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Executive summary

The ports represent strategic nodes facilitating cargo flows in international distribution of goods, as a part of an extensive logistic network which enables trade and information flows between different points. Industrial development initiatives in ports should be based on concentration of manufacturing, processing, transport, logistic and trade activities in or adjacent to port areas, wherever physically possible. This can be realized through creation of special economic zones which, in their nature, should be a hybrid of industrial zones, free zones and logistic zones.

As in all other aspects of port and port-related legislation and practices, a great variety of regulatory frameworks, definitions and terminology for special economic zones of any kind exists in the countries of the Danube region.

In *Austria*, there are differences between industrial and logistic zones that are physically located within the port areas and those outside the port areas in terms of operational allowance, types of projects & business cases, building constructions, etc., but there are in practice no problems to find a solution together with the authorities to define or redefine the zones in order to make investment projects happen; normally there are not really problems due to good planning of the zones in advance so that practically no great rededication is necessary.

In the *Slovak Republic*, an industrial park is a territory defined by the municipality's territorial plan or a zoning plan of the zone in which the industrial production or services of one or more entrepreneurs are carried out or are to be carried out. In case of planning an industrial zone near the port, there is a theoretical option that the project promoter would invite the port authority to consult or comment the project plan. Slovak legislation does not impose any special regime related to industrial parks in port zones and it does not, in any way, limit the location of the industrial park in the area of the ports. The founder of the industrial park is a municipality that establishes it in its territory according to the territorial plan of the municipality, respectively zoning plan of the zone. It depends on the negotiations between the municipality and the port authority about whether the industrial park will be located in the port area. Differences in industrial zones and their location in and outside the port may occur only based on a contractual relationship. Legislation does not in any way create disparities in relation to the location of the port and site outside the port.

In *Croatia*, a free zone is a part of the territory of the Republic of Croatia which is an enclosed area where business activities are performed under special and fixed conditions. Free zones can be established within the seaport, airport, river port, next to the international road and in the other area which fulfils the determined conditions. Free zone business activities include: production of goods, refinement of goods, storage of goods, wholesale, strategic business support activities, activities of the establishment of technological development centres of innovation, provision of services except banking and other financial operations, personal and estate insurance and reinsurance. Retail trade shall not be carried out in the free zone. Goods

which are admitted into a free zone must meet conditions that were laid down in Croatia regarding health, veterinary or plant protection validity. Free zone is founded by the *concession granting* by the Government of the Republic of Croatia on the public tendering procedure or, in special cases, it could be given by demand. Besides the port activities, other economic activities involving cargo distribution and logistics, processing and improving of goods, industrial activities, including production, which render possible better economic exploitation of port capacities and activities of waste usage and disposal could be performed in the free zone. If the free zone is established in inland port, port authority is in charge for its management.

In *Serbia*, according to the Law, the Free Zone is a part of the territory of the Republic of Serbia which is specifically fenced and marked, where activities are conducted under the specific economic and fiscal conditions specified by the Law. The founder of the Free Zone can be a local self-government authority, a company or entrepreneur. Founder has to make the decision, or conclude a contract on foundation of the Free Zone with other founder. Through the Ministry of finance, Free Zone management company submits application for the designation of the Free Zone area to the Government. According to the Law on Navigation and Ports on Inland Waters, it is not allowed to conduct non-port related activities in the port area. Therefore, “overlapping” of port area and free zone area is not possible. There are custom bonded warehouses in every port, but any kind of production or activities other than storage/loading/unloading of goods are not allowed. However, there is a general consideration for the spatial planning to place free zones in the immediate vicinity of ports.

In *Romania*, industrial logistic zones are defined as a “free zone” which is a geographical area of Romania's territory where operators carry out activities, and the goods, means of transport and other goods are regulated by the law. In this view, the Romanian legislation uses the term “free zone”. The legal framework allows the settlement of manufacturing and logistic industries within the port areas. For the industrial and logistic zones that are physically located within the port areas and those outside the port areas, which fall within the boundaries of the established “free zones”, there are no differences in legal or fiscal treatment. The Government Decisions to establish free zones and the autonomous administrations of the free zones in the port areas are based on feasibility studies and the process is subjected to public consultation. National or local policies, such as national/local development strategies, are considered in the process of legislative drafting. There are no subsidies or incentives that are specifically prohibited in Romania in the “free zones”, and the fiscal provisions are applied to ensure equal treatment between economic operators. Free zones are integral parts of the Romanian State territory and are subject to the national legislation.

In *Bulgaria*, the legislation uses the term “duty-free zone”. Such zones are managed separately by entities created especially for this purpose. There are special customs regime areas inside the ports managed by Bulgarian port authority (BPICO) but they relate to specified storage areas (open and covered) and their activity is organized by the port operator in charge. There are no production facilities on the territory of the river ports with national importance. Duty-free zones are a special part of the territory of the country in which the business activity is exempt from customs duties. They are set up in sea or river ports, international airports, freight forwarding centres, major motorways and in individual industrial and other economic

areas. The property of foreign legal entities in the zones is not subject to seizure or confiscation by administrative order. The duty free zones are created by the Council of Ministers on the initiative of state bodies or interested self-governing economic organizations. The general management, coordination and control of activities in the free duty zones are carried out by the Minister of Economy and the Minister of Finance. By the act of the Council of Ministers the location and the boundaries of the zone are determined, its status is established and the enterprise, which will organize and will carry out its operation, is formed. The business enterprise that organizes the construction and operation of the area must be a legal entity of full self-financing. The same undertaking is responsible for the construction of the infrastructure of the area - transport, energy, communications, as well as for economic and social-household and cultural purposes, either alone or through Bulgarian business organizations and banks on a contractual basis.

Free production areas, commercial and other export business activities are encouraged in free zones. Imported and exported goods and services provided to and from abroad subject to this activity in the zones shall be exempt from customs duty. This also applies to the exchange of goods and services between free duty-free zones on the territory of the Republic of Bulgaria. During the stay in the zones the goods are subject to customs supervision.

For the purposes of this report, and in order to overcome significant differences in legislation and practice in various riparian countries, a concept of “*Hybrid Logistic Zone*” is suggested, which recommends, without any imposing, the framework for initiatives to develop industrial activities in ports. Hybrid logistic zone have the best chances for success if they are located within, or close to port areas. Such zones facilitate freight distribution activities directly related to waterborne shipping and has a dominant international trade orientation. The added security a port focused hybrid logistics zone offers is also a positive factor, particularly in developing countries.

Hybrid logistic zones (HLZs) are composed of distribution centres and determined manufacturing activities. They provide geographical advantages in terms of accessibility, land availability and infrastructures as well as operational advantages in terms of favourable regulations (features of free zones) and economies of agglomeration. Since HLZs encompass three basic elements: an industrial zone, a free zone and a logistic zone, these elements may all be within the limits of the port areas, but they can also be outside the official port areas and in this case they should be located adjacent to port areas whenever possible. The legislation governing HLZs should be such to encourage HLZs to compete on the basis of facilitation, facilities, and services in addition to the provision of incentives. The importance of regulatory relief to investors is a crucial, yet overlooked aspect of successful HLZ programs.

The institution charged with regulating HLZ operations is another major driver in the successful implementation of HLZs. While a wide range of institutional arrangements have been used, experience in development of different types of special economic zones suggests that success is dependent on the autonomy of the body, adequate funding, customer orientation and nature, partnerships with private operators and enterprises and maximizing the role of the private sector in service provision. To help minimize situations that present conflicts of interest, particularly in the context of an increasing number of privately operated

HLZs, it is critical that HLZ authorities remain engaged in purely regulatory functions, and do not develop or operate HLZs.

1 Introduction

Port development is seen as a catalyst to stimulate economic activity and create employment. In Europe, port developments relate mainly to building new terminals and upgrading the super- & infra-structure within existing ports rather than developing new greenfield sites.

As such, much of the reform process has more to do with the organization and operational aspects of ports. This WP will assess the situation along the Danube and will focus on 3 pillars that contribute to transforming ports into key-hubs of the European transport network and help trigger the reform process: infrastructure investments, funding sources for stimulating investments and innovation.

The goal is to provide a comprehensive package of the issues to be approached jointly in order to help compensate the unbalanced development level between the Upper Danube ports and the other river sections.

For this, four activities have been planned. In Activity 5.1 the focus will be on means of stimulating the upgrade of the port infrastructure & industrial development. This activity corresponds to the 1st pillar. The second activity will target the issue of financing port investments, as experienced via public-private partnerships (2nd pillar). In regards to the 3rd pillar dealing with innovation two activities have been planned.

Activity 5.2 will focus on public-private partnerships (PPP) for port investments which have become a very interesting and convenient development option in the last 25 years. The most common form of PPP is the operation of a concession agreement.

In Activity 5.3 the consortium will focus on the simplification of the work flow within the ports with the help of a modular port community system.

A pilot implementation of this IT system will be planned & implemented in 3 ports along the Danube. Other Danube ports will be able to apply this system by adapting to their own needs the IT model architecture developed by the DAPhNE PPs.

In Activity 5.4 innovative markets will be investigated in order to identify potential types of cargo that could be transported on the Danube and the special conditions that the ports have to comply with to accommodate these future changes. The findings will be reflected in the case studies for new markets - circular economy.

1.1 Objectives of the activity 5.1

The objective of Activity 5.1 is to provide a comprehensive image of the state of the port infrastructure along the Danube and clarify questions related to ownership, rehabilitation plans, missing infrastructure, etc. These facts are incorporated in an overall Report on the status of the port infrastructure development (D.5.1.1).

This document will also be used as a tool for the update and validation of the Rhine-Danube Work Plan and will thus be further capitalized on by other entities at regional & European level.

Another objective of Activity 5.1 is to provide a knowledge sharing source for port planning issues, through a Report on Good Practices for Port Master Planning (D.5.1.2) which illustrates the available port master planning models in the Rhine-Danube area and lists those that are more relevant to the situation in the region.

Final objective of this activity is to explore the possibilities available to port-cities to boost their industrial features by creating linkages with the local economy (alignment of local, regional strategies) and compile the findings in the report Guidelines for industrial development initiatives in ports (D.5.1.3).

1.2 Scope of the report

This report encompasses the legislative and practical framework for the logistic, industrial and free trade zones (all known under the common name of as “special economic zones”) in various Danube region countries (Austria, Slovakia, Croatia, Romania and Bulgaria). Furthermore, the report explains the rationale for the focus on industrial and logistic zones in and near ports as the chosen option of the industrial development initiatives in ports. Thereafter, a concept of “Hybrid Logistic Zones” (HLZs) is developed, which represents a mixture of all known special economic and industrial zones. This concept allows Danube countries to consider which elements they can apply in creation of such zones, if they wish to. Finally, policy implications and recommendations are given in terms of general policy framework, recommendations for the management of HLZs, for the scope of services and recommendations based on the experiences and needs identified by the participating project partners from the aforementioned Danube countries.

2 Rationale for focus on industrial and logistic zones in or near ports

Apart from fostering public-private partnerships (PPPs) in port development and operations, another option for development and increase of cargo throughput is through establishing special economic zones (industrial and logistic zones) within the larger port areas or adjacent to port areas wherever physically possible. Being centres of cargo distribution to/from their hinterlands via, in most of the cases, three transport modes, ports are not merely transshipment points but hubs of various economic activities related to cargo handling, including the widest possible array of value added services related to cargo, vehicles and vessels, including their crews. Being such dynamic centres of economic activities, ports are ideal magnets for various manufacturing and logistic industries, provided that such industries are offered the right conditions for settlement in the port area or in the areas adjacent to ports.

Furthermore, the ports represent strategic nodes facilitating cargo flows in international distribution of goods, as a part of an extensive logistic network which enables trade and information flows between different points. The ports have evolved in all possible aspects and scholars today differ five port generations according to the scope of the services provided in them. First three port generations have been defined by UNCTAD¹, the fourth was elaborated by Alderton², while the fifth port generation was proposed by Flynn and Notteboom³, and Lee and Lam⁴.

First generation of ports, before 1960, were rather limited to simple services of cargo transshipment from ship to shore and vice versa. There was no or very limited cooperation between the port and local authorities and the different port activities were isolated from each other. Typically, such ports usually handled bulk, breakbulk or liquid bulk cargo.

Second generation of ports, after 1960ies, were somewhat more developed as a transportation hub and centres of industrial and commercial activities. Port services offered in such ports still included primarily services related to cargo and ships, but in their immediate vicinity industries (manufacturing, processing, etc.) are settled and ports start offering commercial services to its users which are not directly connected with simple cargo handling from ship to shore and vice versa. Port policies in such ports start including broader concepts and innovative management attitudes (commercialization, corporatization, outsourcing, etc.). Second generation ports develop closer relations with transport and trade stakeholders who start locating their cargo processing facilities in the port area or in their immediate vicinity. Still, only large companies take benefits from this management reforms.

¹ UNCTAD (1994) The trading port - the prospects of the ports of the third generation. Available at https://unctad.org/en/PublicationsLibrary/tdc4ac7_d14_en.pdf Accessed 6 November 2018.

² Alderton, P. (2008). *Port Management and Operations*, 3rd Edition, Informa, London.

³ Flynn, M., Lee, P., Notteboom, T., (2011) The next step on the port generations ladder: customer-centric and community ports, in: Notteboom, T., *Current Issues in Shipping, Ports and Logistics*, University Press Antwerp, Brussels 2011, p. 503

⁴ Lee, P., Lam, J. (2016) Developing the Fifth Generation Ports Model, in: *Dynamic Shipping and Port Development in the Globalized Economy*, ed. P. Lee, K. Cullinane, Palgrave Macmillan, London, p. 188

Last, but not least, connections and functional relations between ports and their host cities become more developed and intensified.

Third generation ports, after 1980ies, include logistic services in relation to cargo distribution, data processing and increased use of telecommunication systems. In this period, ports are increasingly open to new operating possibilities and are open to private sector participation in port operations. Services and activities become specialized, numerous but integrated and more customer-oriented, while customs procedures are somewhat simplified. Thanks to these features, the ports start adding more value to cargo, apart from simple loading/unloading, through cargo consolidation and deconsolidation, tracking and tracing, labelling, weighing, stuffing/unsuffing containers, etc.

Fourth generation ports, after 1990ies, becomes affected by globalization, which, inter alia, causes standardisation of information and procedures, port networks formation and higher environmental impact on port planning and operations. In addition, such ports dedicate a lot of efforts to the increase of the service quality, use more automation, especially due to higher share of unitized cargo and employ trained workforce. Ports of the fourth generation pay much more attention to intermodalism and integrated logistic services. Many seaports foster regular rail or inland waterway lines to inland ports thus integrating both sea and inland ports into international transport, logistic and supply chains and door to door services. Moreover, ports belonging to this generation, are strongly dedicated to improvement of their road, rail and IWW connections (for seaports) to their hinterlands and the rest of the main transportation networks. Further development of the logistic function of those ports included creating duty-free zones (special economic zones, freight villages, etc.) and logistic parks within or near the port areas.

Fifth generation ports started emerging after 2010, when ports started focusing even more on customers and the local community offering deep IT integration with various stakeholders. IT solutions are increasingly used for prediction of different events and measuring performance. Very important characteristics of the fifth generation ports is an active involvement of the port and local community in planning and decision making processes. In addition, these ports are becoming full industrial centres (manufacturing, processing and logistic industries) with comprehensive intermodal transport handling and high-tech logistic centres as nodal and connecting points for intermodal transport, offering advanced special economic zones related services and logistic park functions. The customer-centric orientation of fifth generation ports is reflected in thorough analysis of the dynamic customers' needs and in being solution-focused in order to keep the existing and capture new port users. Fifth generation ports have a common vision of being "a commercial oriented, integrated transport, logistic and information complex network"⁵. It could be added here that adding a special economic zone (industrial zone under special economic regime, free zone, logistic park, freight village, etc.) in or near the port area would only boost the realisation of such vision in a win-win situation for all stakeholders. The shift from the fourth to the fifth generation ports

⁵ Flynn, M., Lee, P., Notteboom, T., (2011) The next step on the port generations ladder: customer-centric and community ports, in: Notteboom, T., *Current Issues in Shipping, Ports and Logistics*, University Press Antwerp, Brussels 2011, p. 503.

requires networking (of all port and port related functions) where three key interfaces⁶ can be identified:

- interface between the customer and the port system – customer focus needs to allow for a both way approach, meaning that the customer needs to be enlisted as a partner to change determined practices that can hinder an optimized network and capacity management plan;
- interface between commercial and production teams;
- interface between the port and its intermodal connections.

In order to successfully move towards the fifth generation port, port management needs to work on all three interfaces around the clock, setting the provision of services with best prices and highest quality in the environment of finite resources as its prime objective.

It is worth mentioning that Kaliszewski⁷ proposes the formation of the *sixth generation ports*. This author states that sixth generation ports (6GP) should have the three following characteristics:

- ability to handle container ships of a 50 thousand TEU capacity, with a maximum draught of 20 metres,
- full automation of the container terminal due to the significant volume of loading/unloading operations in a short time as well as significant progress of information technology over the last 50 years. The constant pace of development of new technologies such as the Internet of Things, or big data analysis, form a basis for maintaining the rate of IT and information technology development over the next 50 years,
- handling intermodal connections with the hinterland which allow the transport of containerized cargoes with low external costs (e.g. connected without congestion).

However, the authors of this report are not aware of any further elaboration of this concept in the port and/or scientific community (no known reflections or discussions on this concept). Moreover, even Kaliszewski claims that, as of 2017, no port in the world has reached the stage of sixth generation port. Therefore, for the purposes of this report we will hold on to the well elaborated concept of five generations of ports.

Basic characteristics of all five generations of ports are summarized in Table 1.

⁶ Flynn, M., Lee, P., Notteboom, T., (2011) The next step on the port generations ladder: customer-centric and community ports, in: Notteboom, T., *Current Issues in Shipping, Ports and Logistics*, University Press Antwerp, Brussels 2011, p. 503.

⁷ Kaliszewski, Adam (2018), Fifth and Sixth Generation Ports (5GP, 6GP) – Evolution of Economic and Social Roles of Ports, Available from: https://www.researchgate.net/publication/324497972_FIFTH_AND_SIXTH_GENERATION_PORTS_5GP_6GP_-_EVOLUTION_OF_ECONOMIC_AND_SOCIAL_ROLES_OF_PORTS, Accessed 7 Nov 2018.

Table 1: Main features of five port generations

	First generation	Second generation	Third generation	Fourth generation	Fifth generation
<i>Timeline</i>	<1960	>1960	>1980	>1990	>2010
<i>Main cargo:</i>	Break bulk and bulk	Break bulk and bulk	Break bulk and bulk, unitised cargo	Largest share of unitised cargo	All cargoes (not applicable only to container ports)
<i>Attitude and strategy of port development</i>	Conservative. Simple transshipment point.	Expansionist. Transport, industrial and commercial centres	+ Commercially oriented. Integrated transport node & logistic centre.	+ External networking. More sophisticated use of automation.	+ Customer oriented. Advanced free trade zone and logistic park functions.
<i>Activities array</i>	Loading/unloading	+ Cargo transformation and industrial activities	+ Cargo & info distribution. Full logistic potential	+Standardisation of information	+ Event management, anticipation and performance measurement.
<i>Organisation features</i>	Independent activities, no links between them. Informal relations.	Closer relationship to port users. Limited interdependence of port activities. Loose relationship with host cities.	United and integrated relationships. Private sector participation in operations.	Globalisation of port communities. Greater environmental control	Internal and external networking. Active consultation of community in planning and decision making processes.
<i>Production features</i>	Simple cargo flows. Low value added.	Cargo flows and transformation. Combined services. Improved value added	Cargo & info flow and distribution. High value added.	Emphasis on quality of service and trained work force	+ Adaptability to demand dynamics, customer satisfaction measurement, customer involvement as partners.
<i>Decisive factors</i>	Labour & capital.	Capital.	Technology & know-how	Information technology	Networking and capacity management.

(Source: *iC*, based on Flynn⁸, et.al. and Alderton⁹)

⁸ Flynn, M., Lee, P., Notteboom, T., (2011) The next step on the port generations ladder: customer-centric and community ports, in: Notteboom, T., *Current Issues in Shipping, Ports and Logistics*, University Press Antwerp, Brussels 2011, p. 503.

⁹ Alderton, P. (2008). *Port Management and Operations*, 3rd Edition, Informa, London.

The fifth generation ports, thanks to the complexity of activities handled in them, have the largest potential for creating value added, as demonstrated in Figure 1.

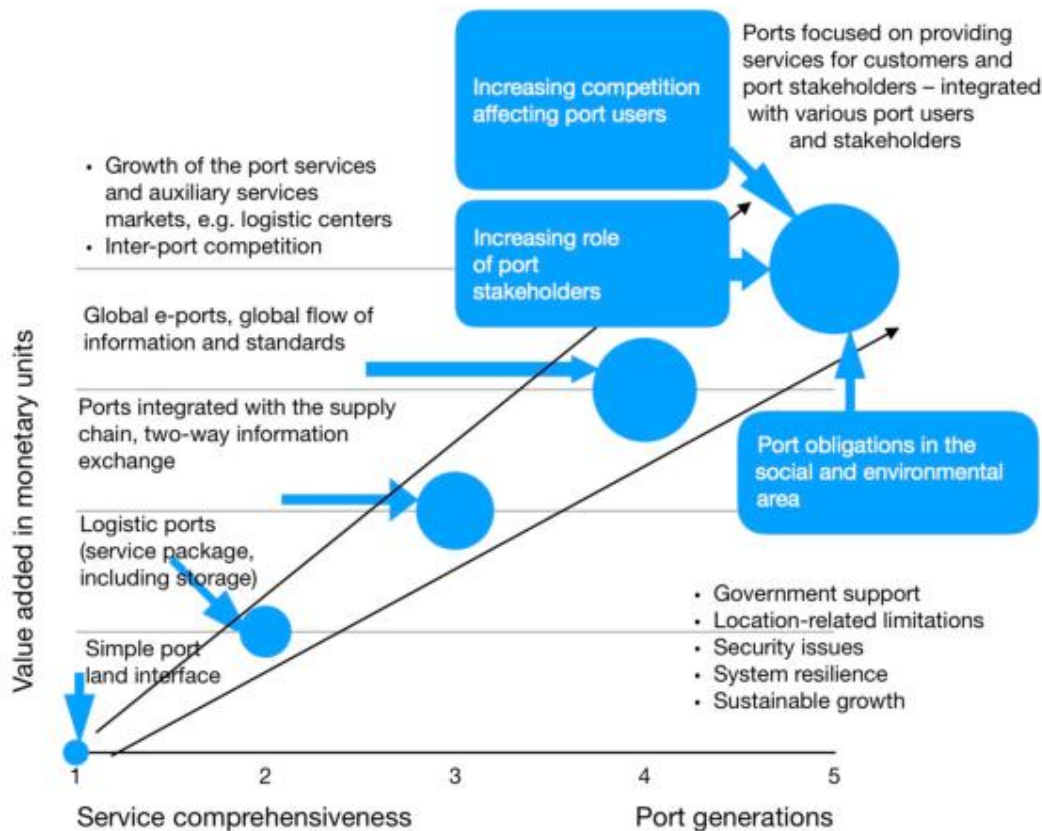


Figure 1: Evolution of port generations and their capacity for value added generation

(Source: Kaliszewski, Adam (2018), *Fifth and Sixth Generation Ports (5GP, 6GP) – Evolution of Economic and Social Roles of Ports*)

It can be concluded that the ports in the Danube region can fit into categories from the second to the fourth generations ports. What is common for all these categories is the various level of industrial and logistic activities in or adjacent to port areas. It is exactly the option of choice for this report – to analyse the current situation of industrial and logistic zones in riparian countries and to give recommendations on how to attract more industrial and logistic activities to be either integrated in port activities or to be very closely correlated in order to benefit from synergies, concentration of vehicles and cargoes, intermodal options for cargo distribution, as well as from the concentration of production, transport and logistic activities.

Therefore, it is the common opinion of the study team that either creation of, or close and functional cooperation with special economic zones¹⁰, is the key for the overall industrial development initiatives in ports.

Industrial development initiatives in ports should be based on concentration of manufacturing, processing, transport, logistic and trade activities in or adjacent to port areas, wherever physically possible. This can be realized through creation of special economic zones which, in their nature, should be a hybrid of industrial zones, free zones and logistic zones.

For these purposes, Chapters 3 to 7 contain an analysis of the theoretical (legislative) and practical aspects of operations of “special economic zones” (whatever term is used in each country) in countries of origin of the participating partners.

Chapter 8 will offer concrete options and guidelines for establishment of such zones in ports or adjacent to ports.

¹⁰ By “special economic zones” we refer to industrial/logistic zones, free zones, free trade zones, special economic zones, free ports, logistic parks, freight villages, distriparks, etc.

3 Austria

3.1 Current legal setup for industrial and logistic zones in ports

3.1.1 Legislation on industrial and logistic zones in general

Regional planning acts (“Raumordnungsgesetze”) of the federal states of Austria (each federal state has his own act, however they are quite similar, only with slight differences); additionally there exists a special act, which defines what activity is allowed in each zone (service -type regulation – “Betriebstypenverordnung”)

Terms like “Special Economic Zones”, “Business Parks”, “Distriparks”, “Freight villages”, “Free trade zones”, etc. are not usual in the legal wordings in Austria, only the wording “business park” is sometimes used (e.g. in the EIA-act), normally the wordings of MB, B, I, Lande (MB, B, I, Lande – Mischbaugebiet, Betriebsbaugebiet, Industriegebiet, Landenflache) are used.

Legislation allows the settlement of manufacturing and logistics industries depending on the dedication of the areas (Lande or B/I, ...) – but there is good practicability and flexibility in order to get the necessary permission in accordance with the authorities.

There are differences between industrial and logistic zones that are physically located within the port areas and those outside the port areas in terms of operational allowance, types of projects & business cases, building constructions, etc., but there are in practice no problems to find a solution together with the authorities to define or redefine the zones in order to make investment projects happen; normally there are not really problems due to good planning of the zones in advance so that practically no great rededication is necessary.

In Austria, a new “location law” (“Standortgesetz”) is in preparation which hopefully will bring additional support for business development in port areas & surroundings.

Unique selling points of logistic zones in/near ports in Austria are its PPP-models, great synergies between perfect and pre-invested infrastructure and company settlement (“plug & play”), great synergies for settled companies in running business (short distances for logistic processes, energy cooperation, cooperation through innovation projects, formal and informal cooperation through networks with municipality and authorities, synergies through basic infrastructure – parking zones, office rent building, meeting rooms, canteen, etc.).

3.1.2 Regime in free ports

No general legal designation; special zones within the (greater) port and logistic areas are defined as “special custom zones” (“Zollamtsplatz”) – e.g. both for container terminal area and for water transshipment areas

3.1.3 Management of industrial and logistic zones

In Austria, there is no separate company managing the industrial and logistic zones which are in the port area. The port company takes the duty for the whole development and communication activities which are “overall orientated”; this means sometimes only coordination function because of different ownerships of the areas (e.g. Ennshafen – many private owners, so sometimes the good will of all partners is needed in order to make good comprehensive developments); the port companies have close contact to municipalities and therefore are the best coordinator for these activities. Sometimes it is necessary to sign “voluntary agreements” between all partners to get the commitment of all for good overall solutions – e.g. “Beirat Ennshafen”.

Port managing companies have a role in planning, management, operation or governance of industrial/logistic zones in ports (for example: through planning/design commission, coordination boards, management boards, participation of port authority company in ownership of a company managing/operating logistic zones). This influence is exerted, for example, through neighbour rights in formal commission activities of the authorities – practically the external authorities are very happy to have one partner for the whole area who has good knowledge and direct contacts to all partners of the area, because most times more than one is needed (infrastructure, traffic, parking, etc.) and they go often the way via the port company in their official duty (even when it is not really necessary due to legal procedures but “good practice since years” and creates good synergies for all)

3.1.4 Incentives for industrial/logistic industries in special regime zones in or near ports

No incentives direct, only synergies and detour profitability of the total complex.

3.2 Future possibilities for attracting manufacturing and logistic industries in or near ports

Following are several suggestions on how the industrial and logistic companies could be further attracted to settle in or near ports in the future.

- Suggestion 1: marketing inventory of the total area (port + surroundings) in order to show the great advantages for potential companies – example: papers, homepage, .. of Ennshafen.
- Suggestion 2: make a voluntary commitment of all partners of the area to cooperate in all kinds of overall activities – example “Ennshafen Beirat”.
- Suggestion 3: define one place as collector/coordinator/partner for outside/... - the port company who can fulfil this role – example: Ennshafen / it is a written duty in the formal company paper (“Gesellschaftsvertrag”) and therefore a mission of the owners.

3.3 Main findings, messages and problems of industrial and logistic zones in or near ports

Main findings and key messages:

- Finding / Key message 1: try to copy the (best) practice example of Ennshafen (with all installed instrument as written above).
- Finding / Key message 2: try to keep all roads, railway lines, ... (all infrastructure) in the ownership of a company owned by the public (e.g. port company), then you have rights for the future.
- Finding / Key message 3: get the areas into business and secure that these fields are not held by anyone for speculation matters – free areas must be available on the market.

Main issues, problems and obstacles:

- Issue / Problem 1: try to get more areas in the ownership of the public governed company, bring it to PPP-projects.
- Issue / Problem 2: too much spread ownership of all the areas make it difficult in the organization of combined activities.

Solution proposals:

- Solution 1: make privatization (if areas are publicly owned), but keep enough areas in your asset sheet.
- Solution 2: inforce PPP-models in the area, this brings fresh money and very close contact to the market and the business needs

4 Slovakia

4.1 Current legal setup for industrial and logistic zones in ports

4.1.1 Legislation on industrial and logistic zones in general

1. Law no. 193/2001 Coll. on support for the establishment of industrial parks and on the amendment to the Act of the National Council of the Slovak Republic no. 180/1995 Coll. on some measures for the arrangement of ownership of land, as amended

- This Act regulates the conditions for the provision of subsidies for the establishment of industrial parks, as well as the competence of the state administration bodies to provide and control the use of this subsidy.

2. Act no. 542/2004 Coll amending Act no. 193/2001 Coll. on support for the establishment of industrial parks and on the amendment to the Act of the National Council of the Slovak Republic no. 180/1995 Coll. on some measures for the arrangement of ownership of land, as amended by the Act no. 156/2003 Coll. and on amendment of Act no. 175/1999 Coll. on certain measures relating to the preparation of significant investments and on the amendment of certain laws, as amended by Act No. 133/2004 Coll.

3. Law no. 57/2018 Coll. on Regional Investment Assistance and on Amendments to Certain Acts

- This Act regulates the provision of regional investment aid, the rights and obligations of the beneficiary of investment aid and the competence of the state administration authorities in the provision of investment aid and control of its use.

4. Act no. 369/1990 Coll. about the general establishment.

- for the purposes of this report, the Act regulates the issuance of generally binding municipal regulations, financing and property of the municipality, the conclusion of treaties, the creation of associations of municipalities,

An industrial park is a territory defined by the municipality's territorial plan or a zoning plan of the zone in which the industrial production or services of one or more entrepreneurs are carried out or are to be carried out.

The Industrial Park establishes the village on its territory. If an industrial park is established on the territory of two or more municipalities, municipalities may conclude a contract for this purpose under special regulations.

The Slovak legislation defines the term Industrial Park.

The law of the Slovak Republic includes a separate law which regulates the definition, allocation and financing of industrial parks, land rights (transfer, rent and exchange) as a *lex generalis* and excludes the application of the general regulation on administrative procedures. However, it does not impose any special regime related to industrial parks in port zones.

Slovak law does not in any way limit the location of the industrial park in the area of the ports. Within the meaning of the above definition of the industrial park, the founder is a municipality that establishes it in its territory according to the territorial plan of the municipality, respectively zoning plan of the zone. It depends on the negotiations between the municipality and the port authority about whether the industrial park will be located in the port area.

Differences in industrial zones and their location in and outside the port may occur only based on a contractual relationship. Legislation in the SR does not in any way create disparities in relation to the location of the port and site outside the port.

Currently, no initiative or no initiative has been created. policy regarding the location of industrial zones in the locality of the Bratislava and Komárno ports.

In the context of the provision of regional investment activities, investment aid cannot be granted within the meaning of Art. 1 par. 2 to 5 and Art. 13 Regulation (EU) No. 651/2014 declaring certain categories of aid compatible with the internal market under Articles 107 and 108 of the Treaty.

In general, the failure to provide regional investment aid in relation to Article 1 2 - 5 concerns:

- (a) where the average annual budget for State aid exceeds EUR 150 million; EUR, starting six months after their entry into force. The Commission may decide that this Regulation shall continue to apply to any of these aid schemes for a longer period after assessing the relevant assessment plan notified to the Commission by the Member State within 20 working days of the entry into force of the scheme;
- (b) any changes to the schemes referred to in Article 1 Article 2 (a) other than changes which cannot affect the compatibility of an aid scheme under this Regulation or which cannot significantly affect the content of the approved evaluation plan;
- (c) aid for export-related activities to third countries or Member States, namely aid directly linked to the quantities exported, with the establishment and operation of a distribution network or other current expenditure linked to export activities;
- (d) aid which is conditional upon the preference for the use of domestic goods over imported goods.
- (e) aid granted in the fisheries and aquaculture sector under Regulation (EU) No. 1379/2013 of 11 December 2013 on the common organization of the markets in fishery and aquaculture products, amending Council Regulations (EC) 1184/2006 a (ES) č. (EC) No 1224/2009 and repealing Council Regulation (EC) 104/2000, with the exception of training aid, support for SMEs to facilitate access to finance, aid for research and development, aid for innovation for SMEs and assistance to disadvantaged and disabled workers;

- (f) aid granted in the primary agricultural production sector, with the exception of compensation for additional costs - other than transport costs - in the outermost regions under Article 15 Article 2 (b) aid to SMEs for advisory services, aid in the form of risk financing, aid for research and development, aid for innovation for SMEs, environmental aid, aid for training and assistance to disadvantaged and disabled workers;
- (g) aid to undertakings active in the processing and marketing of agricultural products, in the following cases:
 - if the amount of the aid is determined on the basis of the price or quantity of such products purchased from primary producers or placed on the market by the undertakings concerned, or
 - if the aid is conditional on the fact that it is to be partially or totally passed on by the primary producer;
- (h) aid to facilitate the closure of non-competitive coal mines under Council Decision 2010/787;
- (i) the categories of regional aid exempted in Article 13.
- (j) aid schemes which do not expressly exclude the payment of individual aid to an undertaking against which the recovery of aid is claimed under a previous Commission decision declaring the aid unjustified and incompatible with the internal market; with the exception of aid schemes for compensation for damage caused by certain natural disasters;
- (k) ad hoc aid to an undertaking within the meaning of point a);
- (l) aid for firms in difficulty, with the exception of aid schemes for compensation for damage caused by certain natural disasters.
- (m) aid measures where the grant of aid is conditional upon the recipient having its principal place of business in the Member State concerned or being established primarily in the Member State concerned; the requirement to have an establishment or a branch in the Member State providing assistance at the time of disbursement is, however, permitted;
- (n) aid measures where the granting of aid is conditional on the recipient being obliged to use domestic products or services;
- (o) aid measures limiting the possibility for beneficiaries to benefit from research, development and innovation in other Member States.

The scope of regional aid does not apply to:

- a) aid for activities in the steel, coal, shipbuilding, synthetic, fiber and transport sectors and related infrastructure, energy production, distribution and energy infrastructure;
- b) regional aid in the form of schemes addressing a limited number of specific sectors of economic activity; schemes focusing on tourism activities, broadband infrastructure or

- the processing and marketing of agricultural products are not considered to be targeted at specific sectors of economic activity;
- c) regional aid in the form of schemes to compensate for the cost of transporting goods produced in the outermost regions or sparsely populated areas and granted on:
 - d) activities linked to the production, processing and marketing of the products listed in Annex I to the Treaty; or
 - e) activities classified in Regulation (EC) No. Commission Regulation (EC) No 1893/2006 of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 and certain EC Regulations on specific areas of statistics such as agriculture, forestry and fisheries under Section A of the NACE Rev. 2 Statistical Classification of Economic Activities. 2, extraction and extraction of minerals according to Section B of NACE Rev. 2 2 and the supply of electricity, gas, steam and cold air according to Section D of the NACE Rev. 2 classification. 2; or
 - f) the transport of goods by pipeline;
 - g) individual regional investment aid to a beneficiary who has ceased to carry out the same or similar activity in the European Economic Area two years prior to his application for regional investment aid or who, at the time of the application for assistance, has specific plans to terminate such activity within two years of the end of the initial the investment for which it is seeking assistance in the area concerned;
 - h) regional operating aid granted to undertakings whose main activity falls under Section K "Financial and insurance activities" of NACE Rev. 2 classification. 2, or to undertakings which carry on activities within a group whose main activity is in Class 70.10 "Management of companies" or 70.22 "Business and management consultancy services" NACE Rev. 2 Second

- *What are the unique selling points of logistic zones in/near ports in your country?*

Logistic centres nearest to the port of Bratislava:

Prologis Park (logistic center)

Distance from Bratislava: 19.2 km (motorway)

Capacity: current: 322,000 m² of warehouse space / + planned 66,600 m²

CTPark Bratislava (logistic center)

Distance from Bratislava: 23.6 km

Capacity: 87,000 m²

GOODMAN Senec (logistic center)

Distance from Bratislava: 25.2 km

Capacity: 125,000 m² available for development

Industrial zone Sered' - South (industrial zone)

Distance from Bratislava: 50 km (motorway)

services:

- storage areas (including for rent),
- logistics centers,
- production halls (light industry),
- Commercial and administrative buildings.

4.1.2 Regime in free ports

Currently there is no free port / free zone in the Slovak Republic, as per the meaning of present definition.¹¹

4.1.3 Management of industrial and logistic zones

Currently there are no industrial parks defined by a special economic regime in the ports of Bratislava or Komárno.

The control authorities are responsible for monitoring compliance with the obligations of the beneficiary and the conditions under which the investment aid was granted. For the purposes of the Regional Investment Assistance Act, the controlling authority shall:

- a) the Ministry of Economy, in the case of investment aid, which is a subsidy for long-term tangible assets and long-term intangible assets under the relevant regulation, and investment aid, which is the transfer of immovable property or rent of immovable property under the relevant regulation,
- b) the relevant tax administrator, in the case of investment aid, which is an income tax relief under the relevant regulation,
- c) Ministry of Labor, through the headquarters of the Labor Office, in the case of investment aid, which is the contribution to creating new jobs under the relevant regulation,
- d) The Ministry of the Environment of the Slovak Republic, in respect of compliance.

The controlling authorities are authorized to perform the control of the fulfilment of the obligations of the beneficiary and the conditions under this Act and according to the decision on the granting of investment aid and on the basis of concluded contracts between the beneficiary and the investment aid provider at any time during the realization of the investment plan as well as during the beneficiary's obligations related to the provision of investment aid. The control authorities shall provide each other with the necessary

¹¹ List of free zones which are in operation in the customs territory of the Union, as communicated by the Member States to the Commission

https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/customs/procedural_aspects/imports/free_zones/list_freezones.pdf

cooperation to achieve the purpose of the inspection and shall be informed of the results of the inspection.

Under the Act on Support for the Establishment of Industrial Parks, the control is carried out in accordance with Act No. 440/200 Coll. on financial control reports.

Public Ports, jsc as exclusive port authority is responsible for:

- a) ensuring the preparation and implementation of the construction of public ports in the Slovak Republic, together with the development of long-term and short-term concepts of their development,
- b) ensuring the operation, maintenance and repairs, as well as the registration of facilities and facilities in the territorial districts of public ports,
- c) renting land in the territorial districts of public ports and other activities directly related to the loading of property in the territorial districts of public ports,
- d) collecting payments for the use of public ports,
- e) creating the conditions for the development of combined transport, including the handling of combined transport cost units.

Within the limits of these activities, the company provides public procurement and supervises the fulfilment of existing contracts. Other activities such as towage, pilotage, VTS, gate / access controls and checks are carried out by the private company Slovenská plavba a prístavy a.s.

As mentioned above, its activities are exhaustively defined by the law on which the company was founded. Public ports shall not be entitled to set up a trading company or acquire a stake in an existing trading company. To re-define the company's responsibilities, it would be necessary to change the respective law.

In case of planning an industrial zone near the port, there is a theoretical option that the project implementer would invite the port authority to consult or comment the project plan.

4.1.4 Incentives for industrial/logistic industries in special regime zones in or near ports

Investment aid is provided to support the implementation of the investment project in

- a) industrial production
- b) technology centre,
- c) Business Services Centres.

Investment aid is provided in the form of:

a) grant for tangible and intangible fixed assets

From state budget expenditures, grants may be provided to legal entities and individuals in accordance with the State Budget Law for the relevant financial year.

Subsidies in their material scope can be provided by the administrator of the chapter, the state administration body, which is involved in the budget of the administrator of the chapter by its revenues and expenditures or, if so, by the special budget laws. Subsidies are provided only on the basis of a special law in the scope, manner and under the conditions laid down or laid down in more detail by other generally binding legal regulations issued for its implementation; this is without prejudice to the provisions of this Act. The grant provider may lay down more detailed conditions or may specify additional conditions to ensure the maximum economy and effectiveness of the use of the grant. The grant provider is obligated to clearly define in writing the purpose for which the grant is provided when providing the grant. Granting of grants is not covered by the general regulation on administrative procedures, unless otherwise provided in a separate regulation.

If a special law provides for state budget expenditures, subsidies to legal entities established under a special law are also provided in accordance with the law on the state budget for the respective financial year. From state budget expenditures, subsidies to municipalities and higher territorial units are also provided for the respective budget year in accordance with the state budget law to cover the costs of the state administration carried over and the subsidy from the chapter General Treasury Administration. The scope, manner and other details of granting subsidies to cover the costs incurred by the state administration shall be laid down in a generally binding legal regulation issued by the administrator of a chapter which is a state administration body. The scope, manner and other details of providing subsidies from the General Treasury Administration chapter are set out in a generally binding legal regulation issued by the Ministry of Finance.

b) income tax relief under a separate regulation,

- a taxpayer who has been the subject of a decision to grant investment aid containing a tax credit under a special regulation may claim a tax credit of the amount referred to in the following point if he simultaneously satisfies the conditions laid down by special rules and special conditions.
- the taxpayer may claim a tax relief up to the amount of the tax on the proportional portion of the taxable amount. The proportional portion of the tax base is calculated by multiplying the tax base by a coefficient of 0.5 and a percentage of the total amount of eligible costs incurred after the application for investment aid under a separate regulation by the end of the relevant taxable period for which the tax credit of the total eligible costs for which the investment aid was granted under a special regulation. The amount of the tax exemption may not exceed 20% of the total approved investment aid in the form of tax relief under a special regulation.

- the right to a tax credit may be claimed by the taxpayer for a maximum of ten consecutive tax periods, the first taxable period for which the tax credit may be applied is the tax period in which the decision to grant the investment aid was issued to the taxpayer and the taxpayer has fulfilled the conditions set out in a special regulation and a special condition, but at the latest the tax period in which three years have elapsed since the issuance of a decision issued under a separate regulation.

c) the contribution to the creation of new posts under a special regulation,

- An active labor market measure shall also be deemed to be investment aid in support of the initial investment in the form of a contribution to the created new jobs for which a decision to grant investment aid was issued under a special regulation.
- The contribution to the created new jobs is supported under the conditions stipulated by the special regulations, the eligible wage costs, which the employer can prove to be incurred when submitting an annual report on the progress of the investment plan implementation.
- Contribution is provided by the Ministry of Labor, Social Affairs and Family through the Labor, Social Affairs and Family Headquarters under a contract to provide a contribution to the created new job with the employer.

d) the transfer of immovable property or the letting of immovable property at a value lower than the value of the immovable property or the value of the letting of immovable property determined by expert judgment, without the provisions of special regulations being applicable.

For the establishment of an industrial park, a municipality or a higher territorial unit that qualifies for a grant may grant a subsidy from the state budget for:

- a) the technical equipment of the site and the engineering structure necessary for the establishment of an industrial park,
- b) compensation for the expropriation of land intended for the establishment of an industrial park,
- c) reimbursement of the cost of purchase or other transfer, lease or exchange of land intended for the establishment of an industrial park, or the establishment of a material burden on the parcels designated for the establishment of an industrial park, including the reimbursement of the costs of transferring land owned by the Slovak Land Fund of the higher territorial unit according to a special regulation and the reimbursement of the costs of renting such plots to the municipality or a higher territorial unit, or the

confusion of such plots with a municipality or a higher territorial unit, or for the establishment of a material burden on these plots necessary for the construction of the technical equipment of the territory and the engineering structures necessary for establishment of an industrial park,

- d) payment of deductions for the removal of land from the forest soil fund.

The technical equipment of the territory and the engineering structures necessary for the establishment of the industrial park are mainly

- a) wells and inlets for drinking and drinking water,
- b) sewerage, purification and discharges of waste water,
- c) electricity supply and distribution, including the switchgear of the distribution and electrical connections, masts and transformer stations,
- d) gas supply and gas pipeline connection, including main gas shut-off and gas interchange facility,
- e) access roads, railway tracks, cableways and other lanes,
- f) waterways including ports,
- g) telecommunication networks and equipment,
- h) the storage, secondary use or disposal and disposal of waste.

Territorial drainage, removal and storage of soil, ground work and landscaping are also part of the technical equipment of the area.

4.2 Future possibilities for attracting manufacturing and logistic industries in or near ports

- *Suggestion 1:* As legislation allows the establishment of an industrial park only to the municipality. It should be possible to set up an industrial park by municipality in cooperation with another entity (e.g. Port Authority).
- *Suggestion 2:* It would be beneficial to promote waterway transport both at national and European level with the aim of informing about the benefits of water transport and attracting potential investors.
- *Suggestion 3:* Increasing the level of trimodality in ports.
- *Suggestion 4:* Improving the quality of infrastructure in the port and its immediate vicinity, in order to avoid the difficulties caused by the increase in traffic intensity.

4.3 Main findings, messages and problems of industrial and logistic zones in or near ports

Main findings and key messages:

- At present, there is no legislative regulation of industrial parks in ports.
- The current legislation makes it possible to set up an industrial park only for municipalities. Other industrial park entities cannot be established.
- In order to set up an industrial park, it is necessary to include this intention in the city's territorial plan.

Main issues, problems and obstacles:

- Non-standard ownership relationships in ports are currently a barrier to development. Infra and superstructure is owned by entity separate from the port authority. Such relationship does not allow the creation of an industrial park.
- The ports in BA and KO are immediately adjacent to the city centre. The incorporation of the industrial park into the town plan is therefore unlikely.
- Limited capacity of the municipality, as an industrial park developer, to draw funds from the state budget for technical equipment by not having ownership of land or port infrastructure.
- Poor infra and suprastructure in ports.

Solution proposals:

- Settlement of ownership relationships in a port by reaching an agreement between VP, a.s. (port authority) and SPaP (port operator) on swap of the ownership to the land and/or infra and superstructure.
- Infrastructure and superstructure modernization
- Creating the conditions for using regional aid opportunities.

5 Croatia

5.1 Current legal setup for industrial and logistic zones in ports

5.1.1 Legislation on industrial and logistic zones in general

Following regulations deal with free zones in Croatia:

- **Free Zones Act** (Official Gazette 44/96, 78/99, 127/00, 92/05, 85/08, 148/13) - defines how to calculate the investments made and used to support investment and how to achieve tax advantages for users of free zones;
- **Regulation on How to Calculate the Investments Made and Used to Support Investment and How to Achieve Tax Advantages for Users of Free Zones** (Official Gazette 122/08, 33/10, 05/10);
- **Act on Implementing the EU Customs Regulations** (Official Gazette 54/13);
- **Value Added Tax Act** (Official Gazette 73/13, 99/13, 148/13, 153/13, 143/14, 115/16);
- **Regulation on Value Added Tax** (Official Gazette 79/13, 85/13, 160/13, 35/14, 157/14, 130/15, 1/17, 41/17, 128/17);
- **Act on Investment Promotion and Development of Investment Climate** (Official Gazette 111/12, 28/13);
- **Regulation on Investment Promotion and Development of Investment Climate** (Official Gazette 40/13);
- **Profit Tax Act** (Official Gazette 177/04, 90/05, 57/06, 146/08, 80/10, 22/12, 148/13, 143/14, 50/16, 115/16);
- **The Corporations Act** (Official Gazette 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12, 68/13, 110/15).

Definitions

A free zone is a part of the territory of the Republic of Croatia which is an enclosed area where business activities are performed under special and fixed conditions (Art. 2. Free Zones Act). Free zone could be established within the seaport, airport, river quay, next to the international road and in the other area which fulfils the requirements (Art. 3. Par. 1. Free Zones Act).

Free zone business activities include: production of goods, refinement of goods, storage of goods, wholesale, strategic business support activities, activities of the establishment of technological development centres of innovation, provision of services except banking and other financial operations, personal and estate insurance and reinsurance. Retail trade shall not be carried out in the free zone.

Goods which are admitted into a free zone must meet conditions that were laid down in Croatia regarding health, veterinary or plant protection validity. (Art. 4. Free Zones Act).

Free zone is founded by the concession granting by the Government of the Republic of Croatia on the public tendering procedure or, in special cases, it could be given by demand.

Beside the port activities, other economic activities involving cargo distribution and logistics, processing and improving of goods, industrial activities, including production, which render possible better economic exploitation of port capacities and activities of waste usage and disposal could be performed (Art. 141. Par. 3. Inland Navigation and Inland Ports Act).

If the free zone is established in inland port, port authority is in charge for its management (Art. 138. Inland Navigation and Inland Ports Act).

There are no initiatives/policies/intentions/laws supporting the formation of industrial/logistic zones near/in the port area neither any specific subsidies or incentives that are specifically prohibited.

5.1.2 Regime in free ports

None of the inland ports in Croatia are “free ports”. In the Port of Vukovar there is no free zone, but there is a legal possibility for that. Inland navigation and Inland Ports Act (Official Gazette 109/2007, 132/2007, 51A/2013, 152/2014) defines managing of the free zone in the port area established by Decision of the Government of the Republic of Croatia pursuant to regulations governing free zones as one of port authority activities (Art. 138).

5.1.3 Management of industrial and logistic zones

Founder of the free zone manages it. Founder must prepare a regulation on conditions for activities performing within the zone. Regulation defines working hours in the zone, movement of persons, founder obligations regarding the area, technical and organizational conditions in the zone, occupational safety and health measures and environmental measures in the zone, rights and obligations of the zone users towards the founder etc. (Art. 24. Free Zones Act).

Founder of the zone is obligated to submit the report to the Ministry of the Economy, Entrepreneurship and Crafts once a year. Ministry submits combined report to the Government and Government to the Croatian Parliament (Art. 25. Free Zones Act).

Users of the zone can perform their activities based on the contract with founder of the zone. (Art. 26. Free Zones Act).

As already mentioned, if the zone is within the port, port authority manages it.

5.1.4 Incentives for industrial/logistic industries in special regime zones in or near ports

For the zone users who carry out their initial investment there are stimulation measures that can be used.

Income tax rates depend on statistical area unit in which the zone is situated.

5.2 Future possibilities for attracting manufacturing and logistic industries in or near ports

- Port land should be owned by the State and managed by the port authority;
- Tax benefits for the Vukovar area should be presented and companies should be well informed;
- Marketing activities should be done by the port authority.

5.3 Main findings, messages and problems of industrial and logistic zones in or near ports

Main findings and key messages:

- No free zone in Vukovar port
- Regulations are too general
- Port area is not big enough (it was decreased in 2017 for 5,5 ha)
- Port area should be extended
- No marketing activities in this field from the State level or from the local level

Main issues, problems and obstacles:

- Port land is not big enough for the free zone
- Port land has different owners
- Concession rules are too strict, and procedure is long
- Regulations for the port free zones are too general

Solution proposals:

- Extension of the port land
- Land ownership of the State

- Adjust free zones and concession regulations in order to be more flexible
- Ensure necessary infrastructure
- Better marketing activities

6 Serbia

6.1 Current legal setup for industrial and logistic zones in ports

6.1.1 Legislation on industrial and logistic zones in general

The Law on Free Zones (" Official Gazette RS ", No. 62/2006) regulates the conditions for the designation of the free zone area and free zone operation, the activities that may be conducted in the free zone, the requirements for execution of such activities, and the requirements for termination of the free zone operations, as well as the establishment, legal status, and competences of the Free Zones Administration.

According to the Law, the Free Zone is a part of the territory of the Republic of Serbia which is specifically fenced and marked, where activities are conducted under the conditions specified by the Law.

The founder of the Free Zone can be a local self-government authority, a company or entrepreneur. Founder has to make the decision, or conclude a contract on foundation of the Free Zone with other founder. Through the Ministry of finance, Free Zone management company submits application for the designation of the Free Zone area to the Government.

Beside the identification data of the founder of the Free Zone and the Free Zone management company, application has to be accompanied with the name of the Free Zone and the area of the Free Zone with defined borders, as well as with the study of the economic justifiability for designation of the area of the Free Zone, with special consideration of the foreign investments estimate, estimate of expected effects, particularly in respect of the production of goods and provision of services, employment and transfer of new technologies, with the indication of activities to be conducted in the zone.

Government approval is in the form of the Decision whereby the Government designates the area of the Free Zone, defined by the cadastral parcels with the exact measure of the total surface covered. Name of the Free Zone along with the Free Zone management company are indicated in the Decision.

In line with the Law, the Free Zones Administration has been established, as the administrative authority within the ministry in charge of finance, for conducting state administration activities in the field of free zones. Among other responsibilities related to the control and supervision of zones, Free Zones Administration has also development and promotional competences in the field of free zones.

6.1.2 Regime in free ports

According to the Law on Navigation and Ports on Inland Waters, it is not allowed to conduct non-port related activities in the port area. Therefore, "overlapping" of port area and free zone area is not possible.

There are custom bonded warehouses in every port, but any kind of production or activities other than storage/loading/unloading of goods are not allowed.

On the other hand, there is general consideration for the spatial planning to place free zones in the immediate vicinity of ports.

6.1.3 Management of industrial and logistic zones

In line with the Law on Free Zones, each Free Zone is managed by Free Zone Management Company, responsible for organizational and technical requirements for conducting activities in the zone.

With the formal Act, Free Zone Management Company governs the working hours of the zone, movement of persons and goods within the zone, obligations with respect to ensure the compliance with spatial, technical and organizational requirements for use of the zone, the occupational safety measures in the zone and the environmental protection measures, rights and obligations of users of the zone in relation with the founder of the zone, etc. This Act, Zone Management Company submits to the Free Zones Administration for its approval.

With all users of the zone, Free Zone Management Company conclude contracts for detailed regulation of mutual rights and obligations, containing the above elements from the formal Act.

Monitoring of the zone business operations is also responsibility of the Free Zone Management Company. Once a year Management Company submits to the Free Zones Administration report which contains following data:

- the income of the zone management company;
- the number of users and the activity they conduct;
- the total value of the goods produced and the services provided in the zone;
- the total volume of imports and exports in the zone;
- the amount of foreign capital contributions;
- the number of persons employed with the zone management company and the number of persons employed with the users.

If the Ministry of Finance concludes that business operations in the zone do not achieve objectives envisioned in the study on economic justifiability for designation of the area of the zone, ministry can make a proposal to the Government to render the approval for designation of the area of the zone null and void.

The zone must be fenced, visibly marked and identified as a free zone, at the entrances and exits from the zone, as well as from the riverside. The fence, entrances and exits must be suitably regulated, secured and illuminated at night. The zone may consist of several parts provided they make up a single functional unit.

The zone or its part, if the zone consists of several parts, must be regulated in such manner that any movement of goods and persons into the zone or from the zone may take place only through designated entrances and exits from the zone.

The zone management company must provide the premises in which the customs authorities shall operate.

The measures of customs supervision and control shall apply to the goods being brought into or taken out of the zone, as well as to the goods stored in the zone, in accordance with the provisions of the law governing customs system and customs procedure.

Foreign-trade transactions in the zone are conducted without restrictions. The export of goods and services from the zone and the import of goods and services into the zone are unrestricted and are not subject to quantitative restrictions. Goods may not be imported into the zone or exported from the zone if their importation or exportation is prohibited. Goods that are brought into or taken out of the zone, and the goods stored in the zone, are treated as customs goods.

The user may temporarily take out goods from the zone to the other part of the territory of the Republic of Serbia, or bring goods into the zone for the purpose of placing it into the procedure of inward or outward processing, testing, attestation, repair and marketing presentation.

The certificate confirming that the goods are produced in the Free Zone shall be issued by the customs authority conducting supervision in Free Zone.

6.1.4 Incentives for industrial/logistic industries in special regime zones in or near ports

Incentives for users of the Free Zone are given in several categories:

- Fiscal and financial benefits
- Free cash flow and exemption from any tax burden for FDI, including custom dues, VAT and specific local taxes.
- Import into and export from these zones is free of VAT, customs and clearance. If goods are produced within zone using a minimum of 50% of domestic components, they are considered to be of Serbian origin and are therefore eligible to be imported into Serbian territory or exported without customs, pursuant to free trade agreements.
- Efficient administration
Simple and fast customs procedures, as each zone has a Customs Administration Office
- Local subsidies for using free zone infrastructure
Community offers low prices and service costs
- A set of services is available to users under preferential terms (transportation, loading, reloading, freight forwarding services, insurance and banking services)

6.2 Future possibilities for attracting manufacturing and logistic industries in or near ports

Republic of Serbia is not EU member yet. Having been “surrounded” mostly with EU member states, makes transportation and trade administration quite demanding.

However, favourable position of the ports laying alongside one of the largest European transport Corridors, Rhine-Danube Corridor, as well as significant Free Trade Agreements can be quite attractive for doing business in Free Zones close to major ports in Serbia.

Most important agreements are:

- Interim Trade Agreement with EU
- Free Trade Agreement with Russian Federation
- Free Trade Agreement CEFTA
- Free Trade Agreement with EFTA
- Free Trade Agreement with Belarus
- Free Trade Agreement with Turkey
- Free Trade Agreement with Kazakhstan

6.3 Main findings, messages and problems of industrial and logistic zones in or near ports

Main findings and key messages:

- Existing Legal framework
- Favorable position. Main ports are located on the River Danube, on the intersection with other rail/road corridors and have good connection
- Experienced Free Zone Administration and functional procedures
- Financial benefits in the view of various tax exemptions (VAT, Custom dues, Local tax etc)
Free Trade Agreements with Russian Federation, Belarus, Turkey, Kazakhstan, CEFTA, EFTA and Interim Trade Agreement with EU.

Main issues, problems and obstacles:

- “Overlapping” of port areas and free zone areas not possible due to the legal limitations for conducting only port-related activities in ports.

Solution proposals:

- Amendments to the Law on Navigation and Ports on Inland Waters to make the exemptions in case of Free Zones in port area.
- Dedicating areas for Free Zone development in the immediate vicinity of ports, in the process of the spatial planning

7 Romania

7.1 Current legal setup for industrial and logistic zones in ports

7.1.1 Legislation on industrial and logistic zones in general

The industrial and logistic zones in Romania are regulated by the following laws:

- Law no.84 of 1992, supplemented and modified by the Law no.244 / 2004 on the regime of free zones;
- Government Decisions to establish free zones and the autonomous administrations of the free zone;
- Government Decision no. 1998 of 2004 on the approval of the Methodological Norms for the concession of public or private property of the state or of the administrative-territorial units, as well as of the national / local public interest activities / activities in the administration of the free zones.
- Government Decision no.1669 of 2004 on the approval of Methodological Norms for the renting of public or private property of the state or of the administrative-territorial units, in the management of the free zones
- Government Emergency Ordinance no. 109 of 2011 Corporate Governance;
- Tax Code with implementing rules valid from 01.01.2017 updated 31.07.2017
- Order no.2759 of 2016 for the approval of the Technical Norms on the uniform application of customs regulations in free zones and free warehouses
- Other regulations on free zones applicable at the level of the European Union, respectively:
 - o Regulation (EU) No. 952/2013 of the European Parliament and of the Council of 9 October 2013 by the European Parliament and the Council establishing the Customs Code of the Union;
 - o Commission Regulation (EU) 2016/341 of 17.12.2015 supplementing the Regulation (EU) No. No 952/2013 of the European Parliament and of the Council as regards transitional rules for certain provisions of the Union Customs Code, where the relevant electronic systems do not are still operational, and amending Commission Regulation (EU) 2015/2446;
 - o Commission Regulation (EU) 2015/2446 of 28 July 2015 supplementing the Regulation (EU) No. No 952/2013 of the European Parliament and of the Council as regards the detailed rules for the certain provisions of the Customs Code of the Union;
 - o Commission Implementing Regulation (EU) 2015/2447 of 24 November 2015 laying down rules for the implementation of certain provisions of Regulation (EU) No. 952/2013 of the European Parliament and the Council laying down the Customs Code of the Union.

The industrial logistic zones are defined as a “free zone” which is a geographical area of Romania's territory where operators carry out activities, and the goods, means of transport and other goods are subject to the provisions of Law no. 141/1997 on the Code Customs of Romania, with subsequent modifications, customs surveillance being only carried out at the

boundaries of free zones (Law 84/1992 updated, art. 2, par. 1). *The Romanian legislation uses the term “free zone”.*

The national legislation is aimed at promoting international exchanges and attract foreign capital for the introduction new technologies, as well as to increase the possibilities of using the resources of the national economy, in the maritime and river ports of Romania, along the Danube - Black Sea Channel, other canals waterways and in the territories close to the border crossing points.

The legal framework allows the settlement of manufacturing and logistic industries within the port areas.

For the industrial and logistic zones that are physically located within the port areas and those outside the port areas, which fall within the boundaries of the established “free zones”, there are no legal or fiscal different treatment.

The Government Decisions to establish free zones and the autonomous administrations of the free zones in the port areas are based on feasibility studies and the process is subjected to public consultation. National or local policies, such as national/local development strategies, are considered in the process of legislative drafting.

There are no subsidies or incentives that are specifically prohibited in Romania in the “free zones”, the fiscal provisions are applied to ensure equal treatment between economic operators according to Fiscal Code and applicable EU Regulations.

The main advantage of logistic zones in/near ports in Romania can be considered the fast development towards multimodal transport nodes.

7.1.2 Regime in free ports

The legal framework allows the settlement of manufacturing and logistic industries within the port areas.

Constanta Port has the status of Free Zone, which allows the establishment of the general framework necessary to facilitate the foreign trade and the transit of goods.

The industrial logistic zones are defined as a “free zone” which is a geographical area of Romania's territory where operators carry out activities, and the goods, means of transport and other goods are subject to the provisions of Law no. 141/1997 on the Code Customs of Romania, with subsequent modifications, customs surveillance being only carried out at the boundaries of free zones (Law 84/1992 updated, art. 2, par. 1). The Romanian legislation uses the term “free zone”. Any activity of an industrial, commercial or service nature is permitted in a free zone. The conduct of such activities shall be subject to prior notification to the customs authorities.

The Government Decisions to establish free zones and the autonomous administrations of the free zones in the port areas are based on feasibility studies and the process is subjected to public consultation. National or local policies, such as national/local development strategies, are considered in the process of legislative drafting.

Through the Romanian Government Decision (HGR) No. 1908/2006 was instituted the free-zone regime on an area of 818,150 m² in the Port of Galati and on an area of 403,880 m² in the Port of Braila.

Free zones are integral parts of the Romanian State territory and are subject to the national legislation.

The National Company “Maritime Danube Ports Administration” SA Galati (APDM) has the status of Free Zone Administration, in accordance with the Romanian Government Decision (HGR) No. 598/2009 and as a Free Zone Administration has the competencies to issues documents (work licenses, access licenses) which entitles the users to carry out certain activity within the Free Zone area.

According to the law, in the Free Zones can be developed all kind of economic activities that respond to any projects or economic needs for business plans, such as:

- handling, warehousing, sorting, measurement, packing, conditioning, transforming, assembling, producing, marking, testing, auctioning, selling, buying, examination, repairing, disassembling of wares
- organizing of trade shows and other shows
- stock-exchange and financial operations
- transports, internal and international forwarding
- renting or granting of buildings, warehousing spaces or other lands suited to all kind of building of economic nature
- quantity and quality wares control services and also others activities specific to free zones.

7.1.3 Management of industrial and logistic zones

The Port of Constantza is wholly owned by the Romanian state, which exercises its rights and obligations as a main shareholder, through the Ministry of Transports. It has the role to administrate mainly activities of national public interest, provides the users with the public property of the state, which they manage through rental, sub-concession or association, under the terms of the law.

There are no separate company in charge to manage industrial logistic zones. Only private stakeholders are involved in the management and operation of such zones.

The Port Administration is involved in planning activities carried out within the port, by concentrating synergistic activities in the same zones. The planning consists in the location and delimitation of logistics areas and optimization of transport routes. Any investment within the

port area which a private stakeholder wants to implement, needs approval in the Economic Technical Council of MPAC.

The National Company “Maritime Danube Ports Administration” SA Galati (APDM) is working under the authority of the Ministry of Transport and carries out activities of national public interest, having as object the activity established in the company's statute.

According to the law, APDM cannot be involved in the management of the industrial / logistic zone, only the private stakeholders who have land rental contracts, sub-concession contracts with port administration can perform such activities in the port industrial/logistic zones.

7.1.4 Incentives for industrial/logistic industries in special regime zones in or near ports

For the industrial and logistic zones that are physically located within the port areas and those outside the port areas, which fall within the boundaries of the established “free zones”, there are no legal or fiscal different treatment.

There are no subsidies or incentives that are specifically prohibited in Romania in the “free zones”, the fiscal provisions are applied to ensure equal treatment between economic operators according to Fiscal Code and applicable EU Regulations.

The main advantage of logistic zones in/near ports in Romania can be considered the fast development towards multimodal transport nodes.

The Law No. 84/1992 provides incentives and facilities to the investors that activate in free zones in Romania, such as:

- Duty exemption on products imported into free zones and destined for re-export
- Exemption or reduction of fiscal charges (corporate income tax, value added tax and excise duty).

For the industrial and logistic zones there are no legal or fiscal different treatment.

7.2 Future possibilities for attracting manufacturing and logistic industries in or near ports

From our point of view, all scenarios are linked to some basic factors:

To provide a very good infrastructure (capacity, reliability) – together with information related to infrastructure conditions and traffic (e.g. delays, interruptions), price setting for the usage of infrastructure, access rights and other planning.

To increase the share of multimodal transport, but cutting in the same time transport emissions - that means an improved integration between modes (a true multimodal offer - IWT, rail, road, cross-channel, short- and deep see transport, connecting the largest consumer

market) fewer barriers to market entry, coherent infrastructure design and wide deployment of new technologies for traffic management, travel planning and vehicle propulsion. Multimodal transport can be set-up in a way to be competitive with unimodal transport (e.g. costs, emissions), especially if the customer does not recognize that the transport is multimodal. For instance, the (final) customer/shipper sees a truck at his loading / unloading site/dock; this truck has to be on time and flexible. Additionally, the total cost of multimodal transport has to be competitive with the cost of the unimodal transport, so that the customer is able to deliver a product at a competitive price.

To make a good choice - location choice for warehousing, production, distribution; choice of the consignment size, time of production and shipment, (common) load unit, requested/scheduled lead times; choice of contracting the logistics service provider/transport operator

To increase the role of inland ports - inland ports play a crucial role in the multimodal transport chains as they provide transfer points to other modes and are connected with logistics centres, industrial areas, agricultural areas or large consumer markets such as metropolitan areas. Seaports face challenges to improve the links to the hinterland. there can be long dwell times in seaports for barges.

To remove bureaucratic barriers and bottlenecks;

To comply with the needs – because of the multiple parties involved (truckers, terminal operators, port operators, barge and rail operators) there are needs to comply with: the need to consolidate cargo and to match freight flows (return load / import and export) in order to reach a volume suitable for train or barge; longer transit times requiring the shipper to apply a different purchasing or stock scheme, or even changing the production scheme; strict detention/demurrage conditions for maritime containers may also hamper the options to apply multimodal transport solutions.

To change the legislation in force – that means to recombine and improve the actual legislation, fractioned in parts, and to assemble it in a whole.

7.3 Main findings, messages and problems of industrial and logistic zones in or near ports

Main findings and key messages:

- port logistics concerns the means to enable goods transport in urban areas by improving the efficiency of urban freight transportation and mitigating the environmental and social impacts. The mix of urban growth, rising consumption levels, congestion and environmental externalities where both modern and informal forms of city logistics, are present.
- The functional specialization of ports, the global division of production, the emergence of intermodal terminals, the rise of service activities, global consumerism, as well as

increasing standards of living are all correlated with an increased demand for urban goods transport in cities.

- There are three main components of port logistics: the modes that carry the freight, the infrastructures supporting freight flows and the operations related to their organization and management.
- From a regulatory standpoint, ports areas are highly constrained with a variety of rules related to zoning, emissions and even access conditions to roads and terminals.
- The ports located near the city have intense flows of people, material and information.
- Large terminal and warehousing facilities have generated demands for land to support urban goods distribution, but also conflicts and dislocations.
- Unique forms of port logistics are emerging in developing countries, due to significant differences in levels of income and density.

Main issues, problems and obstacles:

- Freight-intensive activities such as terminals, container storage areas, warehouses and truck depots can be an aesthetic blight on the urban landscape, and are associated with lower property values.
- Higher frequency of deliveries, and larger quantities of freight shipments coming from, bound to or transiting through port and urban areas
- Each component has subcomponents with their own characteristics and constraints. For instance, transport terminals, roads and distribution centres are infrastructure subcomponents of port/ city logistics. The same applies to scheduling, routing, parking and loading/unloading, which are operational subcomponents.
- This represents an additional risk of having urban freight activities deemed a nuisance, which could result in costly mitigation strategies. For example, ports can have their night operations curtailed due to noise emissions over nearby residential districts. High population densities imply a low tolerance for infringements and disturbances brought by freight distribution.
- Goods transport is a fundamental component of the port/urban environment, an issue that until recently was neglected in the planning process. The vehicle, particularly the truck, remains the dominant mode as it is perceived to be the most suitable to service specific origins and destinations within the complex urban grid of streets and highways. This last mile requires a shift to different distribution strategies more suitable to an urban context, often resulting in congestion, delays and additional costs proportionally higher than the distance concerned.
- Port logistics, as a distributional strategy, can take many forms depending on the concerned supply chains, as well as the urban setting in which it takes place. It involves two main functional classes: the first concerning consumer-related distribution and second producer-related distribution.
- In this context of growing conflicts between freight and the port and city, port authorities tend to be more proactive in mitigating the social impacts on adjacent communities, as they generally are public entities.

- Another impact of logistics sprawl concerns the patterns and the modes of commuting. Due to their low density and suburban settings, logistics zones are generally not well serviced by public transport and contribute to automobile dependency
- Evidence shows that port cities tend to have more capabilities for city logistics because of the availability of international trade infrastructures and a concentration of third-party logistics service providers.
- However, these cases are far less documented. Goods transport remains a fundamental element of logistic sustainability. Thus, it is essential that the role and impact of goods transport in the urban context is taken into consideration, if planning accessible mobility for passengers is to be effective.

Solution proposals:

- Freight facilities can be designed and adapted to suit the requirements of city logistics.
- Demand-based supply chain management enables a better management of inventories and less storage requirements. Under such circumstances, most of the inventory is in transit using transport modes and terminals as ‘mobile warehouses’.
- An adequate level of service for a variety of urban supply chains
- The challenge is to balance the need to ensure efficiency of goods transport, while minimizing externalities such as congestion, emission of pollutants, noise and accidents. The scale, intensity and complexity of port goods transport necessitate additional forms of organization and management in the city, which is the realm of city logistics. The need for city logistics is often a derived outcome of the new demands imposed by global supply chains on regional and urban landscapes.
- Independent retailing, chain retailing and other forms of distribution constitute consumer-related distribution while producer-related distribution involves construction sites, waste collection and disposal, industrial and terminal haulage.
- A share of these capabilities is used for urban freight distribution
- This is especially so when considering the close interactions between urban land use, form and goods transport within an increasingly contested landscape.

From the point of view of APDM Galati, the main issues, problems and obstacles encountered by the industrial and logistic areas located on ports and/or in the neighbourhood of ports are as follows:

- Bureaucratic obstacles
- Insufficient and inadequate infrastructure (telecommunications, utilities, cold stores), inappropriate general infrastructure.
- The instability of Romanian laws, with many and many changes made by Romanian Government Ordinances, which are then amended by other Romanian Government Ordinances, confuses foreign investors, who consider that the business environment in Romania is not favourable.

A relevant example in this respect is the overwhelming changes in the foreign investment law. Although the attractiveness of Law No. 84/1992 regulating the activity of free zones is maintained, there are inconsistencies between the legislative act and related legislation, such as the Regulation and the Customs Code.

In addition, foreign investors believe that Romanian laws are not clear and this is a brake on the development of their medium and long-term business plans.

8 Bulgaria

8.1 Current legal setup for industrial and logistic zones in ports

8.1.1 Legislation on industrial and logistic zones in general

According to the Bulgarian legislation and practice the most appropriate definition of the special economic zone is a Duty-free zone. BPICo. must stress out that these zones are not subject of its activity. Such zones are managed separately by entities created especially for this purpose. There are special customs regime areas inside the managed by BPICo. ports, but they relate to specified storage areas (open and covered) and their activity is organized by the port operator in charge. There are no production facilities on the territory of the river ports with national importance.

Information published on a specialised customs web site, in compliance with the Decree of the President of the Republic of Bulgaria №2242 on Free zones states that: Duty-free zones are a special part of the territory of the country in which the business activity is exempt from customs duties. These areas are enclosed and marked, and when they consist of several separate parts, each part is enclosed and marked separately. They are set up in sea or river ports, international airports, freight forwarding centres, major motorways and in individual industrial and other economic areas. The property of foreign legal entities in the zones is not subject to seizure or confiscation by administrative order. Foreigners staying in and operating in the zones are obliged to observe the laws of the Republic of Bulgaria.

The proposal for the creation of a free zone must contain justifications for the economic and currency efficiency activities and considerations as well as for the sources of funds in BGN and the currency necessary for its construction. The proposal includes a conceptual, architectural and engineering design for the location and construction of the area, its fencing and designation. The duty free zones are created by the Council of Ministers on the initiative of state bodies or interested self-governing economic organizations. The general management, coordination and control of activities in the free duty zones are carried out by the Minister of Economy and the Minister of Finance. By the act of the Council of Ministers the location and the boundaries of the zone are determined, its status is established and the enterprise, which will organize and will carry out its operation, is formed. This act also determines the administrative management of the zone through which the administrative servicing and control, including transit, tax and customs, in respect of the activities carried out in order to comply with the free zones regime.

The business enterprise that organizes the construction and operation of the area must be a legal entity of full self-financing. The same undertaking is responsible for the construction of the infrastructure of the area - transport, energy, communications, as well as for economic and social-household and cultural purposes, either alone or through Bulgarian business organizations and banks on a contractual basis. Terrains, buildings and other facilities are leased or otherwise lent under a contract between the Enterprise and the interested foreign legal and natural persons, joint ventures and Bulgarian self-governing business organizations.

The rents, fees and charges of services provided are determined in a convertible currency and are collected by the Enterprise. The workers in the area are only Bulgarian citizens and the labour relations and their social security are governed by the Bulgarian legislation. The residence and work permits of foreign citizens in the zones shall be issued by the competent authorities with priority, in shortened terms and under the conditions of the Residence of Foreigners Act in the Republic of Bulgaria. A special register is in place for the companies, associations and banks established in the area. Free production areas, commercial and other export business activities are encouraged in free zones. Imported and exported goods and services provided to and from abroad subject to this activity in the zones shall be exempt from customs duty. This also applies to the exchange of goods and services between free duty-free zones on the territory of the Republic of Bulgaria. The exemption from the customs duty under Article 13 (2) of Decree 2242 on free zones and the exemptions from taxes, duties and excise duties provided for in other laws shall not apply to alcoholic beverages and tobacco products subject to economic activity in the zones. The arrival of these goods from the country to the zones is not an export, and their entry from abroad for the zones is import, as for the rest of the territory of the country. During the stay in the zones the goods are subject to customs supervision. According to the Regulations for management of the free zones, which are fully compliant with Decree № 2242 for the free zones free of charge, on their territory are carried out:

- loading, unloading and transporting of non-customs cleared goods imported for export purposes; storage of imported non-customs cleared goods intended for export;
- processing of non-customs cleared export goods (sorting, marking, packing, cutting, etc.) trading, representation and mediation;
- organizing the production of goods for the provision of services at a modern technical and technological level intended for export;
- transportation, refuelling of ships and other means of transport carrying out international transport; banking, credit and other financial operations, insurance and reinsurance.

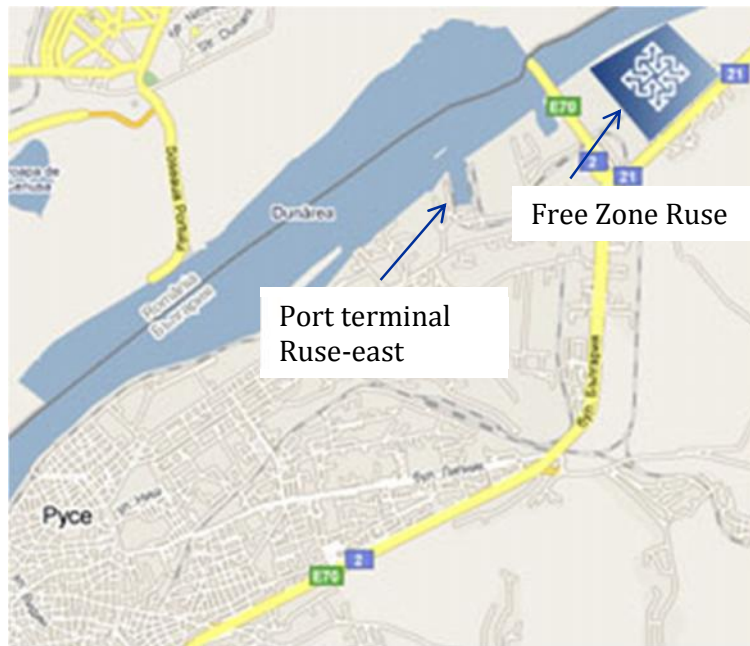


Figure 2: Location of Ruse Free Zone

(Source <http://www.freezone-rouse.bg/index.php?subpage=26&page=131&lang=bg>)

8.1.2 Regime in free ports

There are no free ports in Bulgaria in the full sense of the expression used in this report.

8.1.3 Management of industrial and logistic zones

Customs regime in Free zones and in customs-bonded storages is monitored by the Customs Agency in Bulgaria. Port operators and Free Zones are obliged to keep full compliance with legal requirements, including certain guarantees (cash deposit or bank guarantee) for fulfilment of these obligations.

Port authorities have no relation to planning, management, operation or governance of duty free zones or other industrial zones. In case that a concession contract is terminated BPICo. acts as a port operator and keeps the legal obligations if customs bonded warehouses exist in the port. EAMA has the typical obligations related to registration of a port (within a free zone) and observation to the exploitation fitness requirements.

“National Company Industrial Zones PLC” was created to carry out the strategy of the Bulgarian Government for developing the economy and facilitating the inflow of foreign direct investment to Bulgaria.

The Company operates four fully functioning zones – Free Zones Ruse, Vidin and Svilengrad and Transit Trade Zone – Varna and is currently developing five additional industrial terrains – in the cities of Bozhurishte, Burgas, Karlovo, Telish /Pleven/ and Varna. In advanced stage

of development are Sofia-Bozhurishte Economic Zone and Industrial and Logistics Park Burgas.

All zones are strategically located in regions with educated and highly skilled workforce and situated in areas that qualify for preferential treatment and investment incentives.

The legislative frame which is the basis for functioning of the NCIZ includes the following documents:

- Investment Promotion Act
- Regulations for Application of the Investment Promotion Act
- Corporate Income Tax Act
- Income Taxes on Natural Persons Act
- Local Taxes and Fees Act
- Excise Duties and Tax Warehouses Act
- Value Added Tax Act.

Free Zone Ruse is created in 1988 and is located near the port terminal Ruse-east, close to the Danube Bridge I and to other adjacent private terminals /Dredging fleet Ruse and Bulmarket/. One of the clients of the Zone is registered as port operator and is currently reporting river handling of liquid fuel. Free Zone – Vidin, located in close vicinity of port of Vidin and Danube Bridge II was established by Order of the Council of Ministers No 2 of 07.03.1988. in accordance with Decree No 2242 of 17.07.1987, In Vidin Free Zone there is also handling of liquid fuel from ships.

8.1.4 Incentives for industrial/logistic industries in special regime zones in or near ports

Incentives are presented on the web site of the National Company Industrial Zones.



Figure 3: Incentives for investors

(Source: http://nciz.bg/images/upload/NCIZ_presentation_EN.pdf)

8.2 Future possibilities for attracting manufacturing and logistic industries in or near ports

Having in mind that commercial matters (including attracting clients) are handled by port operators and that BPICo. is in charge for managing and developing port infrastructure, BPICo. restrains give any opinion on this issue.

8.3 Main findings, messages and problems of industrial and logistic zones in or near ports

Main findings and key messages:

- Finding / Key message 1: There is a clear legislative frame for duty free zones in Bulgaria

- Finding / Key message 2: Usually duty free zones and industrial zones are outside the port territory with regard to ports of national importance.
- Finding / Key message 3: BPICo as the managing body of the ports of national importance has no direct relation to managing or operating duty free zones.
- Finding / Key message 4: The proposition for establishment of a duty free zone is expected from the side of private investors. The commercial interest has the leading role.

Main issues, problems and obstacles:

- Issue / Problem 1: There is limitation for the activity of ports of national importance, that does not allow development through establishing production companies.
- Issue / Problem 2: BPICo. is dealing with infrastructure issues mostly. Commercial development and duty free zones establishing is not in the focus of its activity.
- Issue / Problem 3: Low overall interest of foreign investors in investing in Northern Bulgaria, where river ports are located.

Solution proposals:

- Solution 1: To study the possibility to allow additional activities for ports of national importance, to make them compatible with private ports where productions companies exist and develop.
- Solution 2: To create more attractive conditions on national level for investors especially for Northern Bulgaria, and for ports of national importance.

9 Guidelines and recommendations

9.1 Various types of special economic zones – how to choose the right one?

Special economic zones existed for more than one century, in Europe and worldwide. Some of these zones were purely geographic areas where various industrial and logistic companies were located, without any special economic regimes. On the other hand, many other industrial and logistic zones, apart from their core nature of clustering industrial and logistic companies had special economic regimes, encompassing various taxation or customs incentives which served to attract various companies to settle in such zones. Such special economic zones, or free zones were originally established to encourage trade, and mostly took the form of citywide zones located on international trade routes. Examples include¹² Gibraltar (1704), Singapore (1819), Hong Kong (China; 1848), Hamburg (1888), and Copenhagen (1891).

In order to increase the attractiveness of ports not just for port operators, but also for logistic operators and even manufacturing industries, we will here propose a concept of **hybrid logistic zones** under special economic regime, which are intended to have a mixture of best features of industrial zones, free zones and logistic zones.

Free zones, as the first and the most common special economic zone, have the following basic features:

- Geographically delimited area, usually fenced in, which may be within the port area, adjacent to it, or close enough to ensure smooth flow of goods, people, vehicles and services.
- Separate management/administration, which may be fully independent from port authority or it may be closely related to it, be it a department of a port authority or having a management board including port authority personnel, or, if organized as a commercial entity, it can include shares belonging to port authority.
- Eligibility for special economic, customs, taxation and logistic benefits upon physical location within the zone.
- Designated customs area (duty free benefits) and simplified procedures.

According to the Revised Kyoto Convention¹³ of the World Customs Organization (WCO), Annex D, **special economic zones or free zones are defined as “a part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory”**. This Annex D and the accompanying guidelines provide standards and recommendations on the treatment of imports to and exports from free zones including territorial limits, minimal documentation

¹² Group of authors, Special Economic Zones, World Bank, Washington, 2008.

¹³ International Convention on the Simplification and Harmonization of Customs Procedures (as amended), Customs Cooperation Council, World Customs Organization, Brussels, 2008.

requirements and issues to be covered by national legislation. Free zones typically allow for duty- and tax-free imports of raw and intermediate materials and, in many cases, capital equipment.

This generic concept of free zone, in its widest interpretation, has seen many variations along the timeline. Table 2 contains several basic types of free zones as special economic zones.

Table 2: Basic types of free zones as special economic zones

Type of zone	Development objective	Typical location	Eligible activities	Markets
Free trade zone (Commercial free zone)	Support trade	Ports	Distribution centres, trade-related activities	Domestic, re-export
Traditional export processing zone (EPZ)	Export manufacturing	Any. Ports are preferred due to direct access to global markets.	Manufacturing and other processing,	Mostly export
Hybrid EPZ	Export manufacturing	Any. Ports are preferred due to direct access to global markets.	Manufacturing and other processing,	Export and domestic market
Freeport	Integrated development	Ports	Multi-use	Domestic, internal and export market
Enterprise zone	Urban revitalization	Distressed urban or rural areas.	Multi-use	Domestic
Single factory EPZ	Export manufacturing	Any. Ports are preferred due to direct access to global markets.	Manufacturing and other processing,	Export markets

(Source: iC, based on Group of authors, Special Economic Zones, World Bank, Washington, 2008)

Special economic zones have evolved differently throughout the world, but their evolution timeline can be summarized in a simplified form in Figure 4. From the same figure, it can be seen that such zones have always included logistic functions. Rodrigue¹⁴ states that: “The setting of logistics activities have been contingent to an evolutionary process impacted by changes in technology, the extent and capacity of transport infrastructure and public policy. This implies that both the scope and taxonomy of logistics activities have changed to become more comprehensive, integrated and complex.” This means that our “hybridization” of economic development zones in or adjacent to ports is not a wishful thinking, but a tested product of a long and evolutionary fine-tuning of development goals not only for ports but for entire local, regional and even national economies which are fully aware of the strategic importance of ports.

¹⁴ Rodrigue, J.P. (2017), *The Geography of Transport Systems*, 4th Edition, Routledge, New York

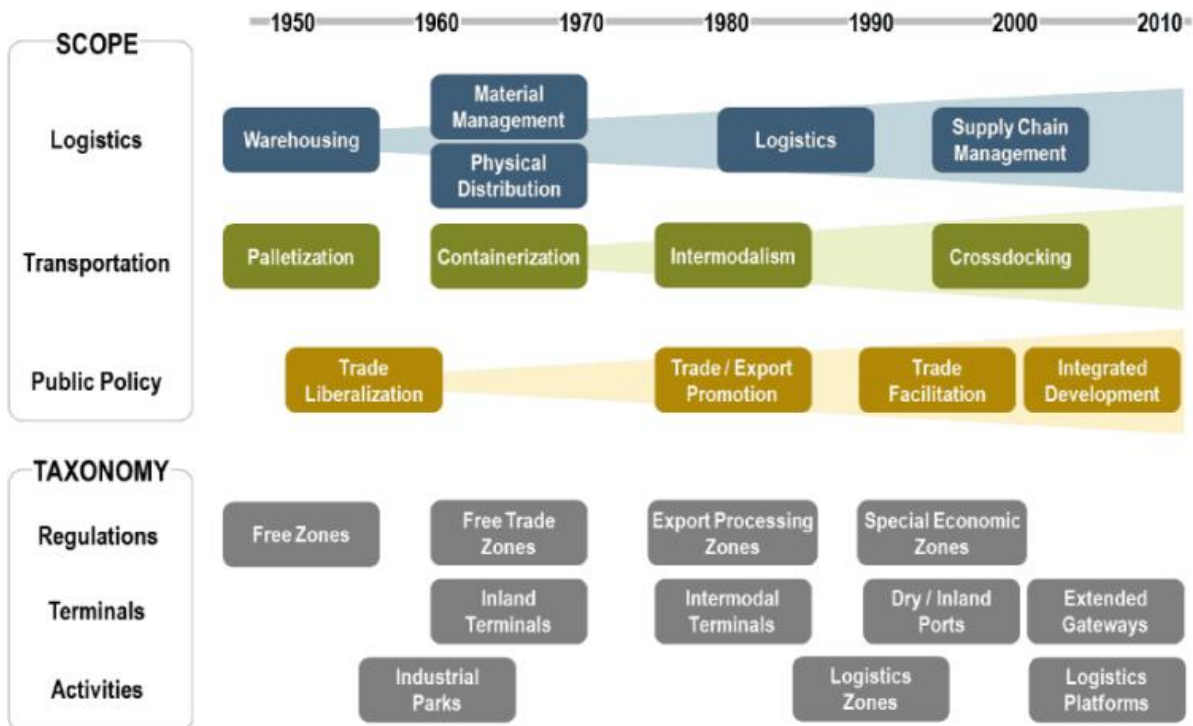


Figure 4: The Evolution of the Scope and Taxonomy of Logistic Areas

(Source: Rodrigue, J.P. (2017), *The Geography of Transport Systems*, 4th Edition, Routledge, New York)

Basic types of free zones as special economic zones, listed in Table 2, are elaborated in more details in continuation.

Free trade zones (FTZ), also referred to as commercial free zones, are delimited, fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export services. Standard or typical free trade zones can be found in most of the ports around the globe.

Export processing zones (EPZ), facilitate manufacturing and related activities through special incentives, aimed primarily at export markets. Two basic types of EPZ can be found in the world: the traditional EPZ, where the entire area within the zone is exclusively reserved for export-oriented enterprises licensed under an EPZ regime, and the hybrid EPZ.

Hybrid EPZs usually encompass a general zone open to all industries regardless of export orientation and a dedicated EPZ area reserved for export-oriented, EPZ-registered enterprises.

Freeports are substantially wider concept and usually encompass much larger areas. Freeports accommodate the widest possible array of activities, including tourism and retail sales, and provide a much wider scope of incentives and benefits.

Enterprise zones are dedicated especially for revival of underdeveloped rural or urban sites by offering special tax incentives and financial grants to companies who wish to settle in such areas.

Single factory EPZ schemes provide incentives to individual enterprises without the condition to settle within determined areas. Single factory EPZs can but are not obliged to be located within a designated area and they do not need to be physically clustered in such areas. However, in The Netherlands, these companies are usually located in so called “distriparks”, where each of these companies represent a “free point”. There are more than 1500 “free points” within “distriparks”. Following compliance with certain security and customs standards, each company can function as “mini free trade zone”, or “free point”, carrying out basic customs formalities by itself.

With the exception of the single factory zone scheme, these developments share most of the fundamental principles underpinning the special economic zone concept described earlier - a delimited, secure area under single administration; a special incentive and regulatory regime; and location-based incentive eligibility.

In addition to the above types of special economic zones, logistic activity zones encompass a large number of similar terms which, more or less, have the same or very similar meaning. Alternative terms for “zones where logistic activities are concentrated” include, but are not limited to, the following:

- Distribution Centre
- Distribution Terminal
- Freight Village
- Hinterland Terminal
- Industrial Park
- Inland Clearance Depot
- Inland Customs Depot
- Inland Freight Terminal
- Intermodal and Multimodal Industrial Park
- Intermodal Freight Centre
- Logistics Centre
- Logistics Node
- Nodal Centres for Goods
- Trade and Transportation Centre
- Transmodal Terminal
- Transport Terminal
- Urban Consolidation Centre
- Urban Distribution Centre

- Etc.

Without any intention to cause additional confusion with yet another term, but with the aim of creating a term which would clearly indicate that it contains the best features of free zones, industrial zones and logistic zones, from now on we will name our concept “**hybrid logistic zone**”. Since we have come up with the new term, hence we provide a definition for the purposes of this report:

Hybrid logistic zone is a delimited, usually fenced-in area, where grouping of activities and companies dealing with manufacturing, trade (mostly export), freight distribution, transportation, logistics and supporting services, is promoted through granting of free-trade conditions, liberal regulatory environment and various fiscal and financial incentives.

Therefore, instead of choosing the ready-made solutions, a generic recommendation for the selection of the type of special economic zone would be to take the best features of all types (which are, in fact, very similar and differ from each other very little) and opt for the hybrid logistic zones (HLZ), a concept of which is elaborated in the next section.

9.2 Concept of hybrid logistic zones

Hybrid logistic zone have the best chances for success if they are located within, or close to port areas. Such zones facilitate freight distribution activities directly related to waterborne shipping and has a dominant international trade orientation. From a freight distribution perspective, inventory management is improved since containers can be easily picked up or dropped at the terminal facility. Empties can immediately be brought back at the terminal, improving container utilization levels. Container weights are not bound to national road restrictions, implying higher container load factors and their related shipping economies. The added security a port focused hybrid logistics zone offers is also a positive factor, particularly in developing countries¹⁵.

Port authorities should be proactive in the development of port focused hybrid logistic zones since it supports added value to port activities and give them an opportunity diversify their involvement in regional freight distribution. According to Rodrigue¹⁶, satellite terminals supporting port activities can also be developed, such as off-dock rail facilities and empty container depots, but these activities tend to be more transport than freight distribution intensive. Such hybrid logistics zones can be export-oriented or import-oriented depending on the trade structure they are embedded with.

¹⁵ Rodrigue, J.P. (2017), *The Geography of Transport Systems*, 4th Edition, Routledge, New York.

¹⁶ Ibid.

Hybrid logistic zones are composed of distribution centres and determined manufacturing activities. They provide geographical advantages in terms of accessibility, land availability and infrastructures as well as operational advantages in terms of favourable regulations (features of free zones) and economies of agglomeration. However, the degree of accessibility varies depending on the array of intermodal facilities in host ports or nearby ports.

Last but not least, hybrid logistic zones have a variety of “freight village” features. In this view, a myriad of supplementary activities for freight distribution and manufacturing such as office space, fuelling stations, hotels, banks, bars and restaurants.

Hybrid logistic zone encompasses three basic elements: an industrial zone, a free zone and a logistic zone. These three elements may all be within the limits of the port areas, but they can also be outside the official port areas and in this case they should be located adjacent to port areas whenever possible.

Activities in port-focused hybrid logistic zones HLZ (including the pure port activities) encompass five organisational tiers:

- ***First organisational tier:*** all activities carried out in the port operational areas - berths, aprons, handling yards, container yards and terminals including ship to shore handling as well as land-side handling, warehousing, reception and delivery, cargo surveys, etc.;
- ***Second organisational tier:*** activities related to storage and distribution, activities complementary to transshipment to vehicles of other transport modes, supporting activities dedicated to freight and vessels; these activities are usually located outside port terminals but still within the borders of the port area;
- ***Third organisational tier:*** pure logistic activities of typical logistic centres;
- ***Fourth organisational tier:*** free trade zone activities, and
- ***Fifth organisational tier:*** industrial/manufacturing activities.

Five organisational tiers of the port-focused hybrid logistic zones are graphically represented in Figure 5 below.

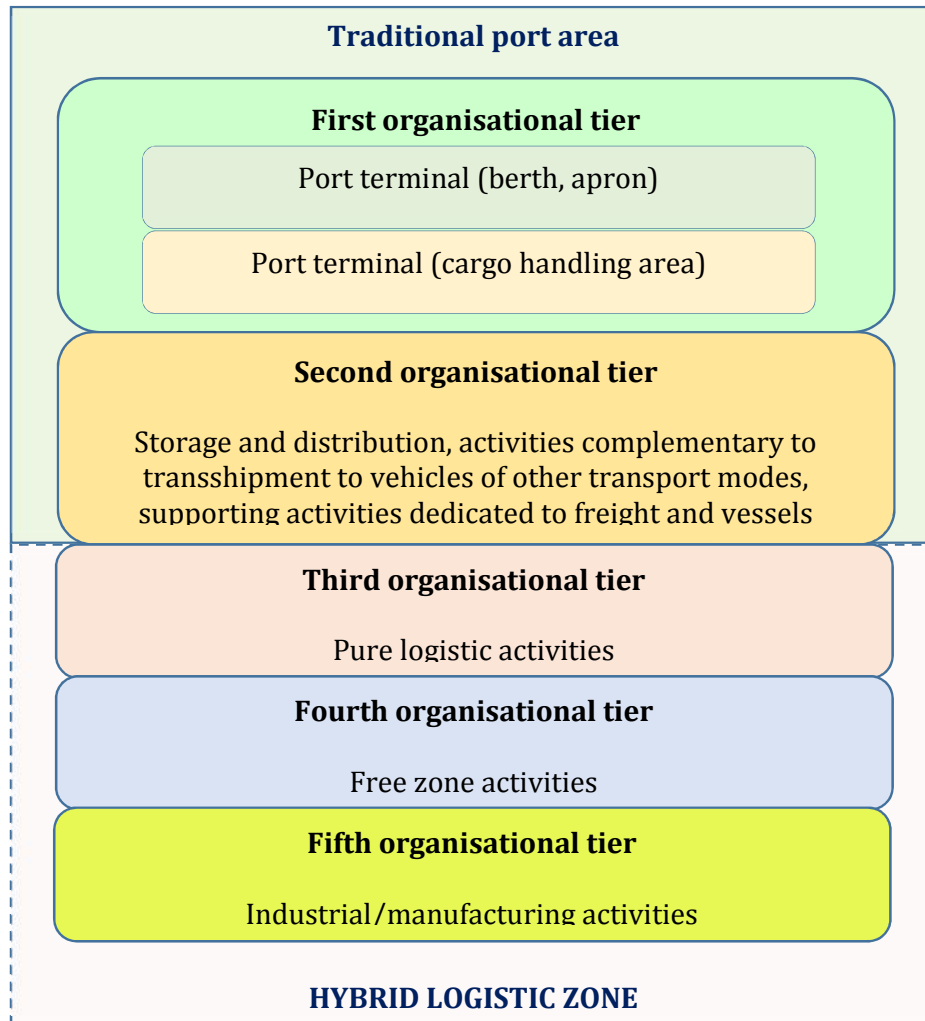


Figure 5: Organisational tiers of port-focused hybrid logistic zones

(Source: iC)

9.3 Effects and benefits of hybrid logistic zones

9.3.1 Effects on port areas

Concentration of logistic activities in specific areas, within or without port areas, optimizes the allocation of port uses. A port service area supports a host of transport and logistic activities, the location of which is the outcome of historic inertia of traditional uses, the concession system and the pressure exerted by the urban environment. Wide variety of these activities are converged on a limited and finite space and consequently exert pressure on port land slots. Hybrid logistic zone facilitate the relief of such pressure and simplify logistic flows in ports.

Whenever attractive port businesses appear, the management of the port land is usually improved with the fresh participation of the private sector in port operation. Concessions are

an important tool for port development as they attract private sector on the basis of time commitment between the port authority (or a government) as a grantor of a concession and the concessionaire. For port authorities, a landlord port model providing port land requires thorough planning before the allocation of uses and subsequent management control. The development of HLZ belongs to this type of process, as its concept fits into and reinforces the landlord model and its design is aimed at attracting private participation into the port land management intended to serve as logistic platform (this is in case if HLZ are within the port areas and port authorities are in charge of developing HLZ).

In many cases, the urban pressure on ports usually requires lots of common port-city integration efforts in order to facilitate the transfer of the port space for the shared use. The commissioning of a HLZ may release port spaces that can be physically linked to the city and also helps to strengthen the functional link between the port and the transport and logistic networks located in the urban or metropolitan area. In a nutshell, with the creation of a HLZ, the port reinforces its integration into the territorial management policies of its regional environment.

9.3.2 Effects on port services

The development of a HLZ helps the port's logistic functions to be customer oriented. The possibilities for offering value-added services to the cargo flows enable the port to meet the customers' quality requirements in a better way, thus enhancing the overall competitiveness of the port.

Outsourcing the value-added services to third parties, allowing them to provide services directly to port users. This is one of the ways to enhance the ports' competitiveness. The port service provider appears as a specialist company with considerable experience in its field in the port, one that seeks its own returns by optimising fixed and variable costs. It is possible that a process of vertical integration in the business organisation will come about, i.e., that the same company or group provides a series of interrelated port services. In any case, the company seeks to provide integral services encompassing several activities, in line with the function of cargo forwarding agents and logistic operators. The development of HLZ plays a role in this phenomenon and encourages a greater degree of business integration. The fundamental effect of all this is an increase in the overall efficiency of the port communities and a reduction in the cost of cargo passing through the port.

9.3.3 Effects on port traffic

The port and the HLZ, if they share the same land slots, or adjacent slots, also share the customers supplying cargo flows. Customers supply traffic when the port facilitates its transfer from ship to shore and vice-versa. However, the traffic is also generated when HLZ facilitates production and logistic operations on cargo. Taking this into account, three different types of customers (users) can be identified:

- Current port users, for whom the HLZ improves the quality of the port services and consequently decide to maintain their degree of loyalty or involvement with the port.

In this case, the port traffic is retained or becomes “captive”. The effect of the HLZ on port traffic must be measured in terms of “what could be lost if the HLZ was not developed/created” in comparison to future competitors that may take on a similar logistic and industrial development.

- Current port users, for whom the HLZ allows them to optimize their own general logistic and production, which decide to intensify their cargo flows along existing logistic chains or to redirect new production/logistic chains via the port. In both cases, the result is an increase in traffic from current users who have intensified their cargo supply in the port.
- New users contributing to new port traffic, attracted by the new industrial and logistic packages offered by the HLZ.

These three types allow us to make a distinction between the effects of increasing or intensifying existing traffic and the generation of new traffic.

Graphic representation on flow of processes and cargo without and with HLZ are given in Figure 6.

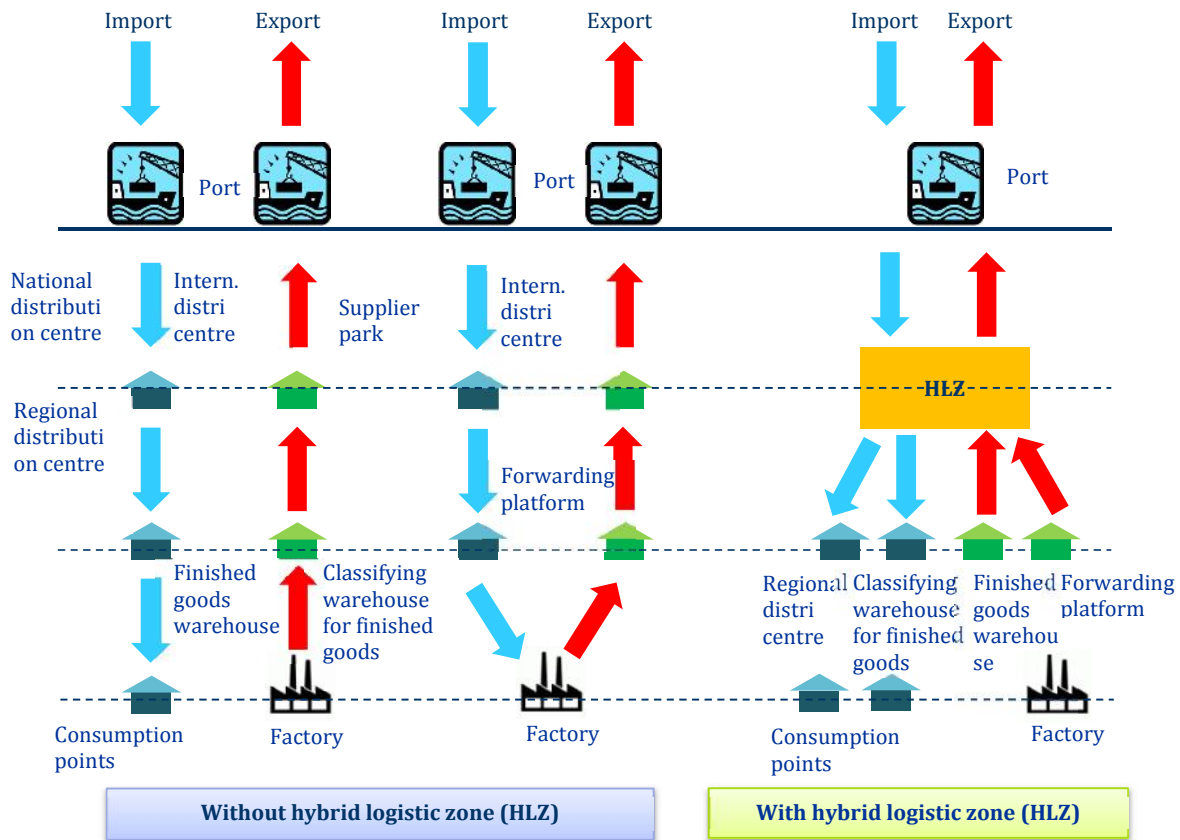


Figure 6: Effects of port-focused hybrid logistic zones

(Source: iC, based on: Group of authors (2003), *Guide for Developing Logistics Activity Zones in Ports*, Spanish State Port Agency, Madrid)

9.3.4 Internal effects

Internal effects of the HLZ refer to the benefits of the users which established their facilities in the HLZ and/or to those users which use the HLZ without having own facilities in the HLZ itself. Those benefits include, but are not limited to, the following¹⁷:

- Decrease in transport costs due to economies of scale dependent on the increase of occupancy rates of vehicles or important economies originating from significant investments in infrastructure and common equipment with other companies which are present in the HLZ.
- Benefits arising from synergies developed in the HLZ.
- Benefits from transport responsibilities sharing.

¹⁷ Vanelslander, T. and Sys, C. (2014), *Port Business – Market Challenges and Management Actions*, University Press Antwerp

- Benefits arising from strategic location of HLZ in an expensive suburban land market where land may be a rare good, a very finite resource.
- Benefits related to accessibility to various transport modes allowing users to use alternative intermodal chain combinations. Railway access in particular can generate significant modal shift effects from road to rail transport.
- Benefits related to the increased security for cargo, vehicles and loading units, as HLZs are organized real estate projects offering multiple common services related to monitoring and security.
- Benefits related to significantly increased competitiveness of companies located in HLZs.

9.3.5 External effects

External effects¹⁸ of the HLZs can be summarized as follows:

- **Reduction of road traffic and promotion of intermodality**

Economies of scale are possible when the occupancy rates of vehicles are increased. At the same time, the transport work of road vehicles (in ton-kilometres) is decreased. HLZs generate the spatial concentration of transport, logistic and manufacturing companies thus facilitating the achievement of cargo critical mass needed for the use of waterborne transport and railways. In this way the HLZs contribute to the promotion of intermodality and assist in meeting a number of priority objectives of the European Transport Policy, such as reduction of externalities, sustainability, etc.

- **Reduction of transport external costs such as environmental protection, road safety, quality of life**

The decrease of road traffic is obviously related to reduction of transport external costs, since it leads to reduction gas emissions and favours road safety. Therefore, these impacts affect more generally a quality of life dimension. Being a tool of spatial concentration of transport, manufacturing and logistics activities, HLZs contribute to the optimization of urban and regional land use plans. Through appropriate locations, they also become tools of flow management, they contribute to more rational flow patterns by attracting cargo flows on certain corridors and avoiding a random flow dispersion.

- **Employment generation on local and regional level**

Regional and local economies are also beneficiaries of HLZs. These benefits are related to the increase of competitiveness of companies located in HLZs. They can be achieved through new jobs in short and long term and the contribution to the local and regional income. Moreover, local and regional products can enlarge their geographical markets through the access to wider transport and logistics networks. Based on modern added value logistics services this

¹⁸ Ibid.

process stimulates the creation of a new business environment. Finally, the creation of international logistics poles might constitute, in turn, the driving force for the attraction of other economic activities in the medium and long run, thus stimulating the employment even more.

- **Modernization of the transport and logistic sector**

Apart from the minimization of costs, the increase of quality of transport and logistic services is also an additional expected impact from the establishment of HLZs. It is related to know-how, best practices and advanced technologies and techniques that companies participating in wider distribution networks usually bring to a new location. Synergies and cooperation in a new HLZ allow dissemination of modern practices, organization schemes and methods. The modernization process impacts various functions such as advanced tools for inventory and fleet management, organization of shipments and final deliveries, notably with the use of new information technologies. Therefore, the creation of a HLZ directly or indirectly involved a higher quality product factor and investments in knowledge about transport and logistics.

9.3.6 Negative effects

In certain cases, the development of HLZ networks can create the following negative effects:

- Random proliferation of HLZ in certain regions, leading to oversupply phenomena and economic viability problems for them
- Distortion of the market in such cases that stakeholders benefit from very favourable economic and financial conditions to participate in a HLZ project.

These negative effects mainly result either from failures in the coordination of regional planning procedures or from irrational business models.

9.4 Policy implications and recommendations

9.4.1 General policy framework

Decades of zone development experience suggests that the failure or success of a HLZ is linked to its policy and incentive framework, where it is located, and how it is developed and managed. This experience shows that the use of generous incentives packages to offset other disadvantages (such as poor location or insufficient facilities) is ineffective in terms of overall zone performance, due in large part to the increasing commonality of zone investment incentives in recent years. The most common obstacles to success for zones are:

- poor site locations, entailing heavy capital expenditures,
- uncompetitive policies - reliance on tax holidays, rigid performance requirements, poor labour policies and practices,

- poor zone development practices—inappropriately designed or over-designed facilities, inadequate maintenance and promotion practices,
- subsidized rent and other services,
- cumbersome procedures and controls,
- inadequate administrative structures or too many bodies involved in zone administration,
- weak coordination between private developers and governments in infrastructure provision.

The common mistake at the root of many of these obstacles to optimal zone performance is a lack of effective coordination, both in terms of the parties involved and various physical and procedural aspects of the zone itself.

One of the clearest lessons learned from decades of the development of logistic zones with free zone characteristics (HLZs) is that HLZs cannot and should not be viewed as a substitute for a country's larger trade and investment reform efforts. They are one tool in a portfolio of mechanisms commonly employed to create jobs, generate exports and attract foreign investment, through the provision of incentives, streamlined procedures, and custom-built infrastructure.

A critical determinant in configuring a HLZ development program is the type of zones to be promoted. International experience suggests that the recommended approach is to adopt a HLZ model that incorporates these principles:

- Allow HLZ enterprises as well as those licensed under other regimes to co-locate within the same area. The development of separately fenced-off areas solely for HLZ enterprises is a less preferable, but acceptable approach.
- Ensure that the HLZ regime is flexible, allowing a range of commercial as well as manufacturing activities. If properly supervised, a separate commercial free zone regime is not required.
- Promote private rather than public development of zones.
- Develop an appropriate legal, regulatory, and institutional framework to ensure adequate regulation and facilitation, requiring greater administrative facilities within host governments.

The key elements of a good-practice policy framework for HLZs are summarized in Table 3¹⁹.

A best-practice policy and incentive framework is streamlined, encouraging zones to compete on the basis of facilitation, facilities, and services in addition to the provision of incentives. The importance of regulatory relief to investors is a crucial, yet overlooked aspect of successful HLZ programs. The host government should aim to simplify investment approvals and

¹⁹ Group of authors, *Special Economic Zones*, World Bank, Washington, 2008.

expatriate work permits; remove required import and export licenses; and accelerate customs inspection procedures and automatic foreign exchange access.

The institution charged with regulating HLZ operations is another major driver in the outcome of the zone program. While a wide range of institutional arrangements have been used, experience suggests that success is dependent on the autonomy of the body; adequate funding; customer orientation and character; powers over other government ministries; partnerships with private zone operators and enterprises; and maximizing the role of the private sector in service provision. To help minimize situations that present conflicts of interest, particularly in the context of an increasing number of privately operated HLZs, it is critical that HLZ authorities remain engaged in purely regulatory functions, and do not develop or operate HLZs.

Finally, the success of HLZs is critically linked to the way in which they are located, developed, and managed. Management of HLZs is enhanced when they are operated on a cost-recovery rather than subsidized basis, and are market-oriented and customer focused enterprises. This is often accomplished when HLZ development and operation are undertaken by private sector groups on a commercial basis.

Table 3: Basic policy framework for HLZ

Topics	Recommendations for implementation
<i>Concept of extra-territoriality</i>	Outside domestic customs territory; eligible for national certificates of origin; eligible to participate in national trade agreements and arrangements.
<i>Eligibility for benefits</i>	No minimum export requirement; manufacturers and services; foreign and local firms; expansions of existing enterprises; private developers of zones.
<i>Foreign and local ownership</i>	No limitations; equal treatment.
<i>Private zone development</i>	Clearly defined in legislation; specific zone designation criteria; eligible for full benefits; competition from government-run zones on a level playing field.
<i>Sales to the domestic market</i>	Liberalized, provided on a blanket basis rather than case by case; treated as import into domestic market; subject to payment of import duties and taxes.
<i>Purchases from domestic market</i>	Treated as exports from domestic market; enterprises eligible for indirect exporter benefits.
<i>Connectivity</i>	Connected with the rest of the transportation network by at least two transport modes,

(Source: iC, slightly modified from: Group of authors, *Special Economic Zones*, World Bank, Washington, 2008)

9.4.2 Recommendations for management and development of hybrid logistic zones

HLZ can be managed/administered by port authorities, whether they are physically located within or outside the port area. This is made easier if port authorities are commercialized/corporatized. Entire HLZ can then be considered a port activity and can be “privatized” – outsourced or conceded.

If port authorities are corporatized, then they are free to establish a daughter company which can either manage the HLZ or operated it (or both). Company in charge of management and/or operation of a HLZ can as well be a public company with shares from a corporatized port authority, municipal companies, etc.

Generic models for development of HLZ is given in Figure 7.

Model	Basic characteristics
<p>Global concession model</p>	<ul style="list-style-type: none"> • Concession or sale to a single global operator for the entire Hybrid Logistic Zone (HLZ) • This concessionaire directly runs some businesses or service units and/or sublets the rest
<p>Self-promoting model</p>	<ul style="list-style-type: none"> • Direct development by the promoting company for the HLZ • This company designs the centre, defines each business or service units, directly runs them and/or sublets the rest
<p>Mixed models</p>	<ul style="list-style-type: none"> • The HLZ promoting company grants concessions on groups of services to specialized operators and directly or indirectly promotes others

Figure 7: Generic models for HLZ management and development

(Source: iC, based on: Group of authors (2003), Guide for Developing Logistics Activity Zones in Ports, Spanish State Port Agency, Madrid)

9.4.3 Recommendations for the scope of services in hybrid logistic zones

Scope of services in HLZ are, in most of the cases, determined by the market and related supply and demand patterns or by development goals of governments. However, some basic and non-binding guidelines will be provided here.

Table 4: Recommended scope of services in port-focused HLZ

Recommended scope of services to be provided by port-focused HLZ	
Auxiliary HLZ services	<ul style="list-style-type: none"> • Security and cleaning • Surveillance of services and infrastructure • Environmental services • Collective transport
Customs and customs related services	<ul style="list-style-type: none"> • Customs services combined with the port • Customs-related services: phytosanitary certificates, etc.
Intermodal services	<ul style="list-style-type: none"> • Direct rail intermodality services • Internal haulage services
Data transmission services	<ul style="list-style-type: none"> • Information • Freight exchanges • e-commerce • Cargo community system
General services to businesses, vehicles and users	<ul style="list-style-type: none"> • Vehicle and equipment services: service station, truck parking facilities, washing and greasing, workshops, etc. • Personnel services: basic shopping, restaurants, hotels, etc. • Business services: business centre, general services, etc.
Cluster of value added services	<ul style="list-style-type: none"> • “Single window” • Job and business training • Business centre • Business aid and funding • National and international development • Consultancy • Other regional and metropolitan supply services.
Free zone services	<ul style="list-style-type: none"> • Export oriented manufacturing

(Source: iC, based on: Group of authors (2003), Guide for Developing Logistics Activity Zones in Ports, Spanish State Port Agency, Madrid)

Thanks to their broad scope of services centred in or close to the port, the hybrid logistic zones (HLZ) can have a very large share of the supply chain operations located and offered within their territories. Functions of HLZ are demonstrated in Figure 8.

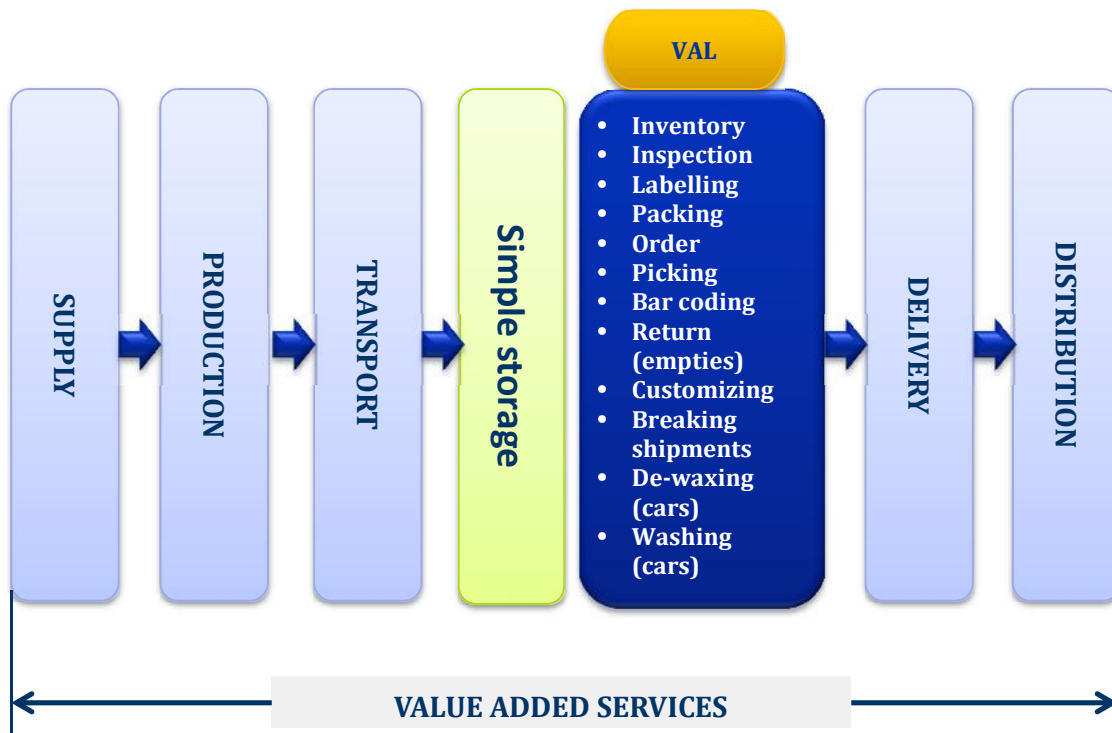


Figure 8: Functions of port-focused HLZ

(Source: iC)

(Note: VAL – Value Added Logistics)

9.4.4 Recommendations on the basis of the Danube region experiences

This section contains a summary of recommendations and proposed solutions for obstacles in developing logistic and industrial activities in ports or in their immediate vicinity.

“One size fits all” recommendations are of course not possible, due to substantial market and development situation and legal differences in the Danube countries, but harmonized recommendations are manageable. These harmonized or “smoothened” recommendations can thereafter be adjusted to each particular situation along the Danube.

Table 5: Recommendations based on the Danube region experiences

Recommendation/Guideline	Relation to specific issue or problem
Consider privatisation of excess port land, where possible, while reserving enough land slots for own port development.	
Enforce various PPP models for Hybrid Logistic Zone (HLZ) establishment and development	
Create functional modalities for cooperation of all involved and interested stakeholders, e.g. a port or HLZ development board/commission.	
Adaption of legislation in such way to enable the port authorities to establish hybrid logistic zones, alone or in cooperation or joint ventures with other public and/or private entities.	In certain cases, only municipalities (or other governmental tiers) can establish logistic, industrial or free zones
In order to prevent various abuses with the land, the land should be owned by the public sector (state, municipality, etc.), or, if privatized, the land should be dedicated for logistic and/or free zone purposes only.	
Improve the integration between modes in ports in order to achieve not just multimodality, but real intermodality in ports.	
Develop attractive conditions for the settlement of industries in or adjacent to port areas	

(Source: iC, based on inputs from project partners)

10 Conclusions

One of options for the development of economic activities in ports and the consequent increase of cargo throughput is through establishing special economic zones (combined industrial and logistic zones) within the larger port areas or adjacent to port areas wherever physically possible. Offering favourable conditions for spatial concentration of cargo, ports are not merely transshipment points but hubs of various economic activities related to cargo handling, including the widest possible array of value added services related to cargo, vehicles and vessels, including their crews. Being such dynamic centres of economic activities, ports are ideal magnets for various manufacturing and logistic industries, provided that such industries are offered the right conditions for settlement in the port area or in the areas adjacent to ports.

Nevertheless, Hybrid Logistic Zones (HLZ) should not be seen as a “universal cure” for the ailing port industry in a determined region. Only a combination of macro and micro economic policies will provide the right conditions for the recovery of the port industry in the conditions of heavy market volatility and operational uncertainties. At the same time, it is not only the incentives that will determine the success of any HLZ. Hybrid logistic zones should compete and thrive on the basis of facilities and services they offer, where high quality of infrastructure and operations is a must. Regulations related to the HLZs should not be rigid and cumbersome, but very liberal, flexible, customer-oriented, business-oriented and, above all, clear and straightforward. Customs in such zones should not be a “bogeyman”, but a facilitator of the supply chain process.

Management of the HLZ is another important factor in the success of the HLZs. Whichever institutional arrangement is used, the rate of its success, lays in the autonomy of the governing body, tailored funding, business orientation and nature and on maximization of the role of private sector in provision of HLZ services and activities and the overall development of HLZs on a commercial basis. Governing bodies of HLZs should not interfere into development and operation, but should limit their role to purely regulatory and, in special cases, monitoring functions. Management of HLZs is enhanced when they are operated on a cost-recovery rather than subsidized basis, and are market-oriented and customer focused enterprises.

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