

Consumed Goods in Free Zone is No More an Issue

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As part of Dubai Customs' constant efforts to improve the delivery of services and further facilitate and implement adequate customs procedures, which will help create an attractive investment and business environment, Dubai Customs has issued, in October 2020, Notice No. 17 /2020 regarding the clearance of the consumed goods in Free Zones (the "**Notice**").

The Notice aims, among other things, to enhance the control of the stock held by free zone companies by establishing new compliance requirements to ensure an improved and simplified clearance of goods used or consumed within the free zones. These requirements are discussed in further detail below. Free Zone companies are, therefore, advised to assess the impact of the new requirements on their activities to ensure full compliance, mitigate risks of discrepancy related to consumed goods between their import inventory and the customs records, and avoid potential penalties in the event of an audit.

Goods consumed by free zone companies has caused some complications to such companies including complications resulting in import inventory discrepancies, which are usually uncovered in the context of the random customs audit by the relevant authority. Today, by issuing this Notice, the Customs Authority places an express obligation on free zone companies to conduct clearance for consumer goods and submit a mandatory declaration. We highlight below the key takeaways of this Notice.

According to the Notice, goods consumed in FREE ZONES are split into two categories: (i) goods that are not subject to customs duties when consumed; and (ii) goods that are subject to customs duty when consumed; as set out below.

Goods that are not subject to customs duty:

These are goods which are used and consumed within the free zones for the establishment, operation and maintenance of projects and facilities functioning which enable businesses to carry out their activity, as well as those that are involved in the manufacture of any goods or production of any service within free zones. These include:

1. Building equipment and materials used in construction projects.
2. Packaging materials.
3. Machinery, equipment and spare parts necessary for the operation and maintenance of the facility.
4. Petrol, oil, lubricants and materials used in operations and production.
5. Office equipment and supplies, and laboratory devices and materials used for scientific research and training in the facility.
6. Worn and damaged materials and operation and manufacturing waste that are not suitable for sale, use or recycling.
7. Any other goods or materials specified by the competent department within the provisions and controls of this article.

Goods that are subject to customs duty:

1. Items and goods sold to the local market by companies and shops licensed for do so; such as the sale of electronics, tires, glasses, perfumes, foodstuffs, etc., (whether in retail or wholesale within the free zone to natural and legal persons).
2. Damaged materials, operation and manufacturing waste suitable for sale, use or recycling, such as oil residues from vessels or factories, or waste involved in recycling operations.

The Notice sets out the process that must be followed, at least on a quarterly basis, by free zone companies when consuming goods:

1. Applying for clearance;
2. Commencing a customs inspection based on risk management standards;
3. Obtaining the necessary approvals from the relevant authorities for restricted goods;
4. Submitting a report of destruction validated from the relevant authority for goods destruction; and
5. Completing a consumption goods declaration with providing the relevant invoices, customs inspection report and the authorities required approvals (if any).

In light of the above, free zones companies in Dubai can avoid paying customs duties on certain consumed goods. Also, avoid any risk of discrepancy related to consumed goods between their import inventory and the customs records by complying with Notice through completing a consumption goods declaration at least on a quarterly basis.

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