

FACTSHEET #10

THE FREE ECONOMIC ZONE (FEZ) GALAȚI

1 Policy context

The Free Zone is the most complex form of suspensive customs regime. The concept of Free Economic Zone (FEZ) is a useful policy tool for Romania to support the export-oriented production sector.

The regulatory framework for FEZ in Romania was set up in 1992 with the Law 84/1992, updated by the Government Decision No. 190/1994, the Law 244 / 2004, the Government Decision No. 1669/2004 and the Decision of the Local Council Galați No. 558/2019 (for taxes and tariffs). With the accession of Romania to the EU in 2007, the national legislation was harmonised with the EU regulations regarding Free Zones.

The “Free Zone” concept is still controversial at the level of the EU as some actors believe its implementation allows for advantages for states where such zones are operational. Romania has six free zones: Brăila, Constanța-Sud Basarabi, Curtici-Arad, Galați, Giurgiu, and Sulina. Four out of the six FEZs are located in the SE development region (Constanța, Brăila, Galați and Sulina), and represent an important competitive advantage in the region. The Republic of Moldova has nine operational FEZs.

The reason for FEZ establishment in Romania consists in the need and opportunity for investment at the regional and national level, for the development of the natural and labour resources available, and for encouraging transit through the country.

Twenty-eight years after the publication of Law no. 84/1992 on the regime of free zones and after a series of events related to our country's accession to the European Union (2007), especially regarding the lift of specific facilities, the global economic crisis, etc., the free zones are still functional. However, their performance appears to be limited.

This factsheet is focused on the services offered to businesses by the FEZ Galați.

2 The policy measures

2.1 Overview – the policy in numbers

Currently, the city of Galați is the main river-sea port of Romania, an important industrial center in eastern Romania and the owner of a FEZ. The Galați FEZ is located in the south-eastern part of Romania, near Galați Municipality, on the banks of the Danube River, a short distance from the Black Sea and very close to the border with Ukraine (8-9 km) and the Republic of Moldova (7 km).

The Danube River, navigable by sea to the Port of Galați, opens Europe's access to trade with the Orient and connects the FEZ with the Black Sea. Also, the Danube River connects the FEZ with the North Sea through the Rhine-Main Danube canal. Opening a business in Galați allows one to enjoy the benefits of the main shipping line of the European continent in both directions at low costs.

The good location and the facilities afforded make FEZ an important point of storage, warehousing, manufacturing, processing and transit between the markets of Europe and the Orient and also as a point that can serve a significant number of consumers.

FEZ Galați services offered to investors include:

- concession of land and buildings;
- renting of land and buildings;
- the use of the “free zone” regime.

Land concession inside FEZ is regulated through the public procurement legislation. FEZ Galați offers for concession 10 ha of land, four industrial halls of 560 m², each of 13 m high for a period of time between 10 and 49 years.

The land renting activity in the free zone is subject of public procurement rules. The minimum renting period is 1 month, and the maximum is 5 years, with the possibility of extension.

The hosted companies can use the free zone regime, transiting or commercialising goods inside the free zone's perimeter. Transited goods must stay less than 24 hours inside the free zone's perimeter; otherwise, the service is reconsidered as space rental. License and access permits are required.

FEZ Galați is operated by the “Administration of the Free Zone Galați”, the company set up by the Local Council Galați (LCG) in 1994 based on the Government Decision No. 190/1994, with the specific FEZ management purpose. The LCG is establishing, on an annual basis, the taxes and fees for the services provided by the free zone. The shared annual profit of the administration company is transferred to the LCG in a percentage varying between 90% (as it was during the economic crises of 2008 and afterwards) and 50% (as it is the case in the present).

2.2 Intervention logic

FEZ addresses the need to support trade and industrial development, using the opportunities offered by the excellent connection to the Black Sea, the North Sea via the Rhine – Main – Danube Canal, the transit point between the East and Europe.

Needs of the businesses in terms of investment and transit:

- Land and industrial buildings and facilities;
- Quick connections to road, rail, river and maritime networks;
- Tax exemptions for trade to increase profitability and competitiveness on the international markets.

Actions

- Main services offered: land and other facilities (concession, rental, and transition of goods);
- Fast connections with the Danube and maritime routes and the European road network (Ukraine, Romania, Bulgaria, Turkey), the rail network, direct access to the broad Russian railway;
- The “free zone” legal regime (goods are introduced inside Galați Free Zone from any part of the world without any custom duties or VAT).

Expected outputs

Output indicators

- The number of companies hosted and operating in the FEZ;
- The volume of operations.

Expected results

- Improved business performance of the hosted companies;
- Net positive impact on the local economy.

2.3 Results achieved

The data concerning the outcomes of the support provided by FEZ are limited to the current situation of the clients and the financial data of the Administration of FEZ for the previous five years.

In May 2020, FEZ was providing support to 46 companies, of which:

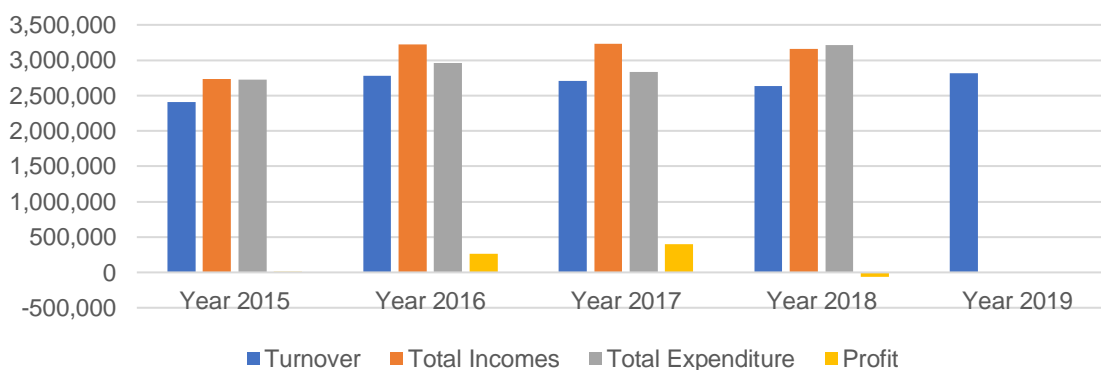
- 16 companies have concessions contracts for 49 years;
- 30 companies have rental contracts for 5 years.

The sectors in which hosted companies operate include: petroleum hydrocarbons (LPG diesel), cereals, general merchandise, iron, steel, machine tools, chemicals (carbon black, chemical fertilisers), sublease of halls, welded pipes. In general, the companies hosted in FEZ are active in the field of trade, but there are also companies in manufacturing (such as the manufacturing of welded pipes).

According to the “Administration of the Free Economic Zone Galați” there is no assessment of impact of the FEZ facilities on the hosted companies’ performance. Data are not being collected for this purpose and there is no mention of it in the concession or the rental contracts with the hosted companies. However, based on analyses of the financial data received from the “Administration of the Free Zone Galați” we can highlight a modest performance, with stagnating turnover and a small profit. A loss was recorded in 2018.

The occupancy rate is at around 60% and the measures undertaken by the Local Council did not succeed to increase the number of investors. In the 2014 – 2018 period, the Local Council Galați implemented a “de minimis aid” scheme for 50 companies hosted by the FEZ, offering tax reduction on buildings for those companies with a minimum investment value of € 200 000 Euro.

Figure 2: Financial data (the Administration of The Free Zone Galați)



Source: <https://www.zlGalați.ro/utile/transparenta-decizionala/>