

**THE LAW ON FREE ZONES**  
(Amended and Restated)

12 February 2015

Government house, Ulaanbaatar city

**CHAPTER ONE**  
**GENERAL PROVISIONS**

**Article 1. Purpose of this Law**

1.1. The purpose of this Law is to regulate relations with respect to the establishment, reorganization, and dissolution of free zones, their location, management powers and authorities, control systems, and to determine the legal basis for taxes, and special treatments of customs, entry-exit clearance, registration of legal entities and individuals, and employment to be adopted at free zones as well as other matters connected therewith or incidental thereto.

**Article 2. Free Zones Legislation**

2.1. The free zones legislation shall consist of the Constitution of Mongolia, this Law, and other legislative instruments enacted in conformity therewith.

2.2. If an international treaty, to which Mongolia is party, provides otherwise, the provision of such international treaty shall apply.

**Article 3. Definitions**

3.1. The specific terms used in this Law shall have the following meaning:

3.1.1. The term “free zone” means a part of the territory of Mongolia, deemed to fall outside the customs territory for the purposes of customs territory for the purposes of customs duties and other taxes, adopting a special treatments of business activity;

3.1.2. The term “special treatments of operation in free zones” meant the special arrangement set forth in this Law with regard to tax credits or exemptions from the levy of customs duties or other taxes, or ease of conditions for entry-exit clearance, registration, customs controls, travel to, and employment in the free zones as afforded to businesses or individuals operating at such free zones, for the purposes of attracting investments, introducing new technologies, promoting export, and developing tourism and services;

3.1.3. The term “customs territory” means such territory as referred to in Section 4.1 of the Law on Customs;

3.1.4. The term “simplified customs clearance procedure” means such procedure as referred to in Article 30 of the Law on Customs;

3.1.5. The term “non-tariff limitation’ means such limitations as referred to in Clause 3.1.14 of the Law on Customs;

3.1.6. The term “ease of trade” means such term as referred to in Clause 4.1.13 of the Law on Border Port of Entry;

3.1.7. The term “barcode” means such term as referred to in Clause 4.1.14 of the Law on Border Port of Entry;

3.1.8. The term “travel to a free zone” means entry into a free zone by a Mongolia national, a foreign national, or a stateless person, for business or pleasure;

3.1.9. The term “Mongolian goods” means such goods as referred to in Clause 3.1.2 of the Law on Customs;

3.1.10. The term “good manufactured in a free zone” means any goods, value added cost of which is generated in such free zone for more than 40 percent of it;

3.1.11. The term “cross-border free zone” means a free zone established in the border port area of a neighboring country on the basis of a bilateral agreement between the governments of the two countries.

## **CHAPTER TWO**

### **ESTABLISHMENT, REORGANIZATION, AND DISSOLUTION OF A FREE ZONE**

#### **Section 4. Purposes for Establishing a Free zone**

4.1. The purposes for establishing a free zone shall be promoting exports and imports by Individuals and businesses, developing export oriented production, developing new industries of trade and services, developing tourism, attracting investments, increasing transits and logistics, introducing and adopting new technologies, facilitating trade, accelerating regional development, and sustaining economic growth, by creating favorable regulatory and investment environments in the region.

#### **Section 5. Principles and Prerequisites for Establishing a Free zone**

5.1. The Government shall adhere to the following principles and conditions towards establishment of a free zone:

5.1.1. ensure accessibility, transparency, and fair competition to promote businesses;

5.1.2. have necessary infrastructure in an area where free zone is located, including auto road, railway, and airport; or have potential for developing such infrastructures;

5.1.3. have water resources and power supply available to such free zone;

5.1.4. satisfy the norms, rules, standards, and spatial requirements for urban planning;

5.1.5. to create a legal basis for establishment of a free zone and offer favorable environments and conditions of reliable operation for investors and businesses;

5.1.6. be environmentally friendly; and

5.1.7. have detailed plans for sustainable regional development, local business support, reduced unemployment, and preparation of professional staffs.

#### **Section 6. Establishment, Reorganization, and Dissolution of Free Zones and Their Locations and Boundaries**

6.1. The Government shall submit to the State Great Khural and the State Great Khural shall make resolutions with regard to establishment of a free zone in the territory of Mongolia, its location, area size, boundaries, reorganization, dissolution, and areas of operation.

6.2. Free zones shall be set up in border port areas or in such regions as suggested by the Government.

6.3. A cross-border free zone may be set up under an agreement or treaty entered by Governments. The policies and directions to be adopted by such free zone shall be subject to an agreement signed with the relevant country.

## **CHAPTER THREE**

## **FREE ZONE MANAGEMENT**

### **Article 7. Powers of Central Agency of Public Administration in charge of Free Zones**

7.1. The Central Agency of Public Administration in charge of free zones shall exercise the powers listed below:

7.1.1. formulate policies and directions to be adopted by the government with respect to free zones;

7.1.2. develop and submit to the Government recommendations for establishment, reorganization, or dissolution of a free zone;

7.1.3. coordinate the operations of free zones and provide overall management;

7.1.4. report the operations of free zones to the Government annually;

7.1.5. develop governmental regulations and prepare budgets for operations of free zones;

7.1.6. coordinate activities of governmental agencies and economic entities operating at free zones;

7.1.7. provide management to, ensure implementation of, and exercise control over projects and programs to be implemented in the free zones under loans and financial assistances;

7.1.8. exercise control over implementation of resolutions and decisions passed by the State Great Khural and the Government in relation to free zones development projects or free zones;

7.1.9. approve the rules and procedures to be observed in the operations of free zones; and

7.1.10. set the eligibility criteria for projects and programs offered by the Investor's Council referred to in Section 21.1 of this Law.

### **Article 8. Governor and Governor's Powers**

8.1. The governor of a free zone is a government representative whose function is to implement public administration management in such free zone.

8.2. A Cabinet Member in charge of free zone matters shall appoint and dismiss the governors of free zones.

8.3. The governor of a free zone shall be accountable before the Cabinet Member in charge of free zone matters for his/her performance.

8.4. The governor of a free zone shall have a governor's office, the structure, staffing, and cost limits of which shall be determined by the Government.

8.5. The governor of a free zone shall use a common seal and letterhead of such design as prescribed.

8.6. The governor of a free zone issue order in respect of matter of his/her functions to give effect to the laws. If such order is inconsistent with the laws and regulations, such governor of the Cabinet Member in charge of free zone matter shall modify or repeal such order.

8.7. The governor of a free zone shall exercise the following powers:

8.7.1. represent the free zone in matter relating to operations of the free zone and make decisions within the limitations of his/her powers;

8.7.2. prepare draft program and budget for the development of free zone, seek approval of the same, and facilitate implementation;

8.7.3. enter into agreements and contracts on behalf of the free zone;

8.7.4. formulate and enforce the workforce and employment policies of the free zone;

8.7.5. facilitate infrastructure and construction of the free zone, be in charge of utilization of facilities of government ownership, and exercise due control;

8.7.6. register and deregister legal persons operating in the free zone;

8.7.7. issue land ownership or land utilization rights to individuals, business entities, and organizations in the territory of the free zone;

8.7.8. cooperate with the Investors' Council referred to in Section 21.1 of this Law and other entities;

8.7.9. require businesses to sell goods and products having specific origin, trademark, and barcode;

8.7.10. facilitate and coordinate social order, fire safety, and emergency services in the territory of the free zone;

8.7.11. grant licenses for sales and service of alcoholic drinks, sales of cigarettes, and professional medical services in accordance with the procedures approved by the central agency of public administration in charge of free zone matters.

## **CHAPTER FOUR**

### **SPECIAL TREATMENTS OF OPERATION**

#### **Article 9. Regulation of Special Treatments of Operation in Free Zones**

9.1. Special Treatments shall be in place in the free zones in terms of customs, visa, travel by Mongolian nationals, foreign nationals, and stateless persons, registration of legal persons, currency regulation, specialized inspection, employment, taxation, and other areas.

9.2. The governmental services shall be based on a one-window electronic service in the free zones for ease of trade, tax relations, business, and investment.

#### **Article 10. Special Customs Treatments in Free Zones**

10.1. The customs clearance process shall be completed against submission of the following documentations;

10.1.1. for goods entering a free zone from overseas, cargo manifest, waybill, and if necessary, relevant permit or license;

10.1.2. for goods entering a free zone from the territory of Mongolia, tax receipt in addition to documents specified in Clause 10.1.1.

10.2. In addition to goods referred to in Clause 38.1.4 of the Law on Customs Tariff and Duties, a simplified customs clearance procedure shall apply to goods up to a total value of MNT 3.0 million purchased by a visitor entering the customs territory from a free zone.

10.3. Non-tariff restrictions shall not be set for goods entering a free zone from overseas of exiting a free zone to a foreign country.

10.4. A simplified customs clearance procedure shall apply to goods entering a free zone from overseas for exiting a free zone to a foreign country.

10.5. A risk-based customs control shall be exercised against goods entering a free zone.

10.6. Any business or organization operating in a free zone shall be connected with a customs office through an electronic data network and the registration of goods entering a free zone shall be completed electronically.

#### **Article 11. Special Visa Treatments in Free Zones**

11.1. National of a neighboring country adjacent to a free zone and located in a border port may visit the free zone without a visa for a period of 30 days. Visit by a national of a third country shall be subject to the international agreement providing for the terms and conditions of mutual visits, to which Mongolia is a party.

11.2. A foreign national bearing a residence permit in Mongolia or an "entry-exit" visa may visit any free zone without a visa during such residence permit or visa validity period.

11.3. Visa validity period of a foreign national or stateless person referred to in Section 11.1 of this Law may be extended for up to 30 days once only. The duration of a visit of person traveling without a visa may also be extended for a period up to 30 days.

11.4. A Mongolian national, a foreign national or stateless person shall present one of the following documents to enter a free zone;

11.4.1. if a Mongolian national, travel document, personal identification card, or driver's license;

11.4.2. if a foreign national or a stateless person, travel document or a similar identification document;

11.4.3. if a Mongolian minors under the age of 16, birth certificate or a similar identification document;

## **Article 12. Special Treatments of Registration of Legal Persons in Free Zones**

12.1. A legal person intending to engage in an economic activity in a free zone shall submit the following documents to the office of governor of such free zone:

12.1.1. if a Mongolia legal person, an application, a copy of the state registration certificate of such legal person, and registration fee payment receipt;

12.1.2. if a foreign legal person, an application, a copy of incorporation document of such legal person, a power of attorney, and registration fee payment receipt;

12.2. The governor's office of a free zone shall have 5 business days from the date of receipt of the documents referred to in Section 12.1 of this Law to process the application materials. It shall enter the applicant in its registration of legal persons of such free zone and issue a certificate, if the applicant is deemed to have met the relevant requirement. Such certificate shall be valid only in the given free zone.

12.3. The governor's office of a free zone shall forward the data of a foreign-invested legal persons and investments to the central agency of public administration in charge of free zones quarterly.

12.4. A legal person registered with the governor's office of a free zone may cooperate with other legal persons on the basis of an agreement. If such cooperation is to take place in a free zone, the other legal person thus operating under the agreement shall register in accordance with this Law and obtain a certificate of legal person operating in such free zone.

12.5. A legal person operating in a free zone shall be eliminated from the records of legal person of such free zone on the following grounds:

12.5.1. failure to commence the main production of service specified in its memorandum and articles of association within a one-year period from the date of signing of investment agreement and issuance of certificate of legal person of such free zone;

12.5.2. self-induced interruption or cessation of operation for a consecutive 12 months; period after commencement of its operation;

12.5.3. court judgment ruling for its dissolution.

**Article 13. Settlement of Payments in Free Zones**

13.1. Payments in free zones shall be made in national or foreign currencies.

13.2. Establishment of a bank, non-banking financial institution, or branches thereof shall be subject to the relevant legislation.

**Article 14. Specialized Inspections in Free Zones**

14.1. The central agency of specialized inspection shall coordinate the specialized inspections in free zones.

14.2. Investigations shall be carried out on the following grounds:

14.2.1. such investigation is necessary as a part of customs inspection involving livestock, animals, plants, or quarantine;

14.2.2. complaint is received with regard to products, goods, food hygiene, quality of facilities, or environmental pollution in such free zone.

**Article 15. Special Treatment of Employment in Free Zones**

15.1. Clause 4.1.4 of the Law on Employment of Foreign Manpower shall not apply to free zones for in their recruitment and employment of foreign manpower.

15.2 if a legal person or an individual in a free zone provides employment to a foreign national, who derives income from such employment or service, it shall be exempt from employment fee.

15.3. if a legal person operating in a free zone implements an employee skills and capabilities building project or program, the cost shall be deducted from the taxable income of the given year.

**Article 16. Special Treatment of Taxation in Free Zones**

16.1. The following tax exemptions and credits shall apply to free zones:

16.1.1 Goods imported from overseas to a free zone shall be exempt from the levy of import tax, customs duties, VAT, and excise tax;

16.1.2. No tax shall be charged for goods entering a free zone, which are previously imported into the customs territory upon payment of import tax, customs duties, VAT, and excise tax. Deductions shall be made from other taxes against presentation of payment receipts for taxes paid in the customs territory;

16.1.3. VAT shall be charged at "0" rate when Mongolian goods are brought into a free zone from the customs territory;

16.1.4. In addition to goods referred to in Clause 38.1.4 of the Law on Customs Tariff and Duties, goods purchased by a visitor not exceeding a total value of MNT3.0 million shall be exempt from the customs duties and VAT when entering the customs territory from a free zone;

16.1.5. Goods other than those referred to in Clause 16.1.4 shall be subject to the customs duties and other taxes under applicable laws when entering the customs territory from a free zone;

16.1.6. No taxes shall be levied on goods exiting a free zone to overseas;

16.1.7. No VAT shall be charged against goods manufactured or sold or services rendered in the territory of a free zone by a natural or legal person registered in such free zone.

16.2. The Government shall timely approve the list of goods worth up to MNT3.0 million as referred to in Section 10.2 and Clause 16.1.4 of this Law.

16.3. Goods worth up to MNT 3.0 million as referred to in Section 10.2 and Clause 16.1.4 of this Law shall not include such goods that are subject to excise tax, medicines, medical supplies, and biologically active supplements.

16.4. The following tax exemption and credits shall apply for free zones in terms of corporate income tax:

16.4.1. if a business entity invests USD500.0 thousand or more for such infrastructure as energy source, heat source, engineering network, pure water supply, sanitary system, auto road railway, airport, communications network etc. of a free zone, corporate income tax credit equaling to 50 percent of its investment shall be offered to such entity in terms of its revenues generated from such free zone.

16.4.2. if a business entity invests USD300.0 thousand or more for the purposes of construction of a storage house, a loading and unloading facility, a hotel, a tourism complex, a manufacturing facility to substitute import, or a manufacturing facility for export products, corporate income tax credit equaling to 50 percent of its investment shall be offered to such entity in terms of its revenues generated from such free zone.

16.4.3. Losses incurred by an entity investing to a free zone as shown in its tax statements shall be deducted from the taxable income of such entity during the first five years from its commencement of production of operation following its target construction.

16.5. In addition to those provided in innovation and high technology based production in a free zone shall be exempt from corporate income tax during the first five years from its commencement of economic operation;

16.5.2. The facilities constructed and recorded in the register of a free zone shall be fully exempt from immovable property tax.

16.6. A legal person registered in a free zone shall file its financial and tax statements of its operations in such free zone to the Governor's Office of such free zone.

#### **Article 17. Enforcement of Special treatments and services in Free zones**

17.1. The governor's office of a free zone shall enforce and implement the special treatments of state registration, taxation, customs, entry-exit clearance, and quarantine under the agreements entered with the applicable public administration agency via their representations.

17.2. The governor's office of a free zone shall facilitate the services for keeping social order, ensuring fire safety, medical emergency, hygiene, and infrastructure under the agreements entered with the applicable public or private entity in charge of such matter at hand via their representations.

17.3 The governor's office of a free zone shall furnish information on enforcement status of activities specified in Section 17.2 of this Law to the relevant agency as set out in the laws.

### **CHAPTER FIVE ECONOMIC ACTIVITIES**

#### **Article 18. Type of Economic Activities**

18.1. All types of economic activities in conformity with the requirement of the effective regulations of Mongolia, including production, services, tourism, trade, international banking, finance, paid puzzle games, and gambling games are permitted in free zones.

18.2. Any economic activity for which licensing is required in a free zone shall be subject to Law on Licensing.

#### **Article 19. Revenues from Economic Activities of Free Zones**

19.1. The following revenues of the governor's offices of free zones shall be generated into the governmental fiscal budget:

19.1.1. income tax and charges to economic entities, organizations, and individuals of a free zone;

19.1.2. free for utilization of buildings and facilities of governmental ownership located in free zones and rendering of services;

19.1.3. land fees;

19.1.4. revenues from other economic activities and services.

19.2. Up to 20 percent of the revenues referred to in Section 19.1. of this Law shall be used for the development of free zones. Acceleration of construction works, improve economic efficiency, and support local development.

#### **Article 20. Communication of Free Zone Governor with local Citizens' Representatives Khural and Local Governors**

20.1. The governor of a free zone shall cooperate with the local Citizens' Representatives Khural and local governors on the matter of establishment and development of free zones.

20.2. The governor of a free zone shall improve employment and living standard of local population.

20.3. The governor of a free zone shall cooperate on the implementation of the projects and activities for development of infrastructures in an environmentally friendly manner for production of general importance to such free zone, province, and local community.

#### **Article 21. Investors' Council**

21.1. A free zone shall have an Investors' Council consisting of representations of investors aimed at attracting investment to such free zone. Protecting investors' interests, and supporting the development of and promoting such free zone.

21.2. The Investors' Council shall be governed by its Terms of Reference approved by its meeting.

21.3. An investor may implement a free zone management on the basis of agreement signed with the central agency of public administration in charge of free zone matters.

### **CHAPTER SIX LAND RELATIONS**

#### **Article 22. Land Management**

22.1. Land of a free zone shall not be a part of the border port territory.

22.2. The governor of a free zone shall hand down decisions for possession and/or use of land within the territory of such free zone by individuals, business entities, or organizations and specify the size of area and duration of such possession or use. The governor's office shall sign agreement with such persons possessing or using such land.

22.3. The Government shall specify the basic value and the amount of land fee for such land to be possessed or used by individuals, business entities, or organizations in free zones.

22.4. The land rights for possession and/or use shall be granted as a result of project selection or auction.

22.5. A certificate of land rights, for possession and/or use, shall be issued to a legal person who won such project selection in a free zone after payment by such person of a one-time fee equal to the nominal value of an auction set by ratio in accordance with the applicable laws and regulations.

22.6. In case of circumstances referred to in Clause 12.5.1 and Clause 12.5.2 of this Law, the land rights of such business entity shall be repealed.

22.7. Relations pertaining to use or possessions of land not governed hereunder shall be subject to Land Law.

#### **Article 23. Relief and Exemption from Land Fees**

23.1. An economic entity engaged in trade, tourism, or hotel /hospitality/ services shall be fully exempt from land fees in terms of land used or possessed in such free zone during the first 5 years of its operation and 50 percent exempt during the subsequent 3 years.

23.2. An economic entity engaged in such infrastructure or production in a free zone as energy source, heat source, engineering network, pure water supply, sanitary system, auto road, railway, airport, communications network etc. shall be fully exempt from land fees in terms of land used or possessed in such free zone during the first 10 years of its operation together with its branch.

23.3. A Mongolia or foreign nationals, legal person having a land use or land possession agreement in a free zone may also be subject to relief for a specific period of time in consideration of such person's status of performance of obligations borne in respect of effective land use, possession, or protection.

23.4 The Government shall determine the duration and percentage of such relief referred to in Section 23.3 of this Law.

### **CHAPTER SEVEN INFRASTRUCTURE**

#### **Article 24. Infrastructure and Facilities**

24.1 The general plan for the development of free zones shall be approved by the Government.

24.2 Matters arising out of or in connection with urban planning for, infrastructure, and construction of facilities of a free zone under such general plan as referred to in Section 24.1 of this Law shall be subject to Law on Urban Planning, Law on Construction, Auto Road Law, Energy Law and other applicable laws.

24.3. The infrastructure and facilities of a free zone may be constructed under a Concession agreement.

24.4. In addition to vehicle referred to in Section 24.3 of this Law, the infrastructure of a free zone may be financed out of national or local fiscal funds, private sector investment, foreign loans or financial assistance, or Government bonds.

### **CHAPTER EIGHT FREE ZONES SECURITY**

#### **Article 25. Security**

25.1. A free zone shall be a public facility of special designation.

25.2. The security functions of a free zone located in a border port shall be performed under an agreement signed with a border agency. In case of other free zones, the security functions shall be performed under such agreement signed with relevant agencies.

25.3 Public security and order of a free zone shall be the responsibility of a police organization.

## **CHAPTER NINE MISCELLANEOUS**

### **Article 26. Liabilities for violator of legislation**

26.1. The governor of a free zone shall repeal the certificate of registration for operation of business in such free zone of a natural or legal person in the event of breach of special treatments observed in the free zone by such person.

26.2. In the event of dissolution or cessation of operation by an economic entity of individual operating in a free zone for reasons other than bankruptcy prior to the termination of agreement signed with the governor of such free zone, the sum of rates of tax credits and/or exemption shall be calculated as tax debts of the economic entity in question.

26.3. If a breach of free zone legislation is not subject to criminal liability, a judge shall impose to the offender either one of the following administrative penalties:

26.3.1. an individual, legal person, or official who is in breach of special treatments of a free zone is subject to fine equal to minimum monthly wage multiplied by five to ten times;

26.3.2. an official who granted relief or exemption breaching of Section 16.1, Section 16.4, or Section 16.5 of this Law subject to fine equal the minimum monthly wage multiplied by fifteen (15) times.

PARLIAMENT SPEAKER OF MONGOLIA

ENKHBOLD.Z