed for a Special Economic Zone regime and hence will be replaced by new legislation for SEZs. The Ministry will seek to contract a Legal Consultant for the development of drafting instructions and preparation of a draft law appropriate for submission to the legislation committee.
- 4.3. The Ministry will receive support from the World Bank specifically for the legislative and regulatory framework for SEZs under the Bank's Foundation for Competitiveness and Growth project. The on-site infrastructural development requirements for zone development will primarily be met by the private sector. Public-private partnerships will increase the involvement of the private sector in undertaking private zone development and business operation within the zones. This can have the effect of minimizing the need for financial support from the government.

5.0. VISION

5.1. The vision of the policy is:

“Special Economic Zones are economic powerhouses catalyzing growth and development of a highly competitive logistics-centred Jamaican economy.”

6.0. EXPECTED OUTCOMES OF THE POLICY

- i. Modern and integrated policy, financial, legal and institutional framework for SEZ development established;
- ii. Trade and business facilitation environment for SEZs improved;
- iii. Sustainable linkages between SEZs and the rest of the economy created;
- iv. Onsite and offsite infrastructure services, assets and facilities developed;
- v. Productive capacity increased through human capital formation, technology transfer, business innovation and entrepreneurship;
- vi. Increased domestic employment;
- vii. Competitive incentives with net benefits to the Jamaican society;
- viii. Increased exports;
- ix. International standards for SEZ development adopted; and
- x. SEZ development initiatives are consistent with development goals under Vision 2030 NDP and existing Government priorities.

7.0. POLICY RECOMMENDATIONS

7.1.0. Efficient and Cost-effective Trade and Business Facilitation Services

7.1.1. An efficient and conducive business environment is a key strategic focus of the SEZ policy regime. Measures to improve business and trade facilitation can increase the country’s capacity to guarantee competitive transaction costs, speed and predictability in the provision of logistics services and can help to create a more attractive environment for investors. Several recommendations have been proffered for tackling issues affecting trade facilitation. Measures proposed are geared towards improving the entire eco-system of the trade facilitation environment, including the streamlining of business processes through the Authorized System of Customs Data (ASYCUDA), the Port Community System and the Single Window in order to ensure integrated business processes and efficiency across border agencies.

7.1.2. For success, the Free Trade Agreement (FTA) network that Jamaica is party to must provide for duty relief for goods originating in the major existing and future trade lanes, namely Asia to North America and Asia to North Europe as failure to do this could significantly hamper operations within SEZs, which by definition are usually outside the customs territory. This will require coordination with our regional trading partners in CARICOM as the Revised Treaty of Chaguaramas requires that bilateral agreements with third party states be subject to review and approval at the regional level.

7.2.0. Sustainable Linkages between the SEZ and the rest of the economy

7.2.1. There is recognition that several policy measures can be applied to support greater linkages between and among businesses in the SEZs and the rest of the economy. The

application of border taxes for example, is highlighted as an important tool that can be used to create linkages. One measure being contemplated is the zero-rating of goods and services provided to the SEZs. However this measure should be applied in such a manner that will not erode the existing tax base. Therefore, activities that are permitted within SEZs will be properly evaluated, selected and controlled so that existing businesses that supply the domestic economy are not incentivized to close down and migrate to the SEZs but to expand their operations to provide the basis of additional tax revenue and generate additional employment. A key policy objective is to ensure that the SEZ regime is not actively competing with the general tax regime in terms of the supply of goods and services to local consumers.

- 7.2.2. Other key policy measures to promote linkages include the removal of the export requirement in keeping with WTO rules, capacity improvements and knowledge & technology transfer especially among MSMEs in order to increase the opportunities for business-to-business linkage.

7.3.0. Competitive Tax and Incentives Regime for the SEZs

7.3.1. The tax and incentives provisions are hinged on four (4) important guiding principles. The first is that Jamaica's SEZ regime will focus less on fiscal incentives and more on providing a platform to deliver the business and trade efficiencies, reliable physical & social infrastructure, human resource capacity etc., that are demanded by the global marketplace. Secondly, where possible, fiscal incentives will not erode the domestic tax base and will not compete with the general tax regime. Thirdly, taxes and incentives will be 'fit for purpose' and will not cause the country to 'give-up' more than it needs to in terms of lost revenue to the government. The fourth principle is that, in support of the government's overall thrust toward fiscal consolidation, there will be a deliberate shift from the government-led zone development to a model that is private-sector led or involves minimal government involvement through public-private-partnerships.

7.3.2. Some of the tax and incentives provisions include:

- i. Single uniform low/positive rate of tax applied to corporate source income with low headline CIT rate (10% – 12.5%) on profits
- ii. No special relief on personal income
- iii. Withholding tax on dividends will be applied at the rate of 10% however withholding taxes will not be applicable on any other form of passive incomes
- iv. Full relief from customs duty (CET), customs fees, levies, stamp duty, additional stamp duty and GCT on transhipped supplies into the SEZ
- v. Goods sold into the domestic market would be subject to the prevailing customs duties.

7.4.0. Zone Development and Administration

7.4.1. The matters related to zone development and administration is diverse. In light of the significant role that government plays in business and trade facilitation, a SEZ Authority is being proposed to ensure that the businesses in SEZs are facilitated in an expeditious manner. The role of the SEZ Authority will entail overseeing regulatory compliance

through the relevant planning and environmental authorities which will be housed in a One-Stop-Shop facility.

- 7.4.2. The use of public-private-partnerships (PPP) where necessary and private zone development is a strategy that will help to lessen the burden that SEZs can place on the government. The SEZ Green Paper proposes further improvements in the PPP framework to adequately meet the requirements for formal development agreements between private developers and the government.
- 7.4.3. The matter of eligibility requirements is another area in zone development about which there has been much debate. There is agreement that the permitted activities should be properly controlled and monitored in order to avoid eroding the tax base and there should be a listing of a set of prohibited activities. In addition, the performance eligibility requirements for the development and occupancy of the SEZ should take account of WTO rules, the country's obligations under existing trade agreements and Bilateral Investment Treaties (BITs) and the country's broader development goals.
- 7.4.4. Urban support area designation and development is another area that has been explored in the SEZ Green Paper. The purpose of the Urban Support Area is to provide the proper commercial areas, housing, utilities, transportation, social (e.g. schools, hospitals) and recreational infrastructure in adjacent areas to the workers in the SEZs. This is part of creating the backward linkages into the domestic economy and will help to avoid past mistakes of not adequately providing for the needs of the workers. A specific strategy that is being considered is for the government to grant special developmental status to entitle developers to the streamlined construction regulatory process.

7.5.0. Employment

- 7.5.1. The appeal of Jamaica's SEZ framework is being further enhanced through efforts to undertake a comprehensive labour market reform which will boost Jamaica's locational advantage to potential investors. The labour market reform process can create the level of dynamism in the labour market which will foster productivity & flexibility, enhance social safety net, attract investment and increase real incomes. To ensure even more targeted measures that will further enrich the socio-economic impact of the SEZ and offer investors the most attractive locational option, the SEZ Green Paper proposes the following:
 - i. Adopt labour practices that are in full consistence with stipulations of the International Labour Organization, including core rights of assembly, organization and collective bargaining
 - ii. To ensure policy coherence, all policies related to the human resource development will be aligned to existing national policy framework for training and employment and for access to employment opportunities for women and persons with disabilities
 - iii. Greater collaboration between training institutions and industry to ensure constant supply of skilled personnel for firms in the SEZ

- iv. Promote a culture of voluntary compliance through awareness-raising/information-sharing programmes and initiatives geared towards investors, managers of enterprises, workers and their organizations.

7.6.0. Environmental Sustainability and Climate Change Mitigation

7.6.1. SEZs will be developed in full compliance with government's policies on sustainable development which incorporate economic, environmental and social considerations. The policy framework is being formulated with strategies to create backward linkages with individuals through employment and training and among businesses through efforts to stimulate business-to-business linkages. The build-out of Urban Support Areas also ensures economic development with social inclusion.

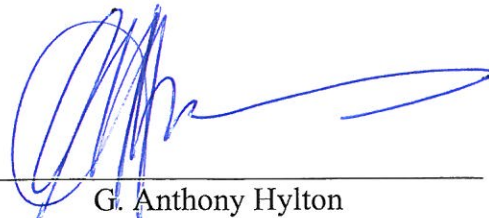
7.6.2. Regulations to promote environmental sustainability are critical to doing business through the Global Value Chains model. Hence, one of the policy measures is to require the developer and operators of the SEZs to pursue and adopt low-carbon, green strategy with a clear goal and commitment to Greenhouse Gas mitigation. Every effort will be pursued to ensure a strategy of greening the economy and related industries and safeguarding human and environmental health. It also proposed that other strategies are aligned to the comprehensive environmental policy that is being developed by the Ministry of Water Land and Climate.

7.7.0. Energy and Food Security

7.7.1. The SEZ Interim Policy highlights the country's need for an energy solution and that consideration has been given to various options for a suitable fuel mix, including waste to energy. While that is important, there is need for focus on the demand-side aspects to ensure that there is conservation. Among the policy prescriptions is the setting up of bulk commodity zones specializing in food, commodity and petrochemical products (e.g. Cow Bay in St. Thomas is being contemplated as a petrochemical zone).

8.0. Implementation, Monitoring and Evaluation

The full implementation of the SEZ framework will involve several private companies, associations, interest groups, MDAs, international development partners and local and foreign investors. The Ministry has already begun to explore the considerations that will have to be given to the effective roll-out of the policy strategies, through ongoing engagements with entities such as the Bureau of Standards, Jamaica Customs Agency, JAMPRO, Ministry of Finance & Planning, Trade Board, Ministry of Foreign Affairs & Foreign Trade, among others. The Implementation Plan will be submitted along with the White Paper which will be tabled in February 2015.



G. Anthony Hylton
Minister of Industry, Investment and Commerce
January 12, 2015