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OPPORTUNITIES FOR COMMERCIAL FREE ZONES AND DUTY-FREE SHOPPING CENTERS IN BELIZE

FINAL REPORT

Submitted to the United States Agency for International Development

November 1, 1990

Submitted by

THE SERVICES GROUP
1815 North Lynn Street, Suite 200
Arlington, VA, 22209, U.S.A.

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EXECUTIVE SUMMARY

Purpose. The purpose of this study is to assess the opportunities for development and operation of commercial free zones (CFZs) and duty-free shopping centers in Belize. The report provides an overview of key concepts and activities, assesses preliminary market interest in establishing CFZ and duty-free retail activities, and highlights the key aspects of Belizean policy and the regulatory environment relating to examined activities.

Concepts and Typical Activities. A commercial free zone (CFZ) can be defined as a geographically secure area outside a nation's Customs jurisdiction established to facilitate cargo handling, transshipment, and warehousing between major supply and market routes. Unlike export processing zones (EPZs), manufacturing and assembly operations typically do not occur within CFZs. CFZs help to minimize the costs of product transshipment to third-country markets by offering complete duty exemption for re-exports and duty-deferral for goods destined for national Customs territory. The primary objective of CFZs has been to facilitate international trade by providing the regulatory and administrative structure, physical facilities, and accompanying business services for the off-loading, storage, re-packaging, and re-loading of goods without payment of import tariffs, duties, and other charges. As such, most CFZs are strategically located near international shipping routes. Goods generally stored and handled in CFZs are luxury items, packaged consumer goods, vehicles and parts, and industrial equipment.

In some recent projects, the basic concept has been expanded to encompass broader activities servicing international trade and distribution centers, including international-class hotels and accommodations, convention facilities and services, integrated wholesale and, in some cases, retail duty-free shopping, dedicated exhibition centers, on-site representatives for critical trade services in banking and insurance, and various types of tourism facilities and services.

There are an estimated 500 CFZs worldwide, depending upon definition. The two most important CFZs in the Western Hemisphere are the Colon Free Zone in Panama and the Miami Free Zone in the United States. The Colon Free Zone, which became operational in 1952, is host to 871 firms employing over 7,000 direct workers on a 400-hectare site five kilometers from the Panama Canal. Annual shipments in 1988 at the zone are valued at approximately US$5 billion. The Miami Free Zone facilitates trade in excess of US$1 billion per year and employs some 1,200 workers. In addition to these two global CFZ leaders, several other smaller regional CFZs exist to serve special niche markets in the region, including the Free Zone Koningsplein in Curacao and the Aruba Free Zone at Oranjestad.

Traditional duty-free shops are wholesale or retail operations principally oriented toward export sales of "luxury" items. Such operations can be individually located, but are often located together in duty-free centers or malls. The most successful duty-free shopping centers offer a diversity of products, including perfumes and fragrances, jewelry, cosmetics, toiletries, liquor, wines, cigarettes, tobacco, electrical and electronic consumer items, and clothing, as well as local handicrafts and artisanal products. In general, the competitiveness of

a duty-free shop is predicated on the volume of tourist traffic, and on the volume of goods sold, which must be sufficiently high to ensure competitive prices. The total value of duty-free sales at the retail level for the largest 500 duty-free shops worldwide have been estimated to be US$11.5 billion in 1988.

From an international perspective, duty-free shopping in the Caribbean basin today is characterized by three basic attributes: it is relatively new; it is increasingly accounting for a relatively larger percentage of worldwide duty-free sales; and it remains relatively unsophisticated in comparison to leading duty-free locations worldwide. In 1984, duty-free sales in Central America and the Caribbean accounted for 1.4 percent of total worldwide sales, representing US$35 million. In 1989, the region claimed 7.1 percent of the total market, with the Caribbean alone accounting for 6.8 percent. Value sales have subsequently risen to US$162 million in just four years alone.

Economic Benefits. Storage, warehousing, transshipment, and duty-free retail and wholesale operations typically do not require large amounts of direct labor relative to area occupied. Enterprises located in CFZs throughout the Caribbean basin employ between, on average, between 6-7 workers per firm. More important to CFZ activity is indirect employment generation resulting from increased international trade and resulting demand for trade-related services such as finance, banking, insurance, freight forwarding, shipping, etc. Many CFZ programs, including Panama's Colon Free Zone, estimate that for every one direct job created by CFZ activities, approximately two jobs are created in supporting service areas.

With respect to net foreign exchange earnings and direct public revenues accruing to host government, benefits are also moderate. Both CFZ and duty-free enterprises operate on small margins between purchase and delivery of merchandise to third-country markets, and typically do not add substantial value to products. However, most goods are re-exported, and as such generate hard currency earnings, to the extent of local value added. In addition to net foreign exchange revenues, duty-free activities also provide direct tax and other revenues, such as licensing and annual fees for obtaining duty-free retail status.

Both CFZ and duty-free retail operations have important effects in stimulating ancillary activities in host economies. CFZs, in particular, can promote trade through increased facilities and services in serving specific markets. Over the medium term, the increased trade activity serves to reduce costs associated with trade, with associated benefits for the entire economy. For duty-free retail operations, similar effects are realized. In addition, the increased supply of duty-free goods in attractive outlets can contribute to the attractiveness of a tourism location.

Factors Determining the Success of CFZs and Duty-Free Shopping Centers. Of paramount importance to the success of CFZs is the existence of sufficient demand for transshipment, warehousing, and distribution facilities and services. CFZs act to facilitate trade through the provision of centralized, strategically located facilities with streamlined Customs and regulatory procedures. Most successful CFZs are located geographically on or near major transportation hubs and service

routes, as is the case with both the Miami Free Zone and the Colon Free Zone, and to a lesser degree zones in Curacao and Aruba. Although in some cases demand is supply-driven through the offering of a superior CFZ "product," evident demand for the project must be demonstrated to warrant investment in facilities and infrastructure. CFZs, like other large industrial projects, require substantial amounts of initial capital investment, and gestation periods for investment return require a consistent base of demand to generate revenues.

As with most types of free zones, the success of a CFZ program depends on a great number of variables, including a competitive and liberalized incentive regime, good economic infrastructure, and competitive factors of production. The incentives offered by most CFZs to tenant companies located in developing countries can be grouped into four categories: customs tariff and trade taxes abatement; tax relief; liberalized currency controls; and regulatory relief.

In addition to location, successful transshipment and distribution operations require efficient port facilities and transportation services which are capable of handling large amounts of traffic in a short time period. Administrative procedures must also reflect the need for a streamlined operation, and be short and uncomplicated, thereby keeping costs for private business to a predictable minimum. Specific economic, infrastructural, and other factors that are critical for transshipment operations include:

- a deep-water, well-protected port with efficient and competitively-priced facilities and services for loading and unloading;
- accessibility to major shipping routes and service providers;
- productive and inexpensive port laborers;
- adequate numbers of well-protected warehouses;
- english-speaking capability;
- supportive commercial banking facilities and services;
- adequate air freight services;
- minimal red tape; and,
- sufficient non-transportation infrastructure.

Successful retailing in the traditional duty-free sector is dependent upon several primary factors: location, design, and installation of operations. The location of the duty-free retail shop or center must be convenient both for traveler and tourism traffic, but also for control of export sales by regulatory agencies. Shop design must facilitate flows of buyers, and since duty-free shops are often limited in size and sell high-cost products, stock must be displayed with combined efficiency and attractiveness.

Current Activities. Re-export and transshipment trade in Belize represents a significant portion of economic activity. Re-exports and transshipments for 1989 totalled US$31 and US$59 million, respectively, of which the majority of goods are destined for Mexico. Most of the firms engaged in the trade transship or re-export directly to Mexico or Guatemala from their bonded warehouses in Belize City, from the Belize City Port, or from the "commercial" zone at Santa Elena. Some firms also utilize re-export warehouses at the Santa Elena border to wholesale duty-free goods to their foreign importers/retailers. These firms have

generally developed satisfactory channels and relationships for handling re-exports and transshipments. According to Customs records, there are currently over 40 firms engaged in duty-free transshipment, warehousing, and wholesale activities in Belize.

The bonded trade flows are facilitated by fast, efficient freight forwarding services, low pilferage levels, and less bureaucratic procedures in Belize as opposed to Mexican ports. Over the years, transshipment and re-export activity has evidenced significant elasticity with respect to various uncontrollable factors such as cost competitiveness with foreign ports, exchange rate movements Mexico, Mexican import restrictions and procedures, and regional trade arrangements and agreements. In addition, costs associated with transshipment and re-export through Belize has also had an effect during the 1980s.

The volume of duty-free retailing is considerably smaller than the other bonded activities. Presently in Belize, four major duty-free retailing outlets are currently in operation: Belize International Duty-free Shop, located at the international airport; the Commonwealth Trading Corporation, also located at the airport; Rositas, located at the Fort George Hotel; and the NAAFI Airport Camp exclusively servicing British Forces at an army base adjacent to the airport.

The annual volume of duty-free retail sales in Belize is estimated to be US$5 million, of which US$4 million are goods sold through the NAAFI airport camp. The clientele for duty-free retailing from the stores other than NAAFI is primarily tourists and outbound residents, and the growth in demand is determined by growth in the international travel, the tourist trade, and tourism expenditures.

Factors Affecting Demand for CFZ and Duty-Free Retail Activities. One of the two most important factors affecting transshipments and re-exports in Belize is the natural trade route that Belize has established into southern Mexico and northern Guatemala. This advantage, though to some degree geographical, has evolved over the years due to: the reliability of the Belize City Port; the accompanying lack of port development and trade inefficiencies in alternative ports in Quintana Roo and Yucatan, Mexico; increasing and reliable freight service delivery to the Belize City Port; and the preference of suppliers to deal with Belizean importers.

The principal determinant of duty-free sales are tourism indicators such as the number of passenger arrivals and tourism expenditures. The importance of tourism in the Belizean economy over the past decade has increased significantly, and indicators such as arrivals, length of stay, and estimated expenditures illustrate strong growth. The increased traffic through the Goldson International Airport, and to a lesser extent by sea through the Fort George Hotel, has had a subsequent impact on duty-free retail sales. Future developments in the tourism sector, such as the new international airport terminal and the Ramada Inn in Belize City, should help increase demand for duty-free goods.

The majority of interest in servicing the duty-free retail sector has been voiced principally by merchants in the Corozal District. The brief success of the "experiment" undertaken by Customs in 1983-84 at the Santa

Elena border area convinced the local Belizean private sector that sufficient demand from Mexicans in the Chetumal area for duty-free luxury items such as liquor, perfumes, and other goods was evident. While the Belizean private sector has remained positive regarding the prospects for duty-free retail at Santa Elena, the public sector regulatory bodies governing policy and activity in the duty-free sector -- primarily Customs -- have not been satisfied with the controls used to monitor export sales at Santa Elena. Inventory systems designed to accurately record export sales failed to meet the requirements of Customs officials at the border, and sales were subsequently disallowed.

Market Viability. With respect to activities commonly undertaken in commercial free zones, such as transshipment and re-export activity, as well as other trade services, Belize has cultivated a strong relative position in the immediate region, though levels of re-export and transshipment trade are lower than in the early 1980s and appear to be stabilizing. In effect, Belize possesses a CFZ-type framework already, with Santa Elena acting as a centralized facility housing transshipment and re-export firms.

Belize's advantages in the current transshipment and re-export market servicing Mexico are fairly evident. However, the comparative advantage that Belize possesses appears marginal, particularly when investigating cost structures. Fluctuations in the operating environment, such as instability in the Mexican currency or changes in Belizean Customs charges, have resulted in corresponding fluctuations in the value of transit trade. The effect of these factors in the near-term on levels of transshipment and re-export activity is unclear. Many of the factors critical to trade are external and out of the control of both public and private entities in Belize. As such, consistent improvements in service delivery and trade costs appear crucial in maintaining market share for Belizean traders.

Opportunities for expanded duty-free retail activities are more evident. The duty-free retail "experiment" undertaken in 1983-84 resulted in reportedly strong sales to Mexican consumers traveling to Belize for the day. Immigration records also illustrate the high levels of tourism traffic through Santa Elena. In addition, opportunities for expanded duty-free operations also exist in the Belize City. The most critical factor affecting duty-free retail at Santa Elena are concerns on the part of Customs regarding control of sales and leakages of goods into the Customs Territory. The cooperation and coordination of activities with Customs is essential for the success of retail at Santa Elena, and efforts by the private sector to develop and install proper controls and systems are paramount.

Policy and Regulatory Environment. Belize currently has legislation allowing for transshipment and re-export trade in a duty-free environment. The principal legislation governing duty-free transshipment, re-export, and wholesale activities allows goods to be imported and exported with no duty or trade tax charged. These regulations are characterized by a significant degree of flexibility and autonomy on the part of Customs authorities: although Customs officially allows only wholesale sales from the in-bond operators in Santa Elena currently, the definition of wholesale volume differs across product groups and categories.

Although goods shipped under the in-bond scheme are exempt from all duties and trade charges, they are, however, subject to an administration charge of 2 percent to cover costs associated with Customs administration of the traded goods. Regulations for exchanging and holding foreign currency for firms engaged in in-bond and duty-free activities in Belize are not different from other firms. Warehouse, Customs area, and duty-free operations holding a bond under Customs regulations are subject to the normal corporate tax (45 percent on net income) imposed by the GOB on corporate profits (net income). In-bond and duty-free operations are not eligible for Development Concessions.

Overall, the existing regulatory and policy structure governing transshipments and re-exports is adequate to meet the needs of firms servicing the Mexican wholes sale market. Although policy changes regarding the administrative fee charged by Customs for processing transshipments and re-exports has resulted, in part, in fluctuations in the level of demand for Belizean intransit goods, the procedures and operating environment implementation by Customs allows for the smooth shipment of goods through Belize to third-country markets. The policies regarding duty-free retail sales at Santa Elena are, however, prohibitive. Customs concerns over smuggling and leakages of goods into the Customs Territory are valid and natural, yet little effort has been made on the part of regulators to explore alternative physical and recordkeeping controls that would provide adequate regulatory oversight, while not instilling cumbersome requirements on retail firms.

Recommendations in Support of Transit and Re-Export Trade. The analysis in previous chapters suggests that, for the time being, the creation of a new commercial free zone regime and project would not significantly enhance transit and re-export trade. This assessment is based on the following factors:

- there is limited potential for expansion of the market for transshipment and re-export through Belize;
- the existing trade is handled reasonably well through the network of private bonded warehouses; and,
- there is unlikely to be sufficient demand to justify investment in a new commercial free zone project.

If significant demand potential from Mexico existed, and a CFZ project were viable from the market perspective, the most likely site for a CFZ would be at the Port of Belize City, not Santa Elena. The Port itself, or a complex immediately adjacent to the Port outside of Customs jurisdiction, would be the optimal location for consolidation of duty-free warehousing of transit and re-exported goods. A new complex could serve multiple purposes, facilitating transshipments and re-export, imports, and housing Customs operations. Rather than clearing goods into in-bond or transit warehouses, they would be held at a Port facility prior to Customs processing until consigned out for either transit to Mexico, shipment to private bonded warehouses, or domestic consumption.

A number of modifications of current policy and practice can effectively improve Belize's competitiveness in transshipment and re-export trade. These policies can be introduced with relatively little cost or major re-directions, and will significantly improve the conduct of transshipment and re-export trade from Belize to Mexico. These steps will both

improve the competitiveness of Belizean trade and improve controls over the presence of duty-free goods in the country.

- eliminate the double-key system for Customs control for "open" and "closed" warehouses;
- introduce an audit/inspection program for bonded warehouses;
- eliminate the separation of transshipment and re-export warehouses; and,
- eliminate the requirement for Customs guards to accompany all in-bond and transit shipments.

These measures should act to maintain or improve existing levels of control, while reducing the cost of these controls to both merchants and the Customs authorities.

Recommendations in Support of Duty-Free Retail Sales. The principal area for expansion of duty-free retail operations is in Santa Elena. In Santa Elena, the principal issue is whether to allow duty-free sales of liquor, cosmetics, and other luxury and consumer goods on a retail basis. This would require changes in current customs procedures, but would not require a separate effort establishing a commercial free zone. Indeed, retail sales were permitted in 1983-1984. It is uncertain that the simple allowing of retail sales at the border would be sufficient to generate the sales traffic which was common at that time. However, this could be done at relatively little cost in terms of Customs supervision and physical improvements, and may improve the Belizean merchants' ability to compete with Chetumal merchants. Therefore, retail duty-free sales should be allowed at Santa Elena, and the necessary measures taken to ensure proper controls.

The principal measures and procedures which will be necessary to provide adequate controls over the duty-free shopping center (DFSC) at Santa Elena will include the following:

- enclosure of the site with a fence and pedestrian and vehicle traffic controlled through one entry/exit point;
- install a computerized inventory control system for all merchants participating in the DFSC program;
- develop procedure for entry of stock into inventory and removal of goods for sale;
- control buyer entry and exit from the zone to assure that stock levels for Customs inventory reconcile with merchant inventories; and,
- conduct periodic random audits of zone merchants.

These procedures can be instituted by Customs, without the need for special legislation or other measures. Additional staff will be required, and the expense of installation of a computerized system must be considered. The merchants themselves can be expected to pay for physical improvements to the site, i.e. the enclosure and construction of entry and exit gates. The increased revenues from the two percent transfer tax should be sufficient in this case to more than offset the increased operating cost for Customs.

The opportunities for expansion of duty-free sales elsewhere in the country also exist. The new airport terminal contains space for five

duty-free retail shops, one of which will serve inbound passengers. Procedures for these operations are well established, and do not require significant changes at this time. Some provision for volume storage at bonded warehouses adjacent to the airport may be necessary in order to facilitate increased sales volumes and inventories. Additional duty-free sales could also be made out of stores in Belize City for cruise ships and hotel guests. The procedures outlined above for inventory control can form a basis for these operations, with specific procedures for delivering goods to vessels and aircraft.

Conclusions. The existing mechanisms for wholesale and retail duty-free trade will be improved by the implementation of these recommendations, all of which can be made without major new legislative or other initiatives. Efforts on the part of private merchants and Customs at Santa Elena to implement appropriate controls and procedures for duty-free retail constitute the core of actions recommended to expand existing activity. Should the demand for transshipped and re-exported goods increase substantially, then consideration may be given to the centralization of duty-free warehousing capacity with streamlined procedures through the establishment of a commercial free zone. Although it was suggested that the site for such a zone would be adjacent to or within the Belize City Port, the location of such a zone should be the result of private investment decisions, taken in conjunction with Customs, the Port Authority, and other concerned organizations. The procedures for operating such a zone can be developed within the existing framework for Customs regulations, and also would not require a new legislative initiative. At the current time, with the limited potential for significantly increasing trade, the current decentralized system of private bonded warehouses should continue to be the principal vehicle for the conduct of transshipment and re-export trade.

I. INTRODUCTION

1.01 This report has been prepared by The Services Group, Inc.(TSG), under contract to the United States Agency for International Development (USAID), for the Ministries of Economic Development and Trade and Commerce of the Government of Belize (GOB). The report summarizes the investigations and analyses conducted to assess the opportunities for development and operation of commercial free zones (CFZs) and duty-free shopping centers in Belize.

3.02 The research and field investigations for the study were undertaken over a six-week period from June 11 through July 20, 1990. The project was executed under the direction of James Emery (TSG) and William Haney (TSG), with technical support and assistance from: Robert Sproul, Corporate Vice President of the Miami Free Zone Corporation; Hugh Fuller, General Manager of the Belize Chamber of Commerce and Industry (BCCI); and Azucena Quan, consultant to the BCCI.

3.03 The report summarizes all the analysis undertaken for the study. Chapter II provides an overview of concepts, activities, and key ingredients relating to CFZs and duty-free shopping. Chapter III assesses the preliminary market interest in existing and expanded CFZ and duty-free activities. Chapter IV highlights the key aspects of the Belizean policy and regulatory environment, including principal constraints and barriers, and assesses their impact on such activities. Finally, Chapter V presents the conclusions and recommendations concerning the project's viability, public and private sector strategy options, and a near-term optimal strategy in support of transshipment, warehousing, and duty-free activities in Belize.

3.04 TSG and other members of the project team wish to express special thanks to Minister Daniel Silva, Minister Vildo Marin, Mr. Harold Arzu, and Mr. Edgar Woodeye, as well as other officials from the Government of Belize. In addition, Mr. Art Villanueva and Mr. Pedro Perez of USAID/Belize provided support and technical guidance during the execution of the study. Individuals from the private sector and business community were extremely supportive of project team efforts, providing invaluable time and information.

3.05 The views expressed in this report are those of the project team and do not reflect those of the Government of Belize or the U.S. Agency for International Development.

II. OVERVIEW OF CONCEPTS, ACTIVITIES, AND KEY INGREDIENTS

A. GENERAL CONCEPTS, DEFINITIONS, AND TYPICAL ACTIVITIES

1. Commercial Free Zones (CFZs)

2.01 A commercial free zone (CFZ) can be defined as a geographically secure area outside a nation's Customs territory established to facilitate cargo handling, transshipment, and warehousing between major supply and market routes. In general, CFZs are differentiated from other types of free zones in that they primarily serve as transshipment and temporary storage points. Unlike export processing zones (EPZs), manufacturing and assembly operations typically do not occur within CFZs. CFZs help to minimize the costs of product transshipment to third-country markets by offering complete duty exemption for re-exports, and duty-deferral for goods destined for the national Customs territory.

2.02 The primary objective of CFZs has been to foster international trade through the provision of a regulatory and administrative framework, physical facilities, and accompanying business services for the efficient off-loading, storage, re-packaging, conditioning, inspection, and re-loading of goods without payment of import tariffs, duties, and other charges. As such, CFZs are normally located directly adjacent to seaports or airports that can be utilized as transfer or break-bulk points for neighboring countries, or are otherwise strategically located with respect to international shipping routes. Businesses actively involved in CFZs include importers, exporters, shipping agents and carriers, commercial banks and financial entities, and insurance agents. Luxury and consumer goods predominate the type of merchandise typically stored in CFZs. CFZs are often used by companies as a single supply source serving multiple destinations.

2.03 In some recent projects, the basic CFZ concept has been expanded to encompass broader activities. Increasingly, CFZs have been linked to international trade and distribution centers, including international-class hotels and accommodations, convention facilities and services, and integrated wholesale. In some cases, CFZs have also included retail duty-free shopping, dedicated exhibition centers, on-site representatives for critical trade services in banking and insurance, and various types of tourism facilities and services.

2.04 Liberally defined, there are some 500 CFZs worldwide, ranging in size and type from the freeport of Hong Kong to relatively small foreign trade zones consisting of only several acres in the United States. It is estimated that more than five percent of total world trade passes through CFZs, accounting for over US$170 billion annually. Various types of CFZs can be found in locations as diverse as the Miami Free Zone in the United States, the Colon Free Zone in Panama, and the Jebel Ali Free Zone in Dubai.

2.05 The two most important CFZs in the Western Hemisphere are the **Colon Free Zone** in Panama and the Miami Free Zone in the United States. The Colon Free Zone, which became operational in 1952, is host to 871 firms employing over 7,000 direct workers on a 400-hectare site located five kilometers from the Panama Canal. Annual zone shipments in 1988

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were valued at approximately US$5 billion. Second in size only to the freeport of Hong Kong, the value of shipments through the Colon Free Zone experienced annual average growth rates of 25 percent from 1970 to 1980. Trade through the zone peaked in 1981, then declined as a result of the on-set of world recession in 1982 and the continuing domestic political and economic crisis. The zone offers over 27 million square feet of warehousing and exhibition space.

2.06 Table 2-1 shows the most commonly handled products in the Colon Free Zone between 1980-87. As can be seen, luxury goods destined for duty-free shops and other retailing operations were the chief types of products channelled through the zone. Figures 2-1 and 2-2 indicate the principal countries of origin and destination of goods in the Colon Free Zone. As illustrated, most products are sourced from the Far East, Europe, and the United States, and are destined for markets in Latin America.

2.07 The **Miami Free Zone**, formally designated as a U.S. Foreign-Trade Zone under United States law, facilitates trade in excess of US$1 billion per year and employs some 1,200 employees. The privately owned and operated zone provides both standard factory buildings for commercial warehousing, distribution, and transshipment, as well as first-class office buildings for service industries such as wholesale duty-free shopping and exhibition. Currently, over 180 companies are located in the zone occupying over 800,000 square feet of under-roof space. Firms within the zone conduct business in over 75 countries, although the majority of trade is concentrated between the Far East, United States, Europe, South America, and the Caribbean Basin. The total value of goods transshipped through the Miami Free Zone has increased substantially since the initiation of zone operations in 1980, as shown in Figure 2-3, although the total value of traffic dropped in 1988. Figure 2-4 shows the types of products shipped through the zone; the primary product group is electronics, followed by perfumes/cosmetics, industrial items, beverages, jewelry, and edibles.

2.08 In addition to these two global CFZ leaders, several smaller regional CFZs serve special niche markets. These zones are of particular relevance in that, like Belize, they possess geographical or other characteristics giving rise to increased transshipment and warehousing activities in their country. These "secondary" CFZs include:

- **Free Zone Koningsplein** in Curacao. Established in 1975, the zone has traditionally catered to demand for duty-free transshipment facilities and services from relatively small Venezuelan traders. The zone is located on a 68-acre site adjacent to the harbor and container terminal, and has attracted to date 94 firms employing 540 workers.

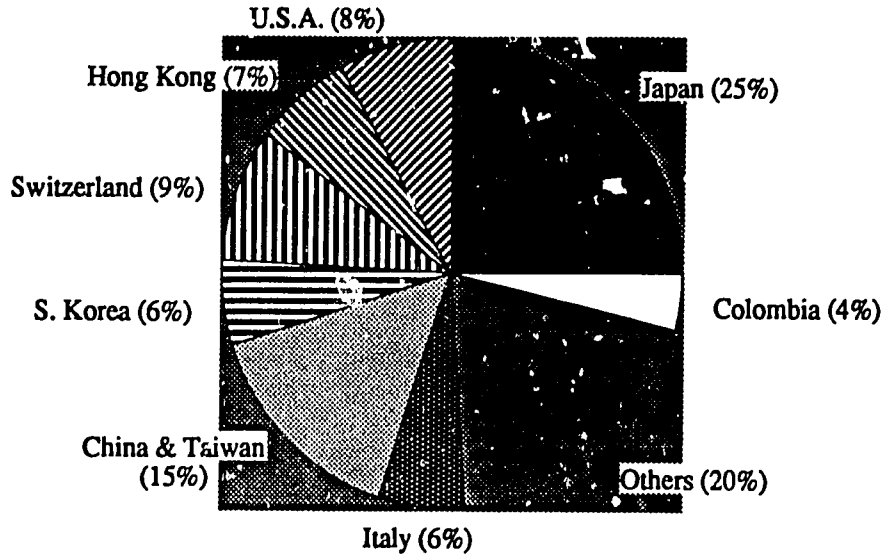
- **Aruba Free Zone** in Oranjestad. A government-owned zone established in 1977, the Aruba Free Zone encompasses 9.4 acres containing 215,000 sq.ft. of under-roof space, with an additional 9.3 acres being developed for expansion. The zone has attracted 29 firms which employ 65 workers.

TABLE 2-1
COLON FREE ZONE RE-EXPORTS BY PRODUCT GROUP, 1980 and 1987
(In Millions of Current Panamanian Balboas)

Sub-Group	1980	1987	Percentage Share of Total, 1987
Radio, TV, & Related Appliances	382.22	334.06	14.2%
Watches	241.22	242.21	10.3%
Outerwear (Any Fabric)	150.48	217.27	9.2%
Medicinal Products & Pharmacueticals	129.99	157.59	6.7%
Jewelry (Gold, Silver, and Plated)	85.5	149.44	6.3%
Underwear & Sleepwear (Any Fabric)	117.58	137.55	5.8%
Photographic & Cinematographic Equipment	84.19	103.96	4.4%
Perfumes, Cosmetics, & Dentifrices	60.47	87.19	3.7%
Cigarettes	33.14	52.02	2.2%
Synthetic Cloth, Fiber Glass, Etc.	35.58	48.32	2.1%
Film (Except Cinematographic), Plates, & Paper	35.55	38.56	1.6%
Cloth Footwear (Not House Slippers or Sandals)	24.58	38.51	1.6%
Record Flayers & Audio Taping Equipment	39.45	35.89	1.5%
Ball Bearings, Switches, and Locks	36.63	35.68	1.5%
Adding Machines & Calculators	33.92	35.26	1.5%
Cassettes (Taped or Blank)	23.84	30.60	1.3%
Portable Electric Tools & Accessories	28.87	27.33	1.2%
Antibiotics	21.02	26.90	1.1%
Distilled Alcoholic Beverages	25.45	26.29	1.1%
Organic Compounds	19.16	25.64	1.1%
Leather Shoes and Sandals (Not House Slippers)	12.21	25.62	1.1%
Bed Clothes, Table Linen, Boudoir & Bath Goods	25.59	22.74	1.0%
Toys and Games	21.98	20.55	0.9%
Typewriters and Business Machines	12.29	14.31	0.6%
Handbags, Billfolds, Wallets, Purses, Etc.	15.72	13.81	0.6%
Wall, Table, & Steeple Clocks	11.92	12.53	0.5%
Dyes or Coloring Materials	11.75	11.83	0.5%
Manufactured Articles	15.16	9.57	0.4%
Others	320.43	372.48	15.8%
Total	2,055.89	2,353.71	100.0%

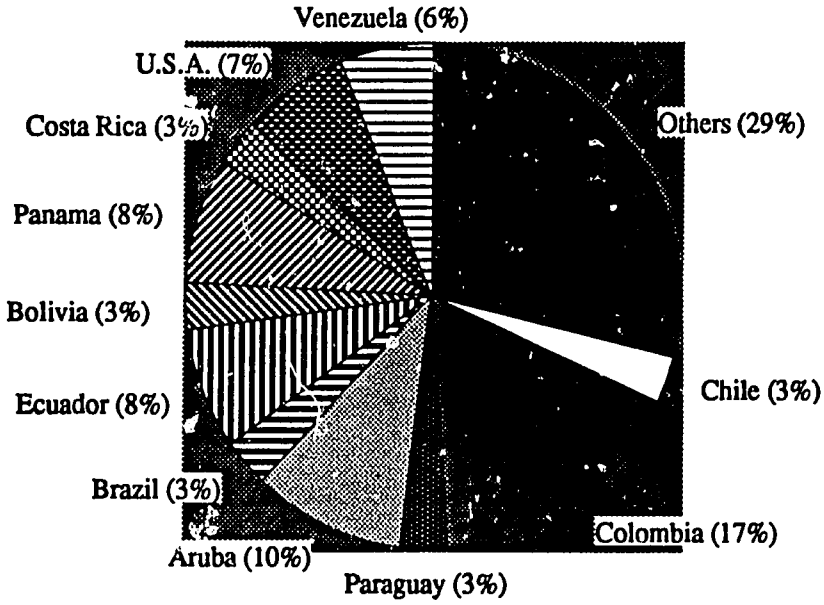
Note: US$1 = 1 Panamanian Balboa.
Source: Planning Office, Statistics Department, Administration, Colon Free Zone.

FIGURE 2-1
COLON FREE ZONE IMPORTS BY PRINCIPAL COUNTRIES OF ORIGIN, 1986
(Percentage, as Measured in Millions of Current Panamanian Balboas)



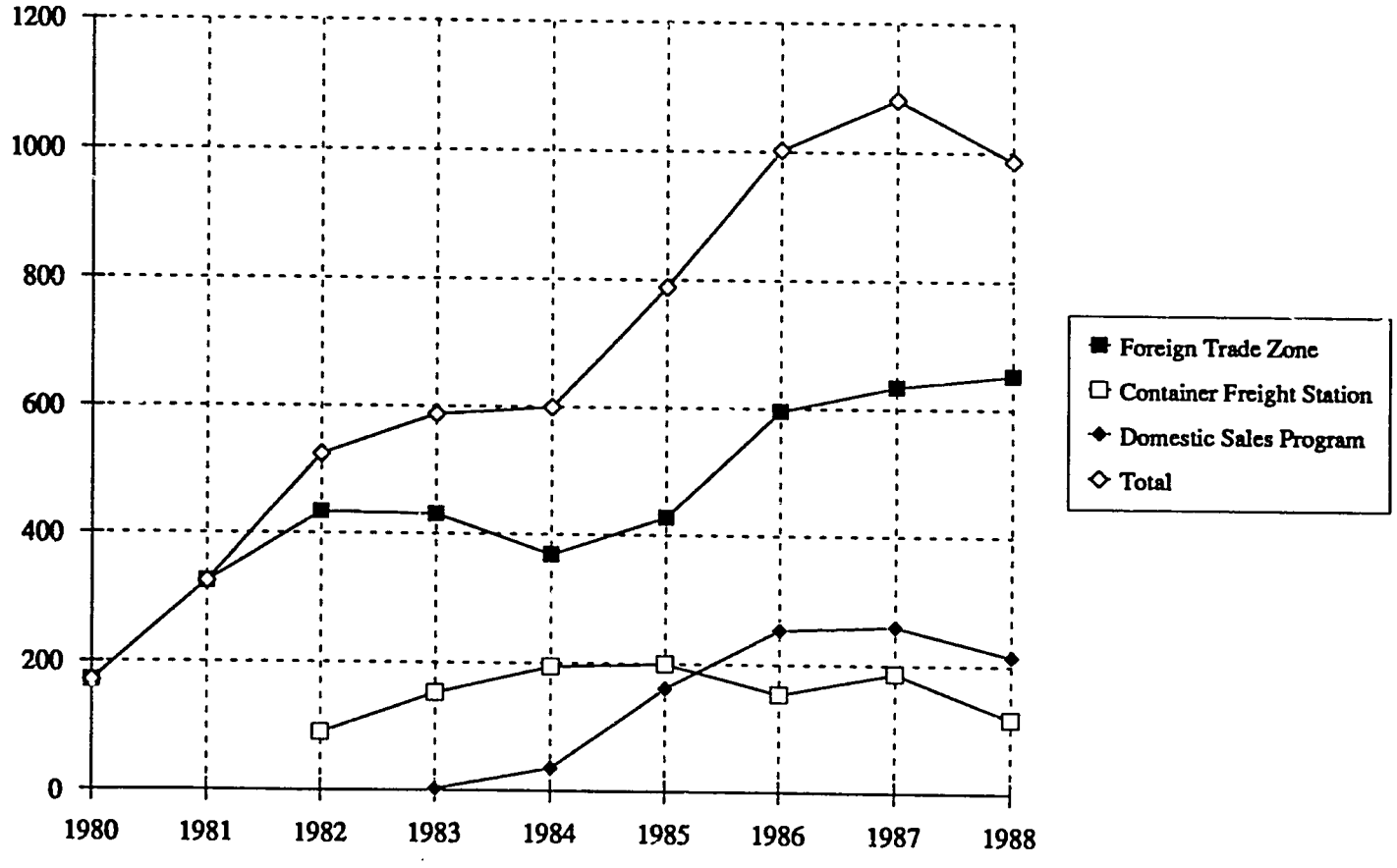
Note: One U.S. dollar is equal to one Panamanian Balboa.
Source: Planning Office, Statistics Department, Administration, Colon Free Zone.

FIGURE 2-2
COLON FREE ZONE RE-EXPORTS BY PRINCIPAL COUNTRIES OF DESTINATION, 1986
(Percentage, as Measured in Millions of Current Panamanian Balboas)



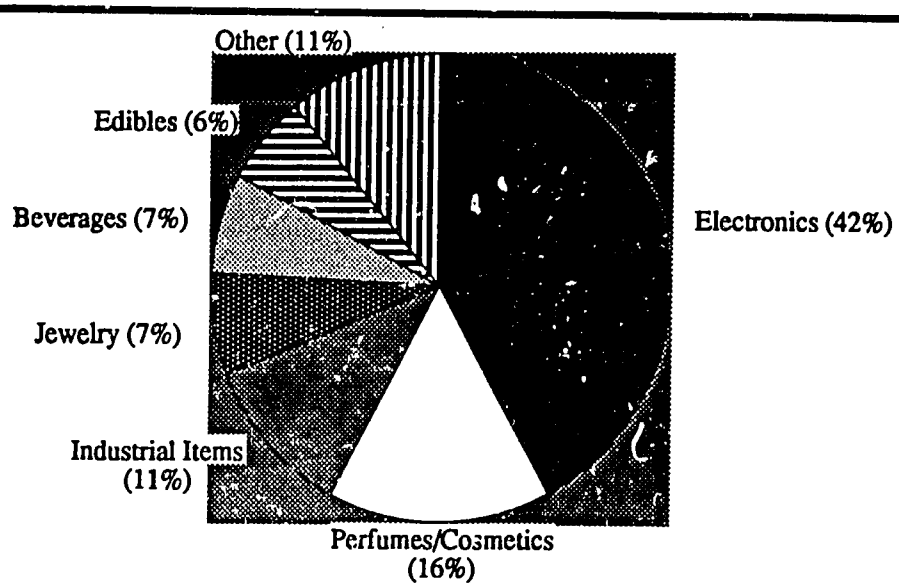
Note: One U.S. dollar is equal to one Panamanian Balboa.
Source: Planning Office, Statistics Department, Administration, Colon Free Zone.

FIGURE 2-3
TOTAL VALUE OF MERCHANDISE PROCESSED AT THE MIAMI FREE ZONE, 1980-88
(In Rounded Millions of Current U.S. Dollars)



Source: Miami Free Zone.

FIGURE 2-4
MIAMI FREE ZONE MERCHANDISE MIX, 1988
(Percentage, as Measured in Millions of Current U.S. Dollars)



Source: Miami Free Zone.

2.09 CFZs have also been established in Freeport, Bahamas, and numerous locations in Colombia, although their activities are more a hybrid between commercial free zones and export processing zones. Significant transshipment activity also occurs in Puerto Rico, the Dominican Republic, Costa Rica, and other countries in the Caribbean basin. The establishment on CFZs is currently being considered in Costa Rica, El Salvador, and the Dominican Republic.

2.10 The process of establishing a business in a commercial free zone is generally simple and straightforward. Most applications to operate within CFZs require that the interested firm submit information regarding the corporation's structure and principals, primary area of business, authorized and paid-in capital, specification of the goods to be stored and transshipped through the CFZ, space and facilities requirements, and general description of the materials and equipment to be used in the CFZ operation. In addition, most CFZs require the firm to include a copy of the articles of incorporation and commercial and/or bank references with the application. A company may use public warehouses within the CFZ, lease a dedicated warehouse, or construct a dedicated warehouse where goods can be received and stored. In addition, a company may contract with a firm already established within the zone to represent it in all international trade business.

2.11 CFZs regularly offer management services to firms unable or unwilling to supervise their own operations within the zone. In the Colon Free Zone in Panama, for example, there are a number of reputable management servicing companies available, while the Miami Free Zone

offers full Distribution Management Services through the zone management. These management companies provide a wide range of services which include:

- break-bulk packing services;
- product labeling and marking for shipment;
- preparation of packing lists, invoices, and bills of lading; and,
- provision of Customs or other regulatory documentation needed.

2. Duty-Free Retail Shops/Centers

2.12 Traditional duty-free shops are wholesale or retail operations principally oriented toward export sales of "luxury" items. Such operations can be individually located, but are often located together in duty-free clusters or malls. The most successful duty-free shopping malls offer a diversity of products, including perfumes and fragrances, jewelry, cosmetics, toiletries, liquor, wines, cigarettes, tobacco, electrical and electronic consumer items, and clothing, as well as local handicrafts and artisanal products. In general, the competitiveness of a duty-free shop rests on a sufficiently high volume of tourist traffic and merchandise vended to enable the business to charge competitive prices.

2.13 Trading companies, or importing and exporting firms, are traditionally involved in duty-free wholesale activities. These firms act as intermediaries between first-country suppliers and third-country distributors and/or retailers. Often, duty-free wholesalers have exclusive marketing arrangements with suppliers for the distribution of specific product brands or product lines. In many cases these firms were established importers/exporters and wholesaling agents prior to engaging in duty-free trading.

2.14 Duty-free retail shops market their products to travelers, tourists, and non-nationals, and as such are often located in areas where tourists and travelers collect, such as airports, ocean ports, airplanes, cruise ships, ferries, border areas, hotels, and other such locations. These locations are also convenient for administrative and regulatory purposes, as nationals cannot readily gain access to the goods without leaving the country. The term "duty-free" implies the absence of tariffs or other trade charges on the purchase of a good; however, most duty-free goods have charges assessed on their sale by sponsoring Governments. In addition to percentage charges assessed on the sale of duty-free goods, public regulatory agencies also often charge duty-free retail shops an annual license fee to sell goods free of import and export duties and tariffs. Duty-free retailing firms are dependent for the greater part of their stock on wholesale importers, and in many cases duty-free retail outlets are affiliates or subsidiaries of wholesale trading companies.

2.15 The total value of duty-free sales at the retail level for the largest 500 duty-free shops worldwide was an estimated US$11.5 billion in 1988. The 1988 rate of growth was 15 percent, the lowest rate of annual growth since 1984; annual growth has ranged between 20 to 33 percent over the 1984-87 period. The slowdown in growth can be attributed to both a maturation of several larger duty-free markets, as

well as to the stabilization of the U.S. dollar relative to many major hard currencies (as data is presented in U.S. dollars).

2.16 The link between duty-free retail sales and tourism is significant. Many industrialized nations and primary tourism locations capture similar international market shares of both tourism arrivals and duty-free sales. North America for instance, accounts for 12.2 percent of global tourism arrivals, and accounts for 13.4 percent of international duty-free retail sales.[1] Compared to international tourism arrivals in the past several years, duty-free sales have grown at a greater annual rate. Based upon 1988 data, duty-free sales represent 5.9 percent of total tourism receipts. On average, tourists spend approximately 30 to 35 percent of total expenditures on shopping as opposed to accommodations, restaurants, airfare, etc.; duty-free sales therefore represent over 17 to 20 percent of shopping expenditures.

2.17 As Table 2-2 indicates, the top selling product category in duty-free shops is women's fragrances, followed by cigarettes, Scotch whisky, women's cosmetics and toiletries, and cognac. Combined, these five product categories comprise nearly half of all duty-free sales in 1988. Sales of perfumes and cosmetics, as well as "miscellaneous goods," increased twice as fast as wines and spirits; this trend has been particularly evident throughout the 1980s. As shown in Tables 2-3 and 2-4, the majority of sales occur in airport shops.

2.18 Incipient forms of duty-free shopping facilities first appeared in the Caribbean basin as early as 1928. Not until the post-war international tourism boom occurred in the 1950s and 1960s, however, was specific legislation aimed at the creation and operation of duty-free shops enacted. The first such shops were small outlets in international airports.

2.19 From an international perspective, duty-free shopping in the Caribbean basin today is characterized by three basic attributes: the industry is relatively new; it increasingly accounts for a relatively larger percentage of worldwide duty-free sales; and the industry remains relatively unsophisticated in comparison to leading duty-free locations worldwide. In 1984, duty-free sales in Central America and the Caribbean accounted for 1.4 percent of total worldwide sales, valued at US$35 million. By 1989, the region accounted for 7.1 percent of the total market, with the Caribbean islands alone accounting for 6.8 percent. In that same period, total sales nearly quintupled, reaching US$62 million. In recent years, more modern duty-free facilities have been established throughout the region, particularly in Puerto Rico and the Netherlands Antilles. In addition, competitive facilities exist in: Freeport, Bahamas; Bridgetown, Barbados; and San Jose, Costa Rica. The U.S. Virgin Islands operate under special tax status in the United States territories and have promoted duty-free sales as a main tourist attraction.

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[1] All quantitative data for duty-free sales are sourced from The Best 'N' Most in DFS, 1989/90, which includes data from the top 500 duty-free retail operations internationally.

TABLE 2-2
SALES OF THE TOP 25 PRODUCT CATEGORIES IN DUTY-FREE SHOPS, 1988
(In Rounded Millions of Current U.S. Dollars)

Product Category	Sales	Rate of Growth
Women's Fragrances	$1,440	18.6%
Cigarettes	$1,430	7.2%
Scotch Whisky	$1,125	10.1%
Women's Cosmetics & Toiletries	$750	26.5%
Cognac	$730	11.7%
Leather Goods	$650	25.5%
Men's Fragrances & Toiletries	$530	16.5%
Confectionery	$470	22.0%
Accessories	$435	21.1%
Watches	$380	16.0%
Jewelry & Pearls	$350	22.3%
Liqueur	$255	6.6%
Vodka	$195	7.7%
Electrical & Electronic Equipment	$170	10.6%
Rum	$160	11.5%
Cigars	$155	9.3%
Gin	$150	8.4%
Cameras	$140	14.3%
Gift Items (Crystal, Porcelain, etc.)	$130	25.9%
Wine	$130	19.3%
American Whisky	$125	18.6%
Canadian Whisky	$125	7.0%
Writing Instruments	$120	13.4%
Fashion & Clothing	$115	26.9%
Lighters	$110	15.6%
Other	$1,065	6.6%
Total	*$11,435*	*15.0%*

Source: The Best 'N' Most in DFS, 1989/90.

TABLE 2-3
CHIEF PRODUCT GROUPS AND SALES CHANNELS IN DUTY-FREE SHOPS, 1988
(In Rounded Millions of Current U.S. Dollars)

Sales Channel	Wines & Spirits	Perfumes & Cosmetics	Tobacco Goods	Misc. Goods	TOTAL
Airport Shops	$1,224.6	$1,073.5	$635.5	$1,406.4	$4,341.6
Airlines	$205.1	$354.9	$160.0	$249.6	$969.6
Ferries	$404.0	$213.1	$279.9	$257.4	$1,154.1
Other Shops and Sales	$1,669.8	$1,078.8	$586.6	$1,671.1	$5,034.6

Source: The Best 'N' Most in DFS, 1989/90.

TABLE 2-4
CHIEF PRODUCT GROUPS AND SALES CHANNELS IN DUTY-FREE SHOPS, 1988
(Percentage, as Measured in Rounded Millions of Current U.S. Dollars)

Sales Channel	Wines & Spirits	Perfumes & Cosmetics	Tobacco Goods	Misc. Goods	TOTAL
Airport Shops	34.7%	39.5%	38.1%	39.2%	37.8%
Airlines	5.8%	13.0%	9.6%	7.0%	8.4%
Ferries	11.4%	7.8%	16.8%	7.2%	10.0%
Other Shops and Sales	47.3%	39.7%	35.2%	46.6%	43.8%

Source: The Best 'N' Most in DFS, 1989/90.

B. ADVANTAGES TO HOST GOVERNMENT AND PRIVATE BUSINESS

1. Economic Benefits

2.20 Storage, warehousing, transshipment, and duty-free retail and wholesale operations typically do not require large amounts of direct labor relative to area occupied. As can be seen in Table 2-5, enterprises located in CFZs throughout the Caribbean basin employ on average six to seven workers per firm. While CFZ management employ additional workers to operate and maintain the zone, generally the total amount of employment created is not substantial.

2.21 A more important job creation benefit of CFZ activity is indirect employment generation resulting from increased international trade and resulting demand for trade-related services such as finance, banking, insurance, freight forwarding, shipping, etc. Many CFZ programs, including Panama's Colon Free Zone, estimate that for every one direct job created by CFZ activities, approximately two jobs are created in supporting service areas. In the duty-free sector, indirect jobs are realized in similar trade services, and to a lesser extent local industry supplying articles and crafts for retail sale to duty-free shop consumers.

2.22 Benefits are also moderate with respect to net foreign exchange earnings and direct public revenues accruing to host government as a result of CFZ and duty-free operations. Both CFZ and duty-free enterprises operate on small margins between purchase and delivery of merchandise to third-country markets. Firms engaged in transshipment, warehousing, and storage activities act as intermediaries and service providers, and typically do not add substantial value to products through their involvement. However, most goods are re-exported, and as such generate hard currency earnings, to the extent of the local value added.

TABLE 2-5
NUMBER OF EMPLOYEES PER TENANT FIRM IN SELECTED CARIBBEAN BASIN COMMERCIAL FREE ZONES, 1990

CFZ	Companies	Employment	Employees Per Company
Aruba Free Zone	29	65	2.2
Free Zone Koningsplein (Curacao)	94	540	5.7
Colon Free Zone (Panama)	871	7,000	8.0
Miami Free Zone (United States)	180	1,200	6.7

Source: Compiled by TSG from various sources.

The amount of the net foreign exchange earnings from export activities in CFZs varies greatly between CFZs worldwide, as some zones offer few services and facilities, while others offer comprehensive facilities and services, yielding substantially greater foreign exchange flows.

2.23 In addition to net foreign exchange revenues, duty-free activities also provide direct tax and other revenues. While most CFZs offer tenants preferential income tax rates, duty-free retail operations are generally not accorded such incentives. Duty-free retail stores thus also provide direct tax revenues, and in most cases duty-free retail stores pay the licensing authority a fixed percentage of gross sales or turnover.

2.24 The economic impact of both CFZ and duty-free retail operations have important effects in stimulating ancillary activities in host economies. CFZs, in particular, can promote trade by offering superior facilities and services; to some degree, demand for CFZ-type facilities is supply-driven. Over the medium term, the increased trade activity serves to reduce costs associated with trade, thereby further improving the attractiveness of a transshipment and warehousing location with benefits for the economy as a whole.

2.25 Because there is a strong interrelationship between duty-free retail and the tourism industry, the increased supply of duty-free goods in attractive outlets can have marked effects on the total attractiveness of a tourism location. Several countries worldwide, notably Fiji in the Pacific and the U.S. Virgin Islands in the Caribbean, rely considerably on the duty-free sector as a means to attract tourists interested in shopping. Similarly, expanded duty-free retail activity can enhance the overall tourism package offered by Belize.

2. Advantages for Private Business

2.26 CFZs are principally utilized by firms to accelerate the landing, storage, and distribution of goods. Products shipped in large quantities can be transferred from ocean-going vessels or airplanes to warehouses in several hours at most CFZs, due not only to the absence of the usual Customs formalities but because most CFZs are located near primary international cargo facilities such as sea ports and airports. Zones regularly feature on-site Customs for dedicated processing of shipments and to ensure that all documentation is handled in an expeditious fashion.

2.27 A related primary advantage of CFZs is a user's ability to manipulate goods that are stored in the zone. CFZs are utilized to repackage, bottle, mix, refine, purify, sub-divide, and re-label goods in a duty-free environment. Goods sourced from one country but destined for several can be "break-bulked" or split into less-than-container loads in the CFZ for redistribution to multiple third-country markets.

2.28 Businesses utilizing CFZs benefit from increased corporate cash-flow; because goods stored in a commercial free zone are not subject to Customs duties, goods can be held duty-free in a CFZ until leaving the zone for export or for importation into the Custom's territory. Goods may also be withdrawn from the zone as needed, and in smaller quantities

than originally shipped, thus further delaying the payment of duties. In this manner, the exporter can reduce freight costs by shipping in bulk, but can stagger local distribution by storing goods until needed in the zone (or to avoid constraining quota periods). This process enables companies to serve a large number of markets without accumulating excess inventory accumulation in one nation while facing an inventory shortage in another.

2.29 CFZs allow firms to use goods as collateral for trade finance. Merchandise in a CFZ is not under Customs custody and the owner of the goods has complete access to them. Therefore, warehouse receipts on the goods can be used for bank loans, assignments of title, or other forms of collateral.

2.30 Many CFZs -- such as those in Miami, Copenhagen, Helsinki, Vienna, and New York -- also serve as exhibition centers for wholesale goods that are shipped through the zone, allowing buyers the opportunity to inspect goods in the exhibition center before purchase. The Miami Free Zone has become an important exhibition center for products sourced from the Far East, Europe, and the United States, and destined for Latin America.

2.31 Finally, firms utilizing CFZs can achieve significant savings on the cost of insurance for shipment and storage of goods. Because the cost of insurance for products passing through CFZs is limited to the cost of goods before taxes and duties paid, the replacement costs utilized for insurance purposes are minimized, thus subsequently reducing insurance premiums. Insurance costs are also lessened due to the high degree of security offered by CFZs.

2.32 Duty-free shops, much like CFZs, are advantageous in that they allow private business operators increased opportunities for capturing sales from tourists, travelers, and non-nationals. In the absence of the duty-free environment, it is likely that many of the sales would occur elsewhere. Most duty-free shops have high margins, resulting from government charges and other fees for access to duty-free status and clientele. Lower retail prices for goods, however, stems from the absence of duties on goods.

C. KEY FACTORS FOR SUCCESS

1. Commercial Free Zones

a. Market Demand

2.33 The single-most important factor in the success of CFZs is the existence of sufficient demand for transshipment, warehousing, and distribution facilities and services. Most successful CFZs are strategically located geographically on or near major transportation hubs and service routes. Both the Miami Free Zone and the Colon Free Zone are located in or near established transportation routes in the Western Hemisphere, while secondary transshipment hubs in Curacao and Aruba are located directly adjacent to primary clientele. Although in some cases demand is supply-driven through the offering of a superior CFZ "product," evident demand for the project must be demonstrated to warrant investment in facilities and infrastructure. CFZs, like other large commercial

projects, require substantial amounts of initial capital investment, and gestation periods needed to achieve a return on investment require a consistent base of demand to generate revenues.

b. Incentives and Regulatory Framework

2.34 As with most types of free zones, the success of a CFZ program depends on a great number of variables, including a competitive and liberal incentive regime, good economic infrastructure, and competitive factors of production.

2.35 The incentives offered by most CFZs to tenant companies located in developing countries can be grouped into three categories:

- **Customs Tariff and Trade Taxes Abatement.** Most CFZs provide companies with 100 percent duty-free import and export of all merchandise and equipment used in the CFZ.

- **Tax Relief.** Companies located in CFZs are usually offered preferential tax rates, including corporate income, profits, dividends, as well as unrestricted repatriation of invested capital and profits, with varying restrictions. Nominal tax rates range from 2.5 to 8.5 percent in the Colon Free Zone, for example, to two percent in Curacao. The Miami Free Zone receives no preferential treatment with respect to income taxes.

- **Liberalized Currency Controls.** With few exceptions, CFZs offer CFZ companies independent access to and autonomous control over foreign exchange earnings. Most often, zone firms are allowed to maintain independent bank accounts denominated in hard currency.

- **Regulatory Relief.** Among the most important incentives offered to tenant companies in CFZs is the relief provided from Customs regulation and administration, as well as other government procedures. On-site Customs officers to provide dedicated import and export clearing and documentation are highly attractive to CFZ firms. CFZs also offer expedited and unimpeded currency exchange procedures.

c. Transportation Infrastructure and Services

2.36 In addition to location, successful transshipment and distribution operations require efficient port facilities and transportation services which are capable of handling large amounts of traffic in a short time period. Administrative procedures must also reflect the need for a streamlined operation, and must be short and uncomplicated, thereby keeping costs for private business to a predictable minimum. Specific economic and infrastructural factors that are critical to transshipment operations include:

- A deep-water, well-protected port with highly efficient and competitively-priced facilities for loading and unloading. As

break-bulk points, transshipment sites should be able to accommodate ships of varying sizes, including large, long-distance bulk carriers. Cargo-handling facilities should be most efficient for both the site and the type of cargo involved. In addition, port management plays a crucial role in effective cargo handling and relations with firms engaged in international trade.

- Accessibility to major shipping routes and service providers. The world's foremost CFZs and transshipment centers are located at the crossroads of major shipping routes. The Colon Free Zone in Panama is situated adjacent to the Panama Canal, while Hong Kong is located strategically between East and Southeast Asia.

- Efficient and inexpensive port laborers. The availability of efficient and well-trained stevedores are a primary asset in attracting firms. Labor-related problems with port workers, such as inefficiency, frequent strikes or labor disputes, and pilferage, act to effectively raise costs for firms and reduce confidence in the area for transshipment purposes.

- Inexpensive port fees. Efficient management and productive labor costs are directly proportional to port costs, which are normally the determinant fees for firms investigating the viability of a specified transshipment route. Most port authorities in smaller countries operate at a profit, taking advantage of what is normally a monopoly position, by levying relatively high fees for port facilities and services. To facilitate traffic, fees must remain competitive with primary established transshipment centers.

- Adequate numbers of well-protected warehouses. Goods outside the Custom's territory should be safeguarded to protect against pilferage and leakages into the domestic economy, as well as provide easy and efficient access for pre-load staging.

2.37 In addition to the above shipping factors, there are also a number of non-shipping elements that are vital to the viability of a CFZ project:

- English-speaking capability. Because English is the lingua franca of the international business community, a sizeable pool of English-speaking personnel is necessary, especially when dealing with Far Eastern traders. The primary CFZs -- Panama, Hong Kong, and Miami -- have this capability.

- International banking facilities. The financial needs of shippers and manufacturers necessitate the presence of sophisticated banking services for letters of credit, foreign exchange, and other trade needs. The world's leading CFZs are not coincidentally found in locations with premier banking services. Panama, Hong Kong, and Miami are international financial centers. The Colon Free Zone itself is host to 24

offshore banks, which are permitted to do business with zone firms.

- Adequate air freight services. In the past decade, the quality, frequency, accessibility, and reliability of air freight services has become increasingly more essential to the attractiveness of CFZs. Many primary products and luxury goods transshipped through CFZs have high value-to-weight ratios, and can be shipped by air freight. Several recently established CFZs in the United States principally utilize air freight services.

- Minimal red tape. One of the most vital factors, host country regulations should not be allowed to collect taxes or any other charges for goods entering, being transferred through, stored in, or departing the zone, or for commercial transactions within the zone, as long as the goods are being shipped outside of the host country's national Customs territory. Goods sold within the local market should be treated in the same manner as any other import. Quick approval for foreign investors is helpful as this process has important time and symbolic value to investors. Hong Kong approves investments in one day while the Investment Council of Panama is designed as a one-stop service for new and potential investors.

- Non-transportation infrastructure. Commercial free zones require reliable telecommunications, water, and electrical services. Excellent international telecommunications are particularly needed considering the global orientation of the zone tenants.

2. Duty-Free Retail Shops/Centers

2.38 Successful retailing in the traditional duty-free sector is dependent upon several primary factors: location, design, and installation of operations. The location of the duty-free retail shop or center must be convenient both for traveler and tourism traffic, but also for control of export sales by regulatory agencies. Hence, most duty-free shops are concentrated in airports, train stations, ports, hotels and resorts, on ocean liners, ferries, trains, and airplanes, and other such areas.

2.39 Design considerations are important due to the type of consumer -- travelers and tourists. Shop design must facilitate flows of buyers while enticing them to spend as much time as possible in the store. Since duty-free shops are often limited in size and sell a high cost products, stock must be displayed with combined efficiency and attractiveness. In addition, duty-free shoppers are also often under time constraints, and prompt service is a must to allow the consumer maximum exposure to available merchandise.

2.40 Other than Customs procedures which are defined to both assure adequate controls and allow flexibility without undue burdens on merchants, government incentives or other measures are typically not

crucial to duty-free retail operations. They are similar to other retail operations in terms of their requirements for success, which are essentially commercial and rely on providing the target market, international visitors, with the goods they desire at competitive prices.

III. PRELIMINARY ASSESSMENT OF CURRENT ACTIVITIES AND MARKET INTEREST

A. INTRODUCTION

3.01 One of the primary factors determining the viability of establishing a CFZ or duty-free shopping center is the level of existing and potential demand that would support the proposed investment in new facilities and services. This chapter investigates current duty-free commercial transshipment and warehousing, and duty-free retail activities in Belize to establish, to the greatest degree possible, the level of existing and potential demand for activities that would normally be undertaken in CFZs throughout the Caribbean basin and worldwide. The analysis is based on quantitative data from GOB and other sources, as well as interviews with firms engaged in duty-free commercial activities. Particular emphasis will be placed on commercial transshipment trade between Belize and Mexico, and wholesale and retail activities in the bonded Customs area in Santa Elena, Corozal District.

3.02 Once demand has been identified for a particular CFZ or duty-free application, additional non-demand factors determine the competitive position of a country and its prospects for successful CFZ or duty-free shopping center development. Numerous elements must be taken into consideration, including both readily quantifiable national and local attributes -- transportation infrastructure, business support services, labor conditions, and the like -- and the more subjective assessment of factors such as the economic and political climate, the attractiveness of the regulatory and legal framework, market access, and others. As such, the sections in this chapter assess and analyze Belize in terms of its locational, economic, institutional and other principal factors affecting the degree of potential commercial and duty-free operations in Belize.

B. OVERVIEW OF CURRENT ACTIVITIES AND EXISTING DEMAND

1. Commercial Transshipment, Warehousing, and Duty-Free Wholesale Operations

a. National Activity

3.03 Re-export and transshipment trade in Belize represents a significant portion of economic activity. As shown in Table 3-1, re-exports and transshipment for 1989 totalled US$31 and US$59 million, respectively. The major share of re-exports, as illustrated in Table 3-2 (based on data from the first 10 months of 1989) is destined for Mexico. The majority of transshipment are also destined for Mexico, though the Belize Customs department does not officially classify transshipment by country of origin or destination. In addition, the United States received a large share of re-exports -- 44 percent in 1989 (again, based on ten-month data). Most of the firms transship or re-export directly to Mexico from their bonded warehouses in Belize City or from the Belize City Port. Some firms also utilize re-export warehouses at the Santa Elena border to wholesale duty-free goods to foreign importers/retailers.

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TABLE 3-1
VALUE OF EXTERNAL TRADE, 1983-89
(In Thousands of Current Belize Dollars)

	1983	1984	1985	1986	1987	1988	1989
Gross Imports	223,582	260,272	256,257	243,925	285,885	361,948	420,523
Retained Imports	19,034	225,451	215,907	220,397	256,631	312,582	351,293
Re-Exports	25,174	40,672	51,408	36,302	31,822	47,999	62,019
Domestic Exports	130,286	145,718	128,850	148,948	173,843	190,342	185,635
Transshipments	10,598	29,431	53,184	40,620	61,203	129,455	117,322

Source: Central Statistical Office, Ministry of Economic Development, Government of Belize.

3.04 The firms engaged in the trade activities, both Belizean and Mexican, have developed channels and relationships for handling re-exports and transshipment. The bonded trade flows are facilitated by fast, relatively efficient freight forwarding services, low pilferage levels at the Port, and relatively few bureaucratic delays in comparison to Mexican ports. Over the years, transshipment and re-export activity has evidenced significant sensitivity with respect to various external, uncontrollable factors such as cost competitiveness with foreign ports, relative currency exchange movements with Mexico, Mexican import restrictions and procedures, and regional trade arrangements. In addition, costs associated with transshipment and re-export within Belize have also had a marked effect during the 1980s.

3.05 The sensitivity of the re-export and transshipment trade flows to both internal and external factors can be seen in Figure 3-1. In 1982, Mexican officials initiated the first precipitous devaluations of the peso. In 1980 and 1981, re-exports were valued at BZ$57.6 million and BZ$88.5 million, respectively, falling to BZ$62.2 million in 1982. By 1983, in response to the devaluations, both re-exports and transshipment fell steeply to low levels.[1] In 1985 and 1986, Belize Customs raised the fee charged for processing transshipment and re-exports from two percent to four percent of c.i.f. value, which in turn had a negative effect on the level of re-exports and transshipment. By 1986, the combined value of re-exports and transshipment had dropped to less than 74 percent of the previous year's level as shipments were re-routed from the Belize City Port. Transshipment and re-export trade with Mexico recovered in 1987 and 1988, but has showed signs of stabilizing in 1989. The level of re-export activity to Mexico, however, has remained below 1985 levels. Total transshipment reached a high of US$65 million in 1988, falling by nine percent in the next year. Early indicators for 1990 suggest that combined re-export and transshipment trade is either steady or declining.

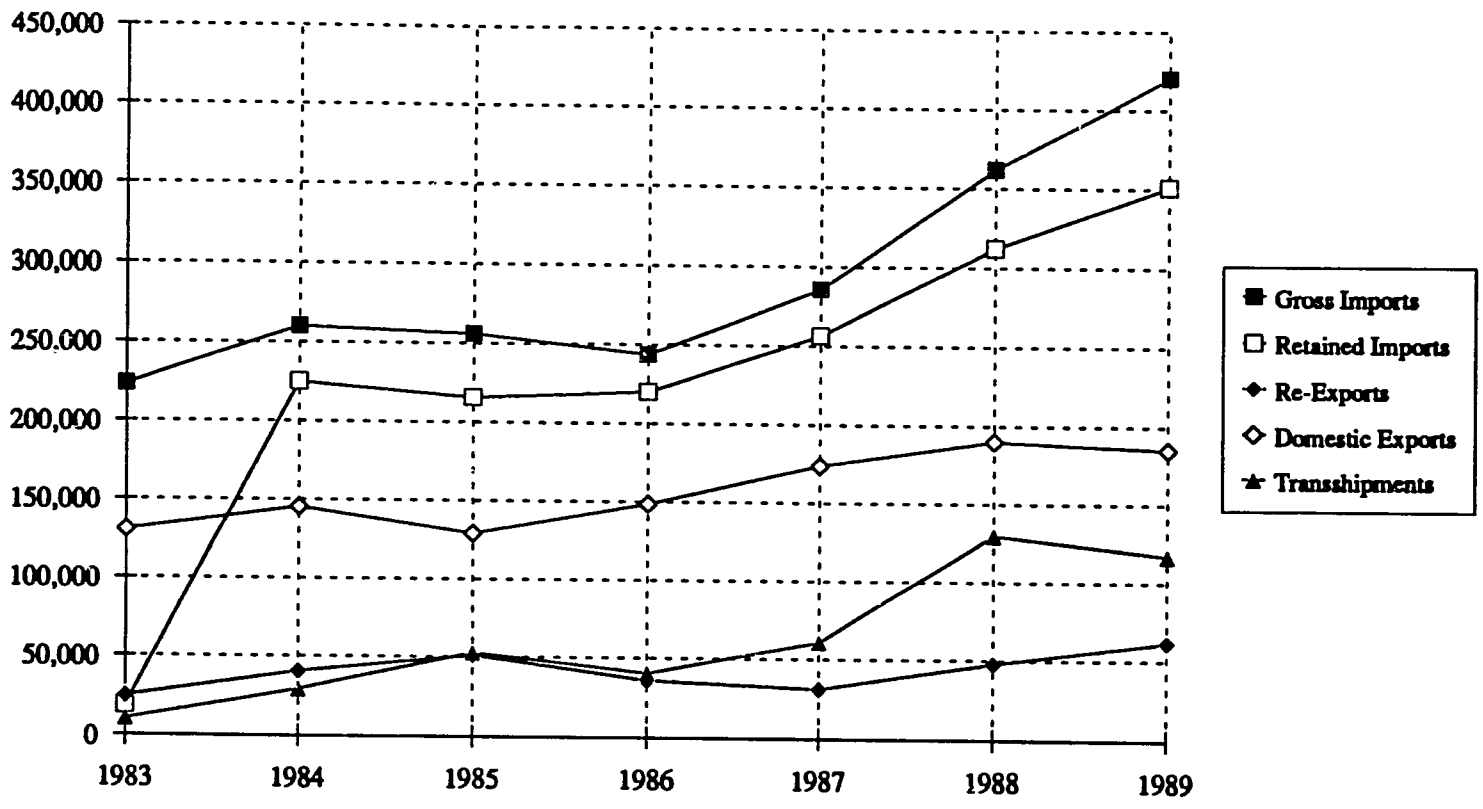
[1] Prior to 1983, transhipments were classified separately from re-exports.

TABLE 3-2
BELIZE DIRECTION OF TRADE, 1985-89
(In Millions of Belize Dollars)

	1985	1986	1987	1988	1989
United Kingdom					
Gross Imports	20,294	19,811	23,485	32,058	31,306
Retained Imports	n.a.	n.a.	20,063	26,605	25,818
Re-Exports	354	155	314	195	492
Domestic Exports	35,966	51,037	62,282	70,088	59,941
United States					
Gross Imports	126,701	139,344	165,640	193,509	184,862
Retained Imports	n.a.	n.a.	155,361	179,820	155,145
Re-Exports	7,411	14,649	10,716	10,911	26,096
Domestic Exports	76,565	90,556	86,751	85,802	58,201
Canada					
Gross Imports	6,074	8,215	11,012	14,901	6,955
Retained Imports	n.a.	n.a.	10,433	14,364	7,099
Re-Exports	28	117	178	1,319	146
Domestic Exports	5,146	248	6,853	6,883	6,944
Mexico					
Gross Imports	14,566	17,914	25,209	25,010	23,384
Retained Imports	n.a.	n.a.	23,679	23,803	22,484
Re-Exports	40,106	20,706	18,988	27,100	31,230
Domestic Exports	766	309	301	4,946	2,052
CARICOM					
Gross Imports	4,570	5,308	6,812	16,866	14,754
Retained Imports	n.a.	n.a.	6,353	15,410	14,954
Re-Exports	n.a.	259	121	179	757
Domestic Exports	6,548	2,872	15,937	16,400	13,375
Other EEC					
Gross Imports	24,624	20,165	24,668	31,486	13,821
Retained Imports	n.a.	n.a.	14,543	17,277	8,629
Re-Exports	n.a.	n.a.	40	323	n.a.
Domestic Exports	722	1,311	1,060	4,759	4,878
Netherlands Antilles					
Gross Imports	11,480	65	89	2,992	18,114
Retained Imports	n.a.	n.a.	92	232	7,199
Re-Exports	n.a.	n.a.	30	0	447
Domestic Exports	0	0	14	0	114
Other					
Gross Imports	47,946	33,104	28,971	45,126	31,962
Retained Imports	n.a.	n.a.	26,107	35,072	29,928
Re-Exports	n.a.	n.a.	1,435	2,135	116
Domestic Exports	3,136	2,613	645	1,464	961

Note: 1989 data for January through September only.
Source: Central Statistical Office, Ministry of Economic Development, Government of Belize.

FIGURE 3-1
VALUE OF EXTERNAL TRADE, 1983-89
(In Thousands of Current Belize Dollars)



Source: Central Statistical Office, Ministry of Economic Development, Government of Belize.

3.06 On the other hand, re-export activity to the United States has shown marked increases in the past five years, particularly in 1989. More than half of the value of re-exports to the United States consist of aviation and jet fuel from Mexico. In addition, re-exports to the United Kingdom and CARICOM[2] countries, though small in relative volume, have evidenced strong recent growth, as shown in Table 3-2. Re-exports to Canada, however, have fluctuated widely, reaching an apparent high of US$660,000 in 1988.

3.07 According to Customs records, there are currently over 40 firms engaged in duty-free transshipment, warehousing, and wholesale re-export activities in Belize. The majority of these firms are located in the Belize City area, with most of the remainder located in Santa Elena, Corozal District.[3] Punta Gorda, Benque Viejo, and Orangewalk have one operation each. The largest operations in Table 3-4 possess a bonded warehouse license, as opposed to Customs area or duty-free store status (refer to Chapter 4 for a discussion of licenses). These firms are engaged in both transshipment and re-export activity. Several of the firms (Belize Estate and Produce, James Brodie and Company, and Gonzalo Quinto) are also engaged in duty-free wholesaling through subsidiary operations at the Santa Elena border area. The disaggregated values of re-exports by SITC[4] number are presented in Table 3-3 (data for 1988-89 are not available). Assuming that current re-exports are composed of similar relative product category breakdowns, the majority of re-exports consist of foodstuffs/live animals, minerals/fuels, beverages, and machinery.

b. Santa Elena Activity

3.08 Prior to the 1980s, a 40-acre plot of land was informally developed as a "commercial free zone" at Santa Elena. The zone is bordered on the norther edge by the Rio Hondo River, which separates Belize from Mexico, and on the western edge by the Northern Highway, which leads directly onto the Friendship Bridge connecting Belize and Mexico. The zone, which is surrounded by an eight-foot chain-link fence, was constructed to enclose the firms that were engaged in duty-free retail sales to Mexican citizens. At the site is the Customs and Immigration post for the Northern border, as well as 12-24 privately owned structures, many of which are abandoned and in various stages of deterioration. Two garment operations and one nail manufacturer are also located in the zone, though they operate under the Development Concession program for export manufacturers.

3.09 While the zone is not officially declared a "free zone", either for export processing or commercial activity, the businesses are either

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[2] CARICOM denotes the Caribbean Common Market.

[3] Throughout this report, references to Santa Elena refer to the border town located in Corozal District.

[4] SITC denotes standard international trade classification number used by Customs.

TABLE 3-3
VALUE OF RE-EXPORTS BY SITC SECTIONS, 1985-89
(In Thousands of Current Belize Dollars)

	1985	1986	1987	1988	1989
Food/Live Animals	14,563	10,407	10,807		
Beverages	2,255	3,035	3,670		
Crude Materials	72	86	217		
Minerals/Fuels	5,475	5,369	5,830		
Animal and Vegetable Oils	339	364	360		
Chemicals	1,854	1,024	2,009		
Manufactured Goods	2,402	878	1,184		
Machinery	13,329	6,602	3,522		
Other Manufacturers Goods	9,955	8,050	2,563		
Other Commodities	1,183	508	1,679		
Total	*51,432*	*36,323*	*31,841*	*47,999*	*62,019*

Note: Data for 1988-89 not available.
Source: Belize Trade Reports, Central Statistical Office, Ministry of Economic Development, Government of Belize.

bonded warehouses or factories operating under Development Concessions. Table 3-4 presents the current firms operating at Santa Elena, the type of bonded warehouse license that they hold, the products handled, and the primary duty-free activities in which they are engaged. As shown, there are presently seven total firms engaged at the site, operating in six buildings. Five firms are engaged in duty-free wholesale and re-export activities, while the remaining two firms, COROMEX Ltd. and El Gran Samurai, are owned by Mexican importers and used simply for transshipment activities from the Belize City Port to Chetumal, Mexico.

3.10 The majority of wholesale operations handle perfumes, liquors (scotch, whiskey, wines, and beer), and foodstuffs (candies and chocolates, and canned meats). Sales of electrical and electronics goods, such as televisions, fans, washing machines, and stoves, have been attempted but generally the sales performance achieved has proved unsatisfactory for most businesses. Excluding Gonzalo and Company Ltd., the firms engaged in duty-free wholesale at Santa Elena have diversified business interests other than their Santa Elena outlets.

3.11 Table 3-5 presents reported turnover value, historical sales trends, and reported sales forecasts for six of the operations (for Belize Estate and Produce Co. and James Brodie & Co., the trends in their overall business operations for re-exports and transshipment are also included). Overall, the informal comments from firms indicate that sales have either stagnated or declined through the wholesale outlets at Santa Elena, though demand reported by firms depends on the category of bonded activity. The largest operations, as measured by value turnover, report

TABLE 3-4
BONDED FIRMS OPERATING IN SANTA ELENA

Firm	Type of Bonded Warehouse	Product Mix	Duty-Free Activities
Tony's Duty-Free	Re-Export	Perfumes Liquors Televisions Fans	Duty-Free Wholesale (Agent for Gonzalo Quinto)
Gonzalo & Co.	Re-Export	Liquor	Duty-Free Wholesale
Belize Estate & Produce Co.	Re-Export	Liquor	Duty-Free Wholesale (Transhipment from Belize City Location)
James Brodies & Co.	Re-Export	Liquor	Duty-Free Wholesale (Transhipment, Re-Export, and Domestic Exports from Belize City Location)
Victor L. Bryant & Co.	Re-Export	Chocolates Cigarettes Liquors Canned Meats Medicines	Duty-Free Wholesale
COROMEX Ltd.	Transhipment	Electronics Perfumes Watches Bicycles	Transhipment
El Gran Samurai	Transhipment	Unknown	Transhipment

Source: Compiled by TSG.

relatively stable activity in their operations, with future sales predicted to remain near current levels. One firm anticipates discontinuing operations at the border by the end of the current calendar year, while a second operation may close if sales do not improve. In addition, most firms indicate that stagnant and declining sales have not justified the additional cost of maintaining the border outlet. In several cases, those businesses reporting sales levels that are essentially stable possess distribution rights for specific brands (primarily liquor and foodstuffs) in Belize and southern Mexico.

3.12 The level of transshipment, as measured in value, from the two Mexican-owned operations in Santa Elena appear to be stable. COROMEX Ltd. reports stable activity in supplying its wholesale and retail markets in Mexico. By far, the majority of products transshipped by both COROMEX Ltd. and El Gran Samurai are electronics and electrical goods,

TABLE 3-5
REPORTED SALES TRENDS FOR BONDED FIRMS OPERATING IN SANTA ELENA

Firm	Annual Turnover at Santa Elena	Historical Sales Trends	Reported Sales Forecasts
Tony's Duty-Free	BZ$4 million	Stable Activity.	Projected to remain stable.
Gonzalo & Co.	BZ$2 million	Stable Activity.	Projected to remain stable.
Belize Estate & Produce Co.	BZ$900,000	Duty-free wholesale currently stable, but has declined over the long term. Transhipments declined by 50% over previous year.	Possesses distribution rights for whiskey. Declining trend likely to continue.
James Brodies & Co.	Not Available	Re-exports and transhipments declining over long term.	Activity has fluctuated widely. Expects to close operations in December 1990.
Victor L. Bryant & Co.	BZ$880,000	Re-exports and duty-free wholesale declined by 80% over previous three-year period.	May close Santa Elena operations if activity does not improve.
COROMEX Ltd.	Not Available	Stable activity.	Activity expected to remain stable.

Source: Compiled by TSG.

comprising 82 percent as measured by volume.[5] Perfumes comprise less than one percent of value traffic, while other miscellaneous products comprise the remainder. The main factors quoted by COROMEX Ltd. affecting the transshipment trade through Belize to Mexico were: the level of restrictions on imports through Mexican ports; more efficient and rapid service in processing shipments through Belize; essentially competitive import costs in Belize; and flexibility with Mexican Customs officials at the Santa Elena border with respect to valuation of goods and duties paid.

[5] The data for COROMEX Ltd. is for 1988-90, while data for El Gran Samurai is from 1987-89.

2. Duty-Free Retail Operations

a. National Activity

3.13 Though not quantifiable[6], the volume of duty-free retailing is considerably smaller than the other bonded activities. Presently in Belize, four major duty-free retailing outlets are currently in operation. These include:

- **Belize International Duty-free Shop**. Located at the Goldson International Airport, this store caters to tourists and outbound Belizeans. In 1989, the operation recorded US$400,000 in total sales. The principal categories of goods sold include mostly luxury items such as perfumes, liquors, and small garments and accessories.

- **Commonwealth Trading Corporation**, also located at the Goldson International Airport, the store is owned by Gonzalo Quinto and Sons Ltd. The volume of sales for 1989 was approximately US$240,000. The major products sold and clients served are similar to the Belize International Duty-Free Shop.

- **Rositas**, located at the Fort George Hotel, is operated under contract by James Brodie & Co. as a service to hotel guests. Sales for 1989 were approximately US$3,013, consisting of watches (30 percent of total sales), liquors and cameras (60 percent of total sales) and perfumes (10 percent of total sales). The store has a central location in the main lobby of the hotel, and also sells non-duty-free items such as local and imported crafts, jewelry, garments, and other products.

- **NAAFI Airport Camp**. This duty-free shop is a branch of the Navy, Airforce, and Army stores and is located in the British Forces army base adjacent to the airport. The store caters exclusively to British army personnel stationed in Belize. NAAFI has established relationships with 12 Belizean suppliers of locally procured goods. In addition to these suppliers, the store also imports directly from the United States and Britain. The major local suppliers, measured by value sales, are Santiago Castillo, James Brodie and Co., Belize Estate and Produce Co., Coca Cola, Belikin, Gonzalo Quinto and Sons, Travellers, and Cuello Brothers. The annual value of locally procured goods sold at the store is approximately US$1 million. The most common goods supplied to the store are liquor, watches, cameras, soft drinks, and foodstuff. The value of directly imported items totals US$3 million (only US$500,000 from the United States). Sales from the store remain fairly stable, since the number of British and military personnel has not fluctuated significantly at the base.

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[6] The Belize Customs Department does not keep aggregate records on the duty-free retail sector. Individual store imports and exports were collected, but the presentation of records prohibited aggregation of data at this time.

3.14 While these four outlets are the only licensed duty-free retailing outlets, some bonded warehouse operators also sell very small quantities of goods to foreign personnel stationed in Belize through embassies and foreign-funded projects.

3.15 The annual volume of duty-free retail sales in Belize is estimated to be US$5 million, of which US$4 million are sold through the NAAFI airport camp. The clientele for duty-free retailing from the stores other than NAAFI is primarily tourists and outbound residents, and the growth in demand is determined by growth in the international travel, the tourist trade, and tourism expenditures.

3.16 In addition to the stores, several cruise ships of relatively small size call on Belize City, and some potential appears to be evident in offering the passengers duty-free items during their short stop. Although the potential market for cruise ship sales is small, it nonetheless could boost profitability among one or two operations.

3.17 Presently, a large number of in-transit air passengers pass through Belize at the Goldson International Airport. In 1989, approximately 247,000 passengers had a stopover in Belize. Although the brief stopover time does not allow passengers to disembark for any duty-free shopping, the airport may want to investigate allowing license to duty-free operators in the airport to board the plane and offer duty-free service for passengers.

3.18 The newly operational international airport terminal has five locations for duty-free shops: four retail stores ranging from 190-250 sq.ft. in size will be located in the outbound lounge, while one store of 209 sq.ft. will be located in the baggage claim area for inbound passengers. These expanded facilities should provide opportunities for expanded duty-free sales at the airport.

3.19 As noted in Chapter 2, duty-free retailing possesses a strong relationship with the tourism industry, which is the primary market for duty-free goods; on the other hand, the existence of a thriving duty-free retail sector can greatly enhance the attractiveness of a tourism location. The Pacific island of Fiji, for example, gives considerable credit to the duty-free retail sector for the growth of the tourism sector during the 1970s. As such, the primary indicators of potential duty-free sales are trends in tourism arrivals and expenditures.

3.20 In Belize, tourism was accorded high priority during the late 1980's. During that time, Belize began to emerge as a niche destination for specialized holidays and tours, primarily in activities relating to the reef and "eco-tourism," a term denoting interest by tourists in nature, wildlife, conservation, archeology, and adventure. The great barrier (coral) reef provides diving and snorkeling, and recreational fishing has proven popular. Ambergris Caye and its main town, San Pedro, have well-developed tourism infrastructure, though all cayes lack international-class hotels, services, and amenities. In addition, the Mayan ruins have attracted an increasingly larger number of tourists.

3.21 The breakdown of international arrivals to Belize is presented in Table 3-6 and Figure 3-2. In 1989, returning Belizeans comprised the majority of international arrival traffic, while tourists comprised 38

percent. Non-Belizean residents, intransits, and business travelers combined comprised 11 percent of the total arrivals. As seen in Table 3-6, the strongest category growth has been in tourism traffic, up 82 percent since 1986 alone. International travel by Belizeans has also exhibited high rates of annual growth. Overall, tourism statistics show that tourism arrivals have increased on average by more than 30 percent per annum in the past several years, particularly in high quality accommodations.

3.22 According to Ministry of Tourism statistics for 1988, the origin of foreign visitors to Belize (including tourist, official, business, intransit, and non-Belizean resident travelers) was dominated by U.S. arrivals, followed distantly by Europeans, half of which were British. In total, U.S. arrivals comprised 33 percent of total foreign visits, with Europeans accounting for 12 percent. Mexican arrivals were not separately categorized, but it is estimated that they comprise a significant portion of "other" arrivals, which amounted to 53 percent of total foreign visits. Since 1985, U.S. arrivals have grown by an estimated 20 percent per annum, while European arrivals have fluctuated dramatically, though still increasing overall.

3.23 Figure 3-3 presents monthly fluctuations in tourism, business, and official international arrivals in 1989. The chart reflects fluctuations in tourism traffic, since business and official arrivals combined represent less than eight percent of tourism arrivals. As illustrated, the heaviest traffic in tourists in 1989 fell between December and March. March, July, and December appear to be the busiest months, while October and November attract the least tourists. Tourism traffic in other months appears to be relatively consistent.

3.24 The most frequented port of entry for international arrivals is the Santa Elena border in the Corozal District. In 1989, this port of entry captured 64 percent of all arrivals, as illustrated in Table 3-7 and Figure 3-4, up from just 48 percent in 1986. The international airport recorded 21 percent of arrivals, while Benque Viejo in the Cayo District saw 10 percent of arrivals. The three ports included in the data captured less than six percent of traffic combined. As evidenced, most international arrivals, consisting of mostly tourists and returning Belizeans, enter Belize by land, the greatest number coming through Santa Elena.

3.25 With regard to arrivals by air, industrial officials and leaders note that the increased tourism traffic has been primarily the result of improvements in airline connections and tourism accommodations, as well as increased international recognition in niche segments. Feature articles in the October 1989 National Geographic and the December 1989 Smithsonian sparked significant interest as well. Furthermore, expanded marketing efforts by Belizean public and private sector representatives has had a positive results, particularly in attracting German and Italian tourists.

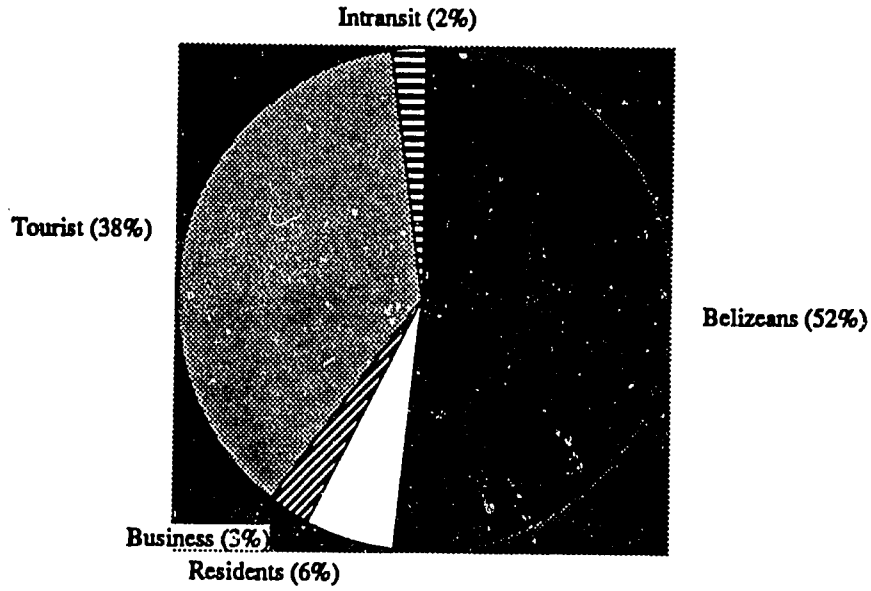
3.26 Although precise data on tourism expenditures, average length of stay, and other indicators are not readily available, some rough estimates exist. Informal data collected by the Ministry of Tourism and the Belize Tourism Industry Association indicate that the impact of

TABLE 3-6
INTERNATIONAL ARRIVALS TO BELIZE, 1986-89

	1986	1987	1988	1989
Belizeans	160,667	157,290	204,440	221,509
Returning Residents	16,640	20,140	22,249	25,297
Business	5,232	5,847	6,924	11,834
Official	138	201	497	255
Tourist	88,383	93,218	134,583	160,740
Intransit	8,209	8,774	8,833	9,070

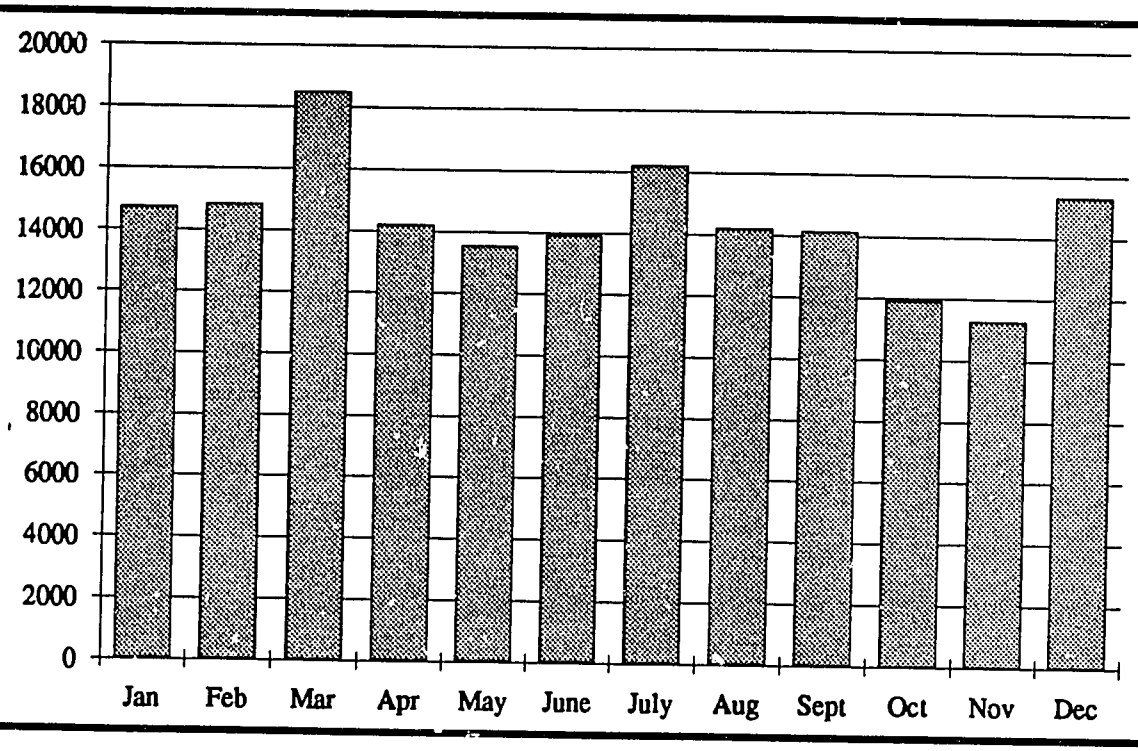
Source: Immigration and Nationality Department, Government of Belize.

FIGURE 3-2
INTERNATIONAL ARRIVALS TO BELIZE, 1989



Note: Official arrivals, which are negligible, are not presented above.
Source: Immigration and Nationality Department, Government of Belize.

FIGURE 3-3
INTERNATIONAL TOURISM, BUSINESS, AND OFFICIAL ARRIVALS TO BELIZE BY MONTH, 1989



Source: Immigration and Nationality Department, Government of Belize.

tourism revenues has, to date, been principally restricted to the cayes, Belize City, and scattered eco-tourist spots throughout Belize. Tourism expenditures, which are presented in Table 3-8, totalled US$27.2 million in 1988, up from US$9.3 million in 1983. The calculated average expenditure per tourist of US$202, over a seven night period according to length of stay estimates also presented in Table 3-8; daily expenditures are roughly US$30 per day. Although data is not available, industry representatives note that wide fluctuations exist between expenditures by tourists entering Belize from Mexico and those coming by air through Belize City. These per capita expenditure figures are averages and significantly understate the spending by North American tourists.

b. Santa Elena Activity

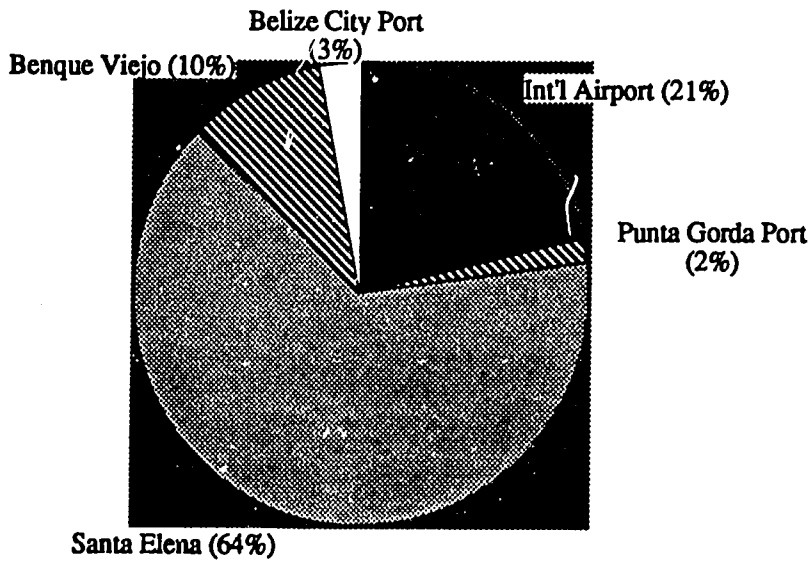
3.27 Duty-free retail is not presently permitted at the Santa Elena border area. In 1983, however, the Customs Department initiated an "experiment" in duty-free retail in the Santa Elena zone. The Cabinet of the GOB, under request from area businessmen, elected to test the sale of duty-free goods, and issued a directive to the Ministry of Finance and Customs to implement an operative framework for recordkeeping and control of duty-free sales. One of the primary conditions of obtaining an in-bond license (refer to Chapter 4) stipulates that firms must develop adequate systems for the physical control of goods, and must also

TABLE 3-7
INTERNATIONAL ARRIVALS TO BELIZE BY PORT OF ENTRY, 1986-89

	1986	1987	1988	1989
Goldson International Airport	52,048	56,855	74,281	91,248
Santa Elena, Corozal District	83,570	181,794	250,492	275,428
Benque Viejo, Cayo District	28,702	33,761	39,875	41,735
Belize City Port	5,352	5,126	3,905	12,482
Punta Gorda Port	9,059	7,544	8,872	7,312
Dangriga Port	538	390	8,833	500

Source: Immigration and Nationality Department, Government of Belize.

FIGURE 3-4
INTERNATIONAL ARRIVALS TO BELIZE BY PORT OF ENTRY, 1989



Note: Arrivals through Dangriga Port, which are negligible, are not presented above.
Source: Immigration and Nationality Department, Government of Belize.

TABLE 3-8
ESTIMATED TOURISM EXPENDITURES AND AVERAGE LENGTH OF STAY, 1983-88
(In Millions of Current U.S. Dollars and Number of Days)

	1983	1984	1985	1986	1987	1988
Tourism Expenditures	9.3	10.7	11.8	15.9	20.9	27.2
Average Length of Stay	4.5	5.0	5.5	5.5	6.0	7.0

Source: Ministry of Tourism, Government of Belize.

maintain "running" inventories of goods at all times, so that records are at any given time up to date for inspection by Customs. Simultaneously, Customs created a separate system for recording outbound duty-free retail sales from Santa Elena retailers.

3.28 Problems arose, however, due to the physical location of many retailers to the outbound Customs post; Mexican consumers that were purchasing goods from the stores were being processed through outbound Belize Customs prior to buying goods. As such, duty-free retail sales in merchant records were not recorded in Customs records. A Commission of Inquiry was convened, and concluded that controlling sales was too difficult for Customs at Santa Elena. This inability to reconcile parallel inventories was given as the primary reason for ending the retail "experiment" one year later in 1984. Since then, businessmen in the Corozal District and elsewhere have indicated a willingness to re-introduce duty-free retail activity in Santa Elena, and have suggested larger penalties for non-compliance with Customs regulations to ease fears of smuggling.

C. ASSESSMENT OF OVERALL CLIMATE

3.29 Belize is a democratic nation with a long history of political stability which serves it well in promoting private commercial and investment activity. With an estimated population of less than 200,000, and a land area of 22,960 square kilometers, Belize is one of the most sparsely populated countries in the western hemisphere. While the open domestic economy is based largely on agriculture, primarily sugar cane production, in recent years the government has made an active effort to diversify agricultural output and expand economic activity to include a more important role for both tourism and industry. The benefits have already been realized to some degree, with real gross domestic product (GDP) growth ranging between 7.6 and 12.2 percent between 1987-88; GDP growth for 1988 is expected to exceed six percent. Table 3-9 presents industrial origin of GDP from 1982-87.

TABLE 3-9
INDUSTRIAL ORIGIN OF GROSS DOMESTIC PRODUCT, 1982-87
(In Percentage based on 1984 Constant Belize Dollars)

	1982	1983	1984	1985	1986	1987
Agriculture, Forestry, & Fishing	22.8	21.8	21.7	20.7	19.2	20.2
Mining & Quarrying	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	13.3	13.4	11.9	11.6	11.5	11.3
Electricity & Water	2.4	2.5	2.4	2.5	2.6	2.5
Construction	5.4	4.9	5.8	5.4	5.6	6.7
Commerce	16.2	15.4	15.9	17.9	18.7	19.5
Transport, Storage, & Com.	8.6	9.2	9.6	9.7	10.3	10.2

Source: Central Statistical Office, Ministry of Economic Development, Government of Belize.

1. Transportation Infrastructure and Services

3.30 The availability of affordable and reliable transportation service is an important factor in the transshipment, storage, and warehousing decision-making process conducted by international trading firms. Regularly scheduled, dependable transportation services are crucial to sustained commerce. Not only are the transportation infrastructure and international service capabilities of Belize an important consideration, but also the quality and reliability of internal transportation as it affects the efficient transfer of goods from the port of entry to the point of exit.

3.31 Belize benefits from its relative proximity to the United States, the primary source of imported goods. Adjacent to Mexico, Belize is also at an advantage relative to other countries in the Caribbean Basin in that the opportunity exists for utilizing competitively priced overland transportation for both inward- and outward-bound goods. In other key respects, specifically in terms of the quality and extent of the transportation infrastructure in place, there is considerable room for improvement in transportation sector. The following discussion offers a brief summary of the key elements of Belize's transportation infrastructure and services as they relate to the potential for CFZ development.

a. Ocean Freight Transportation

3.32 There are two semi-deep water ports in Belize. The Belize City Port can accommodate ships with up to a 17.5 ft. draft, while the Commerce Bight port handles boats with up to 21 ft. draft. The Belize City Port is Belize's principal port, consisting of a single-lane, 2,500-ft. trestle, with facilities for both roll-on, roll-off and lift-on, lift-off cargo handling at the 25,800 sq.ft. pierhead. Up to three ships

can be processed at a time at the pierhead. The sea floor at the pierhead was dredged to a depth of 17.5 ft., but is plagued by silting and often cannot accommodate ships with more than a 15 ft. draft. Ships with deeper draft must rely on lighterage of their cargo. Commerce Bight is used almost exclusively for shipments of citrus from southern farms. In addition, a proposed private port is being developed at Big Creek, for use in shipment of bananas; this facility is expected to be completed sometime in 1990.

3.33 The Belize Port Authority is a semi-autonomous government agency responsible for the management and operation of the country's sea ports. The Belize City Port has two warehouses located on the 7.5 acre developed portion of its 50-acre site, providing over 41,000 sq.ft. of under-roof storage space, of which 21,000 sq.ft. is in-bond storage. There is no refrigerated warehouse space available. Customs officers are on duty around the clock, as are the unionized Belizean stevedores responsible for unloading the cargo for inspection.

3.34 Port charges are comparatively high, reported to be higher than any other port in the Caribbean basin. In addition, rates charged by stevedores are disproportionately high relative to comparable wages both within Belize and in comparison to regional ports. Average charges per 20 ft. or 40 ft. container are estimated to range between US$360-400, and add considerably to the cost of ocean transport. Once goods are unloaded from cargo ships, they can be stored free of charge in the port area for seven days; after seven days, goods are subject to daily storage fees. Table 3-10 details specific Port charges as outlined in the Port Authority Ordinance. Port charges are highly disaggregated, and can be burdensome to firms in assessing effective landed costs of goods.

3.35 Four shipping lines provide service to ports in the United States, Caribbean basin, and Europe: Hyde Lines; Carol Lines; Tropical Shipping; and Nexus Lines. Most traffic to Europe and the Far East is transshipped through ports in the region, generally Miami, West Palm Beach, Tampa, or New Orleans. At present, there are no direct ocean freight connections to Panama. On average, four ships per week call on Belize City Port. All ships calling at Belize City Port, with the exception of Carol Lines, have drafts less than 17.5 ft. and can unload cargo at the pierhead using roll-on, roll-off or lift-on, lift-off equipment. Several shipping firms noted that goods could be shipped to Miami in less than three days, and transshipped to major Far East ports in 27 days.

3.36 According to official statistics, over 511,000 tons of cargo is handled by the Belize City Port annually, approximately 80 percent of which is containerized. In the early 1980s, the port handled roughly 80,000-90,000 tons per year, climbing to 313,000 tons in 1985. The number of cargo vessel arrivals has increased commensurately as well, up from 215 in 1985 to 276 in 1989. The majority of tonnage handled is for import, representing 60 percent of the total; tonnage data detailing the portion of imports destined for re-export, however, is not available presently. Transshipment, which have evidenced strong rates of annual growth, as shown in Table 3-11, currently comprise almost six percent of port cargo, as measured by weight.

TABLE 3-10
SUMMARY OF BELIZE PORT AUTHORITY FEES AND CHARGES
(In Belize Dollars)

Port Dues	$40 for first 48 hours, based on highest gross registered tonnage (GRT) of the ship as shown in Lloyd's Register of Shipping on ships more than 500 GRT but not more than 2,000 GRT.
Pilotage	$4.50 per foot of maximum draught (average inward of 12 ft., average outward of 9 ft.), with an additional charge of $0.08 per GRT for ships up to 800 GRT.
Navigational Aids	$0.75 per GRT with maximum charge of $500.
Running Lines on Pier	$40 (from 8 a.m. to 4 p.m.) or $60 (from 4 p.m. to 8 a.m.) for ships of 500 to 5,000 GRT.
Boarding/Clearing	$50 (from 8 a.m. to 4 p.m.) or $100 (from 4 p.m. to 8 a.m.) for ships more than 100 GRT.
Clearing of Ship	$30 (from 8 a.m. to 4 p.m.) or $40 (from 4 p.m. to 8 a.m.) for ships more than 100 GRT.
Berthage	$0.35 per meter of length per hour for ships less than 100 meters.
Overtime	Immigration and Customs: $1.50-2.50 per hour. Health: $1.50 per hour.
Taxi	Charge for taxi service for overtime personnel from Immigration, Customs, and Health fluctuates.
Handling Empty Containers	$10 per handling of each 20 ft. unit.
Storage of Empty Containers	$5 per unit per week or part there of.
Stevedores	Rates vary according to position in Gang of 15 men. Hourly average is $4.45. Average overtime is $6.67 per hour. Eight hours of work time includes lunch hour. Also receive bonus $4.90/TEU each ($500 per ship per stevedore).
Social Security	$7.80 per week per man; age of stevedore may vary charge slightly.
Inbound Cargo Dues	$5.64 per ton (2,000 pounds or 40 cubic feet), due on all cargo whether handled by the Port Authority or not.
Inbound Cargo Handling Fees	$18 per ton (2,000 pounds or 40 cubic feet)after release from ships.
Outbound Cargo Dues	$2.82 per ton (2,000 pounds or 40 cubic feet), due on all cargo whether handled by the Port Authority or not.
Outbound Cargo Handling Fees	$7.50 per ton (2,000 pounds or 40 cubic feet), handling from place of rest to dock alongside ship.
Container Heavy Lift	$6 per ton for cargo shipped in container of heavy lift.
Port Authority Overtime	Charge varies, paid to 2 supervisors, 1 crane operator, and tow head drivers.
Shore Crane	$30/TEU paid to Lopez Equipment, and $3.50/TEU paid to the Port Authority for use of private crane.
Stevedore Food	$72 per voyage; $45 for 6 p.m. tea.
Stevedore Transport	Charge varies; stevedores transported to and from Union Hall.

Source: Belize Port Authority Ordinance.

3.37 The Belize Port Authority estimates that an estimated 250-300 containers per week arrive at Belize City Port during peak periods. Of the container traffic, approximately 60 percent are less-than container loads (ltl), i.e., container shipments with multiple consignees. The remainder of containers handled by the port are full container loads (fcl) that are destined to a single consignee. Eight to ten percent of arriving containers are immediately transshipped to Mexico.

3.38 The majority of imported cargo at the Belize City Port -- 60-70 percent -- is originated from the U.S. state of Florida. Of the in-bound contained traffic, approximately 12-15 percent represents refrigerated containers, or "reefers." Over 70 percent of outbound containers are empty; the 30 percent that contain cargo are carrying winter vegetables, shrimp and fish, lumber, and mostly other agricultural goods. Export container cargo is subject to wide seasonal fluctuations.

3.39 Overall, port customers note that the Belize City Port possesses adequate facilities and capable personnel, and port operations run efficiently and with few problems. In addition, firms report little damage and pilferage to goods handled and stored at the port. Port charges are, however, disproportionately high relative to regional ports.

b. Air Cargo Transportation

3.40 Belize has one international airport, the Philip Goldson International Airport, located approximately 15 miles northwest of Belize City and managed by the Belize Airports Authority (BAA). Belize has eleven municipal air strips and several local firms also furnish regional and domestic air service. A new international terminal facility is operational, offering substantial qualitative and size improvements for both tourism and cargo traffic. The new facility employs 50-60 workers for the terminal alone, with additional dedicated facilities for air cargo. Vehicles are available to take cargo from the airport to the Customs inspection station on Fort Street in Belize City. The old terminal is to be demolished to expand tarmac area. Once completed, the tarmac area will be able to handle up to seven international airliners at a time.

3.41 Flight time to the United States is brief, only two hours direct to Miami, Houston, and New Orleans. Five international carriers now provide international passenger and cargo service to the United States and Central America: Continental Airlines, TACA, Tan Sasha, and the recently initiated service by Belize TransAir and American Airlines.

3.42 Most air freight entering and leaving Belize is transported in the cargo hold of the international passenger carriers -- an arrangement which, at present, is sufficient to meet the needs of local trade demands. The majority of air cargo traffic has been captured by TACA and Tan Sasha, with goods originating from or destined for Miami and New Orleans. Continental flights to and from Houston and Los Angeles carry relatively small volumes of cargo.

3.43 Approximately one-third of all air cargo shipments are imports, while intransit cargo represents 60 percent of all air cargo traffic as measured by weight in Table 3-12. While air cargo imports have grown

TABLE 3-11
CARGO HANDLED AT THE AT THE BELIZE CITY PORT, 1985-89
(In Short Tons)

	1985	1986	1987	1988	1989
Imports	158,486	200,495	223,008	120,448	304,961
Exports	149,662	183,955	141,772	124,017	176,783
Intransit	5,031	4,873	5,366	18,987	29,433
TOTAL	*313,179*	*389,323*	*370,146*	*263,452*	*511,177*
Number of Vessels	215	223	257	267	276

Source: Central Statistical Office, Ministry of Economic Development, Government of Belize.

TABLE 3-12
CARGO HANDLED AT THE GOLDSON INTERNATIONAL AIRPORT, 1985-89
(In Thousands of Pounds)

	1985	1986	1987	1988	1989
International Cargo					
Imports	2,092	2,034	1,837	2,882	2,656
Exports	1,171	1,186	1,064	495	613
Intransit	1,564	1,281	2,182	3,598	4,839
TOTAL	*4,827*	*4,501*	*5,083*	*6,975*	*8,108*

Source: Central Statistical Office, Ministry of Economic Development, Government of Belize.

rather modestly since 1985, transshipment have tripled. Exports have dropped substantially to 613,000 pounds in 1989 from almost 1.2 million pounds in 1985. Most air cargo transshipment are inbound, and airlines generally have under-utilized cargo capacity on outbound flights to the United States. Of the imports, three-quarters of volume is estimated to originate from Miami, with the remainder originating from New Orleans and other U.S. destinations. The current freight charges are regionally competitive, and in real terms have dropped in the past several years. Domestic air cargo, the majority consisting of foodstuffs for the Belize Defense Forces, is handled by Mayan Air; Tropical Airlines also carries domestic cargo.

3.44 While the current levels of tourist traffic coming to the country allow adequate available space for cargo transport (even on short notice), more problems resulting from the "bumping" of commercial cargo outbound from Belize will occur, both as the result of additional unexpected air cargo increases in Central American cities where TACA and Tan Sasha flights originate, and increased volume of passenger luggage as tourism and travel to Belize increases.

c. Overland Cargo Transportation

3.45 Although it has been a major focus of GOB civil works and foreign assistance programs in Belize for some years, there is little doubt that major improvements are still needed to the national road network. Less than 15 percent of Belize's 1,400 miles of roads are paved and problems are especially severe in the southern region of the country where the recent boom in non-traditional agriculture has been constrained by the poor roadway system linking the fields to the port for shipment. The southern highway is subject to flooding and often impassable.

3.46 The northern highway connecting Belize City to the Mexican border region is a well-maintained, paved two-lane road. Trucking time from Belize City to Santa Elena is approximately two hours, and comparatively inexpensive. One local exporter quoted a rate of US$175 for transport of a 40-foot container from the Belize City port to Santa Elena in the Corozal District; this rate is only US$50 more than the rate charged for transporting the container to the Ladyville area just outside Belize City.

Many exports to the United States are increasingly going overland by truck. The cost of roundtrip transport of a 40-ft. container averaged US$5,500 to the U.S. border. The door-to-door service offered was highly attractive and economical since hefty port charges and costly delays were avoided. However, there is presently a requirement by the GOB requiring the use of Belizean truckers while transporting within Belizean borders; the Mexican government has a similar regulation stipulating use of Mexican freight service providers. This necessitates changing rigs at the border, adding to both the cost and time involved in this mode of transport.

3.47 Problems related to Mexican Customs delays have been reported. Delays of up to three or four days have been reported by firms due to both the volume of traffic and the lack of adequate facilities across the border in Mexico. Presently, the Mexican depot does not have an area to

accommodate the changing of trailers, unloading, and inspection of goods. This, however, does not constitute a real constraint on expansion of trade.

2. Other Basic Infrastructure

3.48 Electricity is extremely expensive in Belize and is a considerable deterrent to the expansion of local industry. The cost of power is currently US$0.205 per kilowatt hour (kwh). Reliability of transmission is also a problem in non-urban areas, and most firms operating manufacturing operations have installed private on-site generators to back up the electricity provided by the Belize Electricity Board (BEB). The small size of total domestic demand, coupled with the dispersed population, apart from the Belize City area, makes the improvement of the national power grid problematic and has discouraged the development of new energy sources.

3.49 BEB uses principally oil or diesel generation, and with no domestic source of petroleum, all BEB fuel is imported to Belize, most from monthly Exxon shipment from Gulf Coast refineries and some diesel fuel supplied by Mexico. All fuel purchased by the BEB must pay the tariff on petroleum imports. The BEB owns 10 separate diesel generating plants with combined generating power of 25 megawatts (MW). An agreement between Mexico and Belize has, however, resulted in the supply of electricity from the state of Quintana Roo to the northern Corozal and Orangewalk Districts. In addition, the GOB is exploring alternative power generating strategies, such as hydro-electric, ethanol cogeneration, and woodburning, gasifer station in conjunction with multilateral and bilateral development agencies.

3.50 The provision of water within Belize falls under the jurisdiction of the Belize Water and Sewerage Authority (WASA) and the cost is very high, at US$7.56/1,000 gallons, roughly 60 times greater than that of the Dominican Republic, Jamaica, or the United States. In the face of such prohibitive costs, industrial consumers have elected to dig their own wells for industrial uses and install septic tanks, by far the most cost effective options available.

3.51 Belize Telecommunications Ltd. (BTL), is a public\private entity which supplies telecommunications infrastructure and service throughout the country. Formerly a wholly-owned government monopoly, the company has recently undergone a restructuring intended to increase its efficiency through private sector participation. Forty-five percent of BTL has been sold to private investors, while British Telecom holds an additional 25 percent

3.52 Telecommunications service in Belize, both domestic and international, has improved significantly in the past several, though service costs are relatively high by regional standards. Improvements have been largely oriented toward international connections. Within Belize, telephone service covers most populated areas, but many rural firms and residences use radio for primary communication. There are improvements now underway to the national network which will dramatically increase the number of lines available.

3.53 This basic infrastructure is sufficiently well developed to accommodate the demands of wholesale and retail activity in the transshipment and re-export trade. Electricity costs are not as much of a burden as in manufacturing, with the possible exception of refrigerated cargo handling.

3. Labor

3.54 As noted in Chapter 2, duty-free wholesale and retail activities do not have significant labor force requirements, requiring small amounts of both managerial and semi-skilled labor. This section briefly discusses the characteristics of the available Belizean labor force, noting prominent factors as they may affect existing and potential commercial activities.

3.55 With one of the lowest population densities in the hemisphere, the Belizean population of between 170,000 and 185,000 is concentrated in Belize City, where an estimated 25 percent of all Belizeans reside, and in the northern regions of the country. Gender breakdown is roughly even, 48 percent female and 52 percent male, and remains equally distributed across all age groups. The Belizean populace is extremely young -- nearly 50 percent of the population is under the age of 15. Between 1970 and 1980, the annual population growth rate was estimated at 1.9 percent, however, more recent USAID statistics indicate that this rate has risen to 2.2 percent during the mid to late 1980s.[7]

3.56 With a working age population numbering near 90,000 persons, Belize is at a distinct labor supply disadvantage vis-a-vis its more populous neighbors. Agriculture has long been the principal generator of employment and remains so today, accounting for approximately 32 percent of total employment. However, much temporary agricultural labor is provided by guest workers from neighboring countries. Government services provides many positions, combining with tourism to supply 31 percent of the total jobs available. The tourism sector has been experiencing a boom, with accompanying increases in jobs available in the construction industry as improvements and additions are made to the existing hotel stock. In recent years, the industrial sector, primarily export manufacturing operations, has risen in importance, now accounting for over 10 percent of total employment.

3.57 National unemployment has been estimated at over 15 percent, a level maintained in large part because of widespread emigration of the urban populace. National figures mask the fact that unemployment is far greater in certain areas of the country, such as Belize City, where unofficial sources place it as high as 25 percent. The growing number of women entering the labor force has resulted in an expanding pool of labor.

3.58 Literacy levels in Belize surpasses those of its regional neighbors. Education in Belize is accorded high priority and the

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[7] The data presented regarding population demographics and labor force are extracted from The Services Group, Inc. Belize Free Zone Feasibility Study: Market and Demand Analysis.

national literacy rate is 93 percent. Moreover, English is spoken throughout the country and more than half of the population is bilingual, speaking both Spanish and English.

3.59 For all skill levels, Belizean wages are high relative to other countries in the western region of the Caribbean basin. No minimum wage is in force apart from a clause regulating domestic worker wages in the Labor Ordinance and one regulating retail sales positions in the Shops Ordinance. The average wage for semi-skilled labor of US$0.90/hour is nevertheless above the regional average. Belizean wages are considerably higher than neighboring countries. Semi-skilled and clerical workers are plentiful, nevertheless there remains a shortage of managerial and technical labor, compounded by the emigration of educated Belizeans to the United States and other locations. Because of the scarcity of skilled workers, technicians, and managers are paid substantial salaries. Factory supervisors earn from US$7,000 to US$8,000 per annum. While lower than in Jamaica and on par with the Costa Rican standard, these salary levels are roughly a third higher than in northern Mexico.

3.60 Labor laws in Belize are liberal and competitive with those prevailing elsewhere in the region. As mentioned above, there is no minimum wage for private industrial operations, although wages paid by the export industry are generally considerably higher than the minimum in the regulated wage sectors. For technical, managerial and professional personnel, expatriate labor permits are comparatively easy to obtain when there is an acknowledged shortage of Belizeans who can meet the job requirements. In general, the government has maintained a policy of non-interference in private sector activities and employee-management relations.

3.61 For the types of jobs demanded in wholesale and retail trade, there is little difficulty facing firms in recruiting personnel. The numbers of jobs relative to economic activity in this sector is low, and labor cost or availability does not constitute a constraint on expansion.

4. Trade Finance and Commercial Banking Sector

3.62 Availability of financing for commerce and trade can be an important component of the comparative advantage of a location in attracting commercial activity. While sophisticated trading firms will often arrange financing for overseas subsidiaries through the resources available in home country or offshore financial markets, this is usually not an option for local firms or smaller foreign firms. Even for subsidiaries of large firms, the availability of local trade financing is a factor in investment decisions. For a small country, Belize has a reasonably well developed financial structure, although it suffers from many of the problems common to developing countries concerning the depth of capital markets.

3.63 The commercial banking sector in Belize is represented by four institutions, each of different national ownership: Belize Bank (Belizean), Atlantic Bank (Honduran), Scotia Bank (Canadian), and Barclays (British). These commercial banks offer the typical variety of banking services, including lines of credit for short-term transactions.

In addition, a number of other small specialized institutions, chiefly credit unions, serve the retail banking sector.

3.64 Most credit activity is oriented toward the short-term instruments needed by trading firms, such as letters of credit, receivables financing, and other short-term loans. In addition, a significant amount of commercial lending activities in Belize are directed toward the tourism and constructions industries and related sectors. Demand for commercial credit has been high in recent years, fueled by a rejuvenation in sugar and transportation services, in addition to general increase in economic activity. Table 3-13 illustrates the sectoral distribution of commercial banks loans and advances from 1983-88, as measured in millions of Belize dollars outstanding at the end of annual periods. Prime lending rates charged by the institutions range between 12-14 percent, rising to 15-18 percent for less established commercial customers. The four banks have experienced difficulties in establishing a long-term deposit base; this characteristic of the local savings industry has constrained lending activities.

3.65 In the latter part of the 1980s, the Central Bank of Belize followed a relatively tight credit policy, with a minimum prime lending rate of 10 percent (no ceiling on lending rates); however, commercial banks continue to hold prime lending rates above the regulated rate. Estimates for inflation over the same years have ranged from 3-5 percent. Deposits held from 30-90 days are guaranteed seven percent interest, while one-year deposits command 8.5 percent as per Central Bank regulations. Commercial banks are required to hold a cash balance equivalent to seven percent of deposit liabilities, up from five percent in 1984. Overall, the banking sector is characterized by:

TABLE 3-13
SECTORAL DISTRIBUTION OF COMMERCIAL BANK LOANS AND ADVANCES, 1983-88
(In Millions of Current Outstanding Belize Dollars at the End of Period)

	1983	1984	1985	1986	1987	1988
Agriculture	17.2	16.7	14.3	12.8	21.5	28.8
Manufacturing	18.6	19.9	21.1	16.7	14.2	17.5
Construction	13.1	15.8	15.4	19.0	23.4	33.9
Public Sector	17.3	27.0	16.7	13.1	14.5	10.0
Personal	14.9	11.3	10.8	12.4	15.2	24.9
Distribution	42.7	43.9	45.9	44.0	51.0	61.5

Source: Central Bank of Belize.

- excess liquidity;
- lack of long-term deposit base;
- preference for short-term loans to finance trade;
- high real rates on medium-term development project loans; and,
- a general aversion to assume loan risk.

3.66 With respect to medium and long-term finance, the general conservatism noted above becomes an even greater obstacle. The lack of such finance is due to the lack of a long-term deposit base and the increased risks associated with long term lending. Although the newly established Bank of Belize has indicated a willingness to undertake project term financing, this bank has yet to establish itself as a funding source in this area. Part of the problem lies in the lack of familiarity and expertise in evaluating longer term projects, particularly in manufacturing.

3.67 The principal source of term finance in Belize has been the Development Finance Corporation (DFC), a public sector institution funded primarily by the Caribbean Development Bank. The DFC engages in commercial and residential mortgage finance, industrial equipment financing, and other types of industrial and agricultural medium and long-term finance. Interest rates range from 10-12 percent, with the term dependent on the nature of the loan (up to 10 years for industrial equipment.) The DFC is viewed as the principal source of funds by Belizeans for any type of project requiring term finance.

3.68 Belize's financial sector is experienced and capable of handling international commercial transactions, which represent its principal concentration of activity. The stable currency and the current liquidity in the banking system have contributed to making trade finance a comparative advantage for Belize.

D. PRIMARY FACTORS AFFECTING POTENTIAL DEMAND FOR TRANSSHIPMENT, WAREHOUSING, AND DUTY-FREE WHOLESALE OPERATIONS

3.69 Previous sections of this chapter have investigated the level of current transshipment and re-export trade currently undertaken in Belize. The data collected and presented clearly quantifies the level of existing demand for duty-free wholesale export sales of imported goods. The primary factors affecting both existing demand and potential demand, however, have yet to be fully explored. This section discusses those primary factors, both positive and negative, that have driven commercial trade during the 1980s, and attempts to isolate and analyze those factors that will affect activities in the near and medium term.

3.70 As noted, one of the two most important factors affecting transshipment and re-exports in Belize is the natural trade route that Belize has established into southern Mexico and northern Guatemala. This advantage, though to some degree geographical, has evolved over the years for several reasons:

- improvements in the Belize City Port during the 1980s have increased the competitiveness and attractiveness of Belize as a transshipment conduit;

- concurrently, the lack of development of competing ports in the Yucatan peninsula, accompanied by constant problems with delays, pilferage, and damage to goods in Mexican ports, have forced many Mexican importers to seek other alternatives; and,

- Belize now enjoys relatively consistent freight service from both ocean and air carriers, and possesses adequate overland shipping services to move goods from entry ports to exit ports on the western and norther borders.

3.71 Clearly, the operation of the Belize City Port has proved to be an asset for firms attracting transshipment and re-export trade through Belize. As noted, the efficient and expeditious handling of merchandise is superior to competing ports in Mexico. The carriers servicing ocean freight have grown over the past several years, and traders now enjoy access to Miami, West Palm Beach, Tampa, New Orleans, Jamaica, and other ports in the Caribbean basin. While ocean freight servicing to Belize has expanded significantly, connections to Panama and the Far East have been nonexistent, reducing Belize's competitiveness in accessing and shipping goods.

3.72 Air freight, though far less utilized than ocean freight, also has been developed sufficiently, with established linkages to major destinations in the United States and Central America. These factors not only help current traders in servicing markets, but suggest new market opportunities for transshipment and re-export activity. To date, most activity is confined to transshipment and re-exports of EC and U.S. goods to Mexico, goods from Mexico to the U.S. and elsewhere, and to a lesser extent goods from the U.S. into northern Guatemala. Opportunities, based upon existing transshipment routes and linkages, could exist in expanding air freight traffic into Central America.

3.73 The cost of facilities and services at the Belize City Port, however, are among the highest in the region, and the effects of the high cost structure appears to constrain trade to some degree. Transshipment and re-export trade with Mexico, particularly, appears to cost sensitive, with Belize costs often uncompetitive for certain goods. In the 1980s, for instance, when the administrative charge by Customs was increased from two percent to four percent, transshipment and re-export activity declined substantially. In short, Belize's current comparative cost advantage may be marginal, and improvements in competitiveness could prove critical in maintaining regional shares of trade.

3.74 In addition to direct costs, the port is hampered by physical deficiencies, such as draft limitations and general inability to handle goods and commodities that are in high volume and of great diversity. Under-roof and open storage facilities are also limited, though efforts at expansion are underway. Some attempts have been made to introduce some form of private sector alternatives in port facilities and services, but to date none have been approved and implemented. Such provisions, however, could help traders and supporting entities reduce costs considerable through development of dedicated storage and loading areas, use of in-house personnel, or other areas. In addition, improvements in the operation of Mexican ports, which are currently 30 percent less expensive than the Belize City Port in direct charges and fees, could

quickly erode Belize's comparative advantage vis a vis goods shipped by ocean freight.

3.75 To a large extent, the advantages noted above have developed as demand from Mexico for a transshipment and re-export route through Belize has evolved. The large wholesale market in Quintana Roo has essentially driven trade. Although Belize possesses similar advantages in transshipping and re-exporting goods into northern Guatemala, purchasing power in the region is low, and trade with Guatemala has been only a small portion of that with Mexico. Furthermore, demand from states in Mexico other than Quintana Roo has complemented demand from Chetumal. Chetumal's status at a duty-free region within Mexico attracted interest from both wholesale and retail firms within Mexico demanding goods at lower prices.

3.76 The dependence on the Quintana Roo market has made Belizean trade vulnerable to shifts in Mexican policy, with both negative and positive effects. Recently, Mexico's entry into GATT[8] has stipulated that import tariffs and other protectionist policies be harmonized for the country as a whole, and it is expected that Chetumal will lose its duty-free status in 2-5 years. On the other hand, problems with leakage of goods entering Mexican ports duty-free for Chetumal have prompted Mexican authorities to clamp down, thereby increasing the costs and problems associated with shipping via these routes. This could benefit the re-export and transshipment trade through Belize in the short run, although it is not likely to constitute a basis for a long term expansion in trade.

3.77 Another set of factors has assisted Belizean firms engaged in transshipment and re-export activities obtain distribution linkages for the Yucatan region, whether formally acquired or not. First, Belize possesses preferential market access under several multilateral and bilateral programs, such as the U.S. CBI, EC Lomé Convention, CARICOM, and CaribCan. Distributors in primary international markets, particularly the EC, can easily establish relationships with Lomé Convention countries, and in some cases (such as agricultural goods) receiving export tax credits or benefit from preferential programs. Several re-exporters in Belize also possess distribution rights for certain products in the entire Yucatan region. Second, international distributors prefer doing business with Belizean firms. The presence of a common law system in Belize (resulting in easier mechanisms for settlements of disputes), combined with more attractive regulatory mechanisms and cultural ties, has prompted many firms to establish direct relationships with Belize traders in order to service Mexican demand in the Yucatan peninsula.

3.78 In turn, some Mexican importers prefer dealing with Belizean firms, with many of which they have established formal relationships and partnerships. Although overseas suppliers typically do not grant 30-day credit to Mexican and Belizean importers, Belizean firms allow their Mexican importers such convenience, and in some cases offer lower interest rates on credit. Reportedly, Belizean traders are also more adept at mixed-lot shipments, allowing Mexican importers flexibility in

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[8] General Agreement on Tariffs and Trade.

structuring small orders. Most importantly, the use of third-party agents in Belize allows Mexican firms a high degree of flexibility in structuring commercial transactions to their advantage, aided in some cases by the formal relationships between Belizean and Mexican firms.

3.79 The positive factors affecting Mexican-Belize trade may be slowly losing impact in the face of newly emerging factors detracting from Belize's share of regional trade. The most important factor has been the liberalization of Mexican import restrictions during the late 1980s. Simultaneously, Mexican leaders in the region have been encouraging the use of Mexican ports in Vera Cruz, Progresso, and Puerto Marelos. Most shipments are dramatically cheaper through Mexican ports based on shipping and port charges alone. (Chetumal merchants indicated these costs were approximately one third those of Belize. Belize is still competitive because of the relative lack of corruption and the ease of transit, which all increase costs for merchants. Improvement of the problems associated with pilferage, delays, and damage, will erode Belize's competitiveness.

3.80 The effective operating procedures regarding the regulatory structure governing transshipment and re-exports has been generally regarded as conducive to trade. Most firms involved in duty-free commercial trade note that export and import measures are efficient and unproblematic. Typically, firms moves goods through Belize in under three days, including unloading from the ship and clearance through the outbound point of exit from Belize. Most firms did, however, note that the administrative charge of two percent did affect the competitiveness of operations to some degree. Furthermore, Customs regulations, in some cases, adds indirect costs to trade; for example, the regulations stipulating that a Customs guard accompany all overland transshipment from the point of entry to the point of exit have been criticized as unnecessary.[9] Overall, however, the regulations appear to accommodate duty-free wholesale trade sufficiently.

3.81 In addition to the factors noted above, other secondary characteristics of the Belizean economic environment have contributed positively in promoting duty-free trade:

- the orientation of the commercial banking sector toward trade finance and appropriate short-term commercial credit instruments, combined with the strong position of the Belizean dollar, has allowed activity to expand without significant financial constraint;

- essential infrastructure and services outside the transportation sector -- such as communications and electricity infrastructure, and business support services (freight forwarders, insurance companies, etc.) -- have been adequate for the needs of duty-free traders; and,

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[9] A detailed discussion of the regulatory framework governing transhipment and re-export activity in Belize is undertaken in Chapter 4.

- the characteristics of the labor force, including prevalence of both English and Spanish, high literacy rates, and cultural ties to many countries of the Caribbean basin, have provided firms with a pool of potential workers possessing appropriate basic skills.

E. PRIMARY FACTORS AFFECTING POTENTIAL DEMAND FOR DUTY-FREE RETAIL OPERATIONS

3.82 In similar fashion as the previous sections, this section addresses those factors which have significant impact on demand for duty-free retail goods in Belize. Interest in reactivating duty-free sales at the Santa Elena border by existing wholesalers has been mounting, and this area represents the principal one for policy and procedure changes which can increase trade for Belizean merchants.

3.83 The principal determinant of duty-free sales, as stated in Chapter 2, are tourism indicators such as the number of passenger arrivals and tourism expenditures. The importance of tourism in the Belizean economy over the past decade has increased significantly, particularly in the last 2-3 years. As data presented in Chapter 3 illustrates, indicators such as arrivals, length of stay, and estimate expenditures illustrate upward trends. The increased traffic through the Goldson International Airport has had a subsequent positive impact on duty-free retail sales. Future developments in the tourism sector, such as the Ramada Inn in Belize City, will further affect the nature and level of tourism, as well as duty-free sales.

3.84 In the Belize City area, duty-free sales will receive a boost from the new terminal soon to be opened in 1990. The offering of five new retail outlet shops, one of which is located in the inbound area, will clearly enhance exposure to, as well as the presentation and display of, duty-free merchandise for airport travelers. The degree of "sophistication" by current retailers was far below regional standard, though the introduction of unique, local items has diversified the product mix and offered consumers "Belizean" alternatives. Furthermore, cruise ship arrivals to Belize have recently begun, and may increase in the future. To the extent that existing or new duty-free retailers can innovatively service passengers disembarking from the ships with duty-free goods, activity may be expanded.

3.85 For the near-term, however, the potential for expanded retail activities lies outside the airport terminal and Belize City hotels. The majority of interest in servicing the duty-free retail sector has been voiced principally by merchants in the Corozal District. The brief success of the "experiment" undertaken by Customs in 1983-84 convinced the Belizean private sector that sufficient demand from Mexicans in the Chetumal area for duty-free luxury items such as liquor, perfumes, and other goods was evident. Certainly, the large population of 500,000 in the Chetumal area is a substantial market for duty-free retail activity, which is supported by the high volume of tourism traffic through the Santa Elena border. Furthermore, many merchants report that certain luxury items are in short supply in Chetumal which Belizean firms can obtain competitively.

3.86 The optimism expressed by the Corozal business community may be dampened for several reasons. First, to a large extent duty-free retail operations are being undertaken in Santa Elena currently. Electrical and electronic goods, for example, can be sold in single units, and personal items such as perfumes can be sold in identical units of three. Other traditional duty-free goods such as liquors, beer, wine, and cigarettes are sold by the case. The product-by-product Customs rulings regarding allowable "wholesale" volumes have blurred the distinction between wholesale and retail sales.

3.87 Second, evident prices in Santa Elena do not appear as competitive as prices in Chetumal. Although Belizean merchants noted that Mexican retailers enjoy and demand higher retail margins on sales than Belize firms, Mexican retailers appear to possess more flexibility in retail pricing than their Belizean counterparts. In the event of strong price competition, Mexican retailers may be able to maintain market share.

3.88 Third, the Mexican border controls have been, in certain cases, problematic for short periods of time, hampering export sales, both on the wholesale and retail level, for Belizean merchants. In response to efforts by the GOB's efforts to explore possibilities for a CFZ in Belize, the Mexican business community reacted strongly toward evidence of future retail competition in Santa Elena. While this may suggest strong demand for duty-free retail goods by Mexicans in Yucatan, it may also suggest the Mexican communities willingness to lobby local and national officials for tighter controls at the border, thereby negatively affecting the newly established retail sector, as well as wholesale trade.

3.89 Finally, the relative instability of the Mexican peso has had a deleterious effect on trade with Belize. Continuing depreciation of the currency against the Belize dollar during the 1980s has unsettled previously established trade and merchant linkages. After the severe devaluations in the early 1980s, wholesale trade dropped dramatically, as did retail trade. Recently, however, the relative currencies have stabilized somewhat, and currency position may not be an important factor in the near-to-medium term.

3.90 While the Belizean private sector has remained positive regarding the prospects for duty-free retail at Santa Elena, the public sector regulatory bodies governing policy and activity in the duty-free sector -- primarily Customs -- have not been satisfied with the controls used to monitor export sales at Santa Elena. Inventory systems designed to accurately record export sales failed to meet the requirements of Customs officials at the border, and sales were subsequently disallowed.

3.91 Overall, the duty-free retail sector has received little attention from the public sector, and to some extent the private sector outside the Corozal District. Officials and private sector leaders in the tourism industry have not developed a cohesive tourism agenda inclusive of the duty-free sector. This lack of integration and attention may be detracting from the overall, attractiveness of Belize as a tourism location. In the Santa Elena area, the lack of a duty-free retail area may be depriving merchants of valued sales traffic, if reported demand exists.

F. PRELIMINARY INDICATION OF MARKET VIABILITY

3.92 With respect to activities commonly undertaken in commercial free zones, such as transshipment and re-export activity, as well as other trade services, Belize has cultivated a strong relative position in the immediate region. Re-export and transshipment trade servicing Quintana Roo importers represents a significant portion of economic activity, although current levels of value trade are lower than in the early 1980s and have levelled off to some degree. In effect, Belize possesses a CFZ-type framework already, with Santa Elena acting as centralized facility housing transshipment and re-export firms.

3.93 Belize's advantages in the current transshipment and re-export market servicing Mexico are fairly evident. The Belize City Port, although expensive and lacking sophisticated facilities, appears to be preferable for many Mexican importers. The use of Belizean third-party agents is also preferable to both primary distributors in international markets and Mexican firms. Transportation infrastructure, as well as support services such as trade finance, have developed sufficiently to bolster transshipment and re-export activity.

3.94 The comparative advantage that Belize possesses appears marginal, to some degree, particularly when investigating cost structures. Fluctuations in the operating environment, such as instability in the Mexican currency or changes in Belizean Customs charges, have resulted in corresponding fluctuations in the value of transit trade. Although Mexicans are reportedly open to using Belize as a trade conduit, steps have been made to reorient shipments through domestic ports. Ports in Mexico appear to be improving, thereby reducing the "all-in" cost of transshipment through Mexico as opposed to Belize, and further eroding Belize's advantage.

3.95 The effect of these factors in the near-term on levels of transshipment and re-export activity is unclear. Many of the factors critical to trade are external and out of the control of both public and private entities in Belize. As such, consistent improvements in service delivery and trade costs appear crucial in maintaining market share for Belizean traders. New markets may arise in Central America and the Caribbean to diversify transshipment and re-export activities and reduce dependency upon the Mexican market, but these markets do not appear to hold the same degree of potential in terms of the magnitude of trade.

3.96 Opportunities for expanded duty-free retail activities are more evident. The duty-free retail "experiment" undertaken in 1983-84 resulted in reportedly strong sales to Mexican consumers traveling to Belize for the day. Immigration records also illustrate the high levels of tourism traffic through Santa Elena. In addition, opportunities for expanded duty-free operations also exist in the Belize City area. The new terminal offering additional retail space is an eminent first step, although tourism officials and private sector leaders should focus efforts on integrating the duty-free trade and formulating a complimentary strategy for servicing tourists and travelers.

3.97 The most critical factor affecting duty-free retail at Santa Elena are concerns on the part of Customs regarding control of sales and leakages of goods into the Customs Territory. The cooperation and

coordination of activities with Customs is essential for the success of retail at Santa Elena, and efforts by the private sector to develop and install proper controls and systems are paramount.

3.98 In addition to concerns regarding controls and recordkeeping, the level of potential demand for retail may be less certain than during the 1983-84 retail period. Current in-bond operations are currently allowed to sell some products at the retail level (such as electrical and electronic goods), but sales have been disappointing. Both Belize and Mexican private sector representatives feel, however, that the reactivation of duty-free retail at Santa Elena will attract significant demand from Mexico.

3.99 In summary, demand for transshipment and re-export activities is significant. Current demand, however, appears to be essentially satisfied, and future demand may be in jeopardy. It is unlikely that this demand will increase significantly, at which point it would make sense to consider adopting a commercial free zone framework and project.

3.100 Duty-free retail, which consists of only several small non-military outlets servicing the airport at present, holds considerably more potential, particularly at Santa Elena. Although the level of combined wholesale and retail activities could be substantial in the Santa Elena region, the nature of this demand does not appear to warrant new investment and development of CFZ facilities. The Santa Elena area already functions as a CFZ, and minor physical improvements, as well as introduction of adequate recordkeeping controls, could provide the needed structure and support for more efficient and profitable wholesale and retail activities.

IV. POLICY AND REGULATORY ENVIRONMENT

A. CURRENT POLICY AND LEGISLATIVE FRAMEWORK

4.01 The following chapter highlights the key elements of GOB policies and regulations regarding duty-free commercial trade and sales. Belize has long possessed legislation allowing for transhipment and re-export trade and retail sales in a duty-free environment. The chapter identifies and assesses the regulatory framework governing such activities, as well as foreign exchange and tax policies related to these activities. The chapter ends with a discussion of the principal policy and regulatory constraints to existing and potential activities in duty-free wholesale and retail.

1. In-Bond Warehousing, Transhipment, and Duty-Free Stores

4.02 The principal legislation in Belize governing duty-free transhipment, re-export, and wholesale activities is contained in the "Customs Regulation" of The Laws of Belize. The section, titled "Goods in Transit," allows goods to be imported and exported with no duty or trade tax charged. The scheme is quite attractive for firms engaged in re-export and transhipment activities, as import duties and other trade charges are considerable (illustrated in Table 4-1). As shown, average estimated tariffs on luxury product groups such as electronics, alcoholic beverages, cigarettes, foodstuffs, and other items are consistently above 60 percent in most cases.

4.03 Although goods shipped under the in-bond scheme are exempt from all duties and trade charges, they are, subject to a charge to cover costs associated with Customs administration of the traded goods. The administrative charge for goods in transit has fluctuated during the 1980s, rising from two to four percent between April 1985 and January 1986 (Statutory Instruments 38 and 10), falling back to three percent in November 1986 (Statutory Instrument 99), and dropping further to two percent in November 1989 (Statutory Instrument 125).

4.04 The legislation applies to duty-free transhipments, re-exports, and retail shops. The following definitions apply for establishing in-bond warehouses, Customs areas, and duty-free retailing outlets:

- **Bonded Warehouses**: A controlled storage depot for goods that are not duty-paid. Two types are bonded warehouses are operated, and goods from one type cannot be mixed in the same physical location or area as goods from another type. The first type, "transhipment warehouse," holds only cargo that is consigned to a foreign buyer and paid for by that buyer. The second type, a "re-export warehouse," holds cargo that can either be re-exported duty-free or sold on the domestic market with duty paid. In addition to the two types noted above, bonded warehouses can also be either "open" or "closed," the latter signifying that goods in the warehouse cannot be accessed without a second key held by Customs officials. Goods that are entered into the Customs Territory and have paid duty can be re-bonded for re-export;

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TABLE 4-1
APPROXIMATE AVERAGE TARIFFS FOR SELECTED MAJOR PRODUCT GROUPS
(In Percentage and Belize Dollars)

Category	Import Duty (% of c.i.f. value)	Stamp Duty (% of c.i.f. value)	Revenue Replacement Duty (% of c.i.f. plus import duty value)	Approximate Total (% of c.i.f. value)
Electronics	60%	12%	0	72%
Watches	50%	12%	5%	69.5%
Perfume/Cosmetics	50%	12%	25%	99.5%
Cigarrettes	$21-50/lb.	12%	75%	187%
Liquors	$66/gallon	12%	0	62%
Beer	$12/gallon	12%	$15/gallon	175%
Wines	$12/gallon	12%	0	45%
Sparkling Wines	$27/gallon	12%	0	60%
Foodstuffs	30%	12%	0	42%

Notes: In addition to tariffs, all re-exports and transshipment goods must pay a two percent Customs administration fee upon re-export. Duty-free retail sales are exempt from this fee. Figures for product categories are aggregate estimates.
Source: Compiled by TSG based upon data from the Belize Customs Department.

- **Customs Area**: areas identical to bonded warehouses except that the in-bond goods or lot are not covered by a physical structure or building. The lots are surrounded by a fence or other barrier; and,

- **Duty-free Stores**: a retail outlet for duty-free goods.

4.05 In order to establish a bonded operation, a firm must follow explicit procedures and meet certain criteria. The following regulations govern the application, approval, and operating process for bonded warehouses, Customs areas, and duty-free stores:

- Submit an application (refer to Annex 1, Exhibit A) to the Comptroller of Customs of the Belize Customs Department. The one-page application is straightforward, containing questions regarding nature of goods to be stored and the physical constructions of the building (for security purposes). Accompanying this form should be a list detailing the value and volume of goods to be handled. This list, which represents the maximum average inventory to be kept at any point in time, forms the basis for determining the value of the bond paid to the government;

- Customs, after receipt of the application form, will examine the building to inspect security arrangements. Applications for duty-free retail stores, particularly at the Goldson International Airport, are scrutinized closely with regard to experience with luxury goods retail sales, proposed product mix and presentation, ability to adhere to control procedures and reporting standards, and other factors as deemed necessary by the Airports Authority;

- After Customs has approved the building layout and security mechanisms, a second form for payment of the bond (Annex 1, Exhibit B) is submitted. The value of the proposed bond must be approved by the Comptroller of Customs; approval is contingent on the level of security and capacity of the building. The form carries a BZ$12 stamp, the signature of a surety standing the value of the bond (bank, insurance company, etc.), and the Comptroller's signature;

- Once approval is obtained, a license fee to operate the warehouse, customs area, or duty-free store is paid. The fee is equal to three percent of the value of the bond or BZ$4,500 annually, whichever is the lesser value. In the case of duty-free retail outlets at the airport, the Airports Authority commands ten percent of annual gross revenues, as well as BZ$75 per square foot per year for retail space rental;

- Accompanying the license is a list of conditions for operation of the warehouse, area, or store. The conditions generally state the amount of bond paid, approved products for storage and/or sale, and other standard regulations regarding operating receipts, inventory, and reporting;

- Each shipment in-bond must be approved by Customs. Customs Form B, "Import Entry for Ex-Warehouse" (Annex 1, Exhibit C), is used to bond imports destined for the warehouse, area, or store. Customs approval, if granted, is noted on the form. Customs maintains a separate inventory of goods held in each warehouse, and uses the ledger to ascertain whether the incoming goods will carry the total inventory of the warehouse above the agreed bond level;

- Re-exports or transhipments from a warehouse or area require Form F, "Export Entry for Re-exports and Transhipments Ex-Warehouse" (Annex 1, Exhibit D). The administrative fee for processing these shipments is currently two percent of the c.i.f. value of the goods;

- Warehouse operators outside the Belize City area must obtain a stock certificate signed by the respective custom officer at the nearest border for goods imported from any area besides the Belize City Port. The customs entry can then be presented to Belize City Customs officials at the port with the stock certificate.

- Imports into the Customs Territory of Belize use Form D, "Import Entry Ex-Warehouse" (Annex 1, Exhibit E), and must pay appropriate duties.

- Transhipments may be "constructively bonded," i.e., shipped directly from port of entry to port of exit without physically entering the Customs warehouse for processing. In order to initiate a constructive bond, both Forms B and F must be submitted jointly, allowing the container to be released to the overland transporter without examination. This procedure is only for transhipments, and each transhipment must be accompanied by a Customs official from the point of entry to the point of exit.

4.06 As can be ascertained from the above regulations and procedures, Customs has a certain degree of flexibility in approving applications for in-bond warehouses, Customs areas, and duty-free stores. In addition, Customs also maintains a high degree of autonomy in approving products under each specific license granted. This flexibility and subjectivity that characterizes Customs control over duty-free transhipment, wholesale, and retail activities is particularly evident at the Santa Elena border area. As noted in the previous chapter, retail sales were at one time allowed in the Santa Elena Customs area, but were disallowed by Customs due to concerns over the smuggling of luxury goods bought in the Santa Elena controlled area into the Customs Territory, either via Mexico or through the Santa Elena Customs checkpoint.

4.07 Although Customs officially allows only wholesale sales from the in-bond operators in Santa Elena currently, the definition of wholesale volume differs across product groups and categories. Liquor and tobacco products, for instance, can only be sold by the case or carton. Bottles of perfume can be sold in quantities of three (of the same brand), while electronic and electrical goods, such as television sets, can be sold one at a time. So, while retail duty-free sales exist by regulation only at the three shops at the airport (soon to be five at the new facility) and the shop at the Fort George Hotel, duty-free retail in fact is occurring at the Santa Elena border, though in only several product categories.

4.08 The operating procedure for sales from the Fort George duty-free shop, the only duty-free retail shop not located at the airport, are somewhat cumbersome. When an item is sold, it is delivered to Customs officials at the point of embarkation, which is generally the airport, for delivery to the customer after they have cleared outbound Customs. Given low sales volumes at Rositas, this procedure is not currently cost effective. The operation continues, however, as a service to hotel guests.

2. Foreign Exchange Regulations and Tax Policy

4.09 The Central Bank of Belize is charged by the Government with the responsibility for monitoring foreign exchange and regulating the banking industry. Central Bank approval is normally suggested for all business entities with foreign exchange needs to ensure currency access. Once a business is approved by the Central Bank, no controls are imposed on currency exchange, except possibly in the event of foreign exchange

crises. Since 1976, the Belize dollar has been pegged to the U.S. dollar at 2:1.

4.10 Regulations for exchanging and holding foreign currency for firms engaged in in-bond and duty-free activities in Belize are not different from other firms operating under normal regulatory structures. Arrangements and operating regulations adopted by the Central Bank require firms to obtain permission to maintain a local bank account in foreign currency, which is generally granted after approval of a Customs operating license, and to obtain approval from the Central Bank for each foreign exchange credit, based upon the value of the firm's export sales.

4.11 Warehouse, Customs area, and duty-free operations holding a bond under Customs regulations are subject to the normal corporate tax imposed by the GOB on corporate profits (net income). The flat tax rate for corporations is 45 percent. In-bond and duty-free operations are not eligible for Development Concessions.

B. PRINCIPAL POLICY CONSTRAINTS

4.12 The existing regulatory and policy structure governing transhipments and re-exports is adequate to meet the needs of firms servicing the Mexican wholesale market. Although policy changes regarding the administrative fee charged by Customs for processing transhipments and re-exports has resulted, in part, in fluctuations in the level of demand for Belizean intransit and re-export goods, the procedures and operating environment implementation by Customs allows for the smooth shipment of goods through Belize to third-country markets. Further streamlining of procedures, and reductions of both Customs and port costs for firms engaged in trade, however, may be of critical importance in maintaining Belize's relative trade advantage over alternative transhipment points in Mexico.

4.13 The policies regarding duty-free retail sales are prohibitive at present for retail sales from the in-bond warehouses in Santa Elena. Customs concerns over smuggling and leakages of goods into the Customs Territory are valid and natural. However, to date little effort has been made on the part of regulators to explore alternative physical and recordkeeping controls that would provide Customs officials with adequate regulatory oversight, while not instilling cumbersome requirements on retail firms. Concerted efforts to overcome these noted barriers could provide firms with a substantial retail market in Mexico, and generate new direct revenues for the Ministry of Finance from Customs fees, in-bond licenses, and corporate taxes.

4.14 Finally, it should be noted that CFZ's in other countries often offer corporate tax holidays or preferential rates for firms operating in the zone. Both Panama and the Netherlands Antilles, for example, have low marginal tax rates of under 10 percent for firms in the CFZ. In the U.S., no special tax exemptions apply to foreign trade zones; these are Customs privileged areas only. Belize has specifically excluded firms engaged in commerce from the tax benefits of Development Concessions, the Export Processing Zone regime and other preferential programs designed to attract new investment. This indicates that in terms of providing preferential tax treatment, the government has made a policy decision not

to grant incentives to firms engaged in the types of activities, i.e. transshipment and re-exports, which would take place in a CFZ. This is clearly a decision of national policy; some countries have extended tax benefits in order to improve their competitive position as trading centers and others, such as the U.S., have granted no special treatment other than Customs provisions. While there are always some competitive advantages to be gained from extending tax incentives, this decision needs to be taken within the framework of national priorities for economic development. Profits tax incentives *per se* are not a necessary element of a competitive regime for stimulating transshipment and re-export trade, but are found in various CFZ regimes.

V. CONCLUSIONS AND RECOMMENDATIONS

A. WHOLESALE TRANSSHIPMENT AND RE-EXPORT TRADE

5.01 Belize has developed a substantial re-export and transshipment trade primarily with Mexico, supplying Quintana Roo with approximately US$80 million of goods per year. This trade has developed based on: the competitiveness of Belizean merchants, who have established trading relations with both Mexican importers and overseas suppliers; improvements in transportation infrastructure and services; and regulatory and procedural framework governing trade via Belize. These factors, combined, have allowed traders to be responsive to the needs of Mexican importers. The fundamental question posed for this study is whether the creation of a commercial free zone or changes in the duty-free retail operations would significantly enhance Belize's competitiveness in that regard.

5.02 The balance of the analysis in previous chapters suggests that, for the time being, the creation of a new commercial free zone regime and project would not significantly enhance transit and re-export trade. This assessment is based on the following factors, summarized from the previous analysis:

- **There is limited potential for expansion of the market for transhipment and re-export through Belize.** This assessment is based on the increasing competition from Mexican ports, which are cheaper if less reliable. The transshipment and re-export trade remains vulnerable to Mexican policy shifts, such as recent Customs rulings positively affecting shipment of Mexican imports via Belize. The future of the Quintana Roo market as a consumer and luxury goods shopping center for the country is also in doubt because of the uncertainty of its duty-free status as Mexico formally enters GATT. Belize's sales are based on items which are stocked by Belizean wholesalers, or which have special distribution arrangements such as liquor. Overall, existing and potential trade with Mexico is affected by a host of uncertain factors, many of which could be deleterious to trade levels. Without an evident, strong comparative advantage, Belizean sales are likely to find limited markets in the future.

- **The existing trade is handled reasonably well through the network of private bonded warehouses.** The commercial firms active in transit and re-export trade already have a significant capacity for warehousing. In addition, the regulatory structure in place appears to offer firms, in most cases, an adequate degree of efficiency and competitiveness in comparison to Mexican alternatives.

- **Due to these factors, there is unlikely to be sufficient demand to justify a new commercial free zone project.** A CFZ project would essentially centralize and streamline transshipment, warehousing, and re-export functions in one place, under specialized Customs controls. Services offered by CFZs, such as break-bulk, packaging, labeling, aggregated

invoicing, etc., do not appear to be in demand from the majority of consignees. Investment in a new, dedicated CFZ facility would necessitate a more certain indication of demand to consistently generate needed revenues. In the absence of rapidly increasing demand for existing trade, or unsatisfied demand for new trade services, the present capacity will be sufficient to handle the flow of goods through Belize.

5.03 **Furthermore, if there were significant demand potential from Mexico, and a CFZ project were viable from the market perspective, the most likely site for a CFZ would be at the Port of Belize City, not Santa Elena.** The Port is currently not used extensively for storage of transit and re-export goods, and due to the limited warehouse space available, the Port does not actively encourage this business. The Port itself, or a complex immediately adjacent to the Port outside of Customs jurisdiction, would be the optimal location for consolidation of duty-free warehousing of transit and re-exported goods. A new complex could serve multiple purposes, facilitating transhipments and re-export, imports, and housing Customs operations. Rather than clearing goods into in-bond or transit warehouses, they would be held at a Port facility prior to Customs processing until consigned out for either transit to Mexico, shipment to private bonded warehouses, or domestic consumption.

5.04 Such an arrangement could be done either as part of the Port's operations, or by a private firm or group of firms. This would be the functional equivalent of a CFZ (as is the Port now on a small scale). However, the demand does not justify such a project at this time. Although some merchants indicated an interest in such an arrangement, others preferred to continue with the present system of private bonded warehouses on their own premises. Should private firms be interested in moving or establishing new warehouses inside the Port, this should be permitted, subject to development of suitable provisions for control of goods, etc. Although the Port is currently planning an expansion, this is principally in container staging areas, and no new warehouses are planned.

5.05 A number of modifications, however, of current policy and practice can effectively improve Belize's competitiveness in this trade. These policies can be introduced with relatively little cost or major re-directions, and will significantly improve the conduct of transhipment and re-export trade from Belize to Mexico. These steps will both improve the competitiveness of Belizean trade and improve controls over the presence of duty-free goods in the country.

- **Eliminate the double-key system for Customs control.** Existing Customs procedures allow for both "open" and "closed" bonded or transhipment warehouses. Those operating on a closed basis require that a Customs official be present whenever goods are put into or taken out of the warehouse. The double-key system appears cumbersome, and an open procedure can be just as effective in controlling goods, provided that Customs has the ability to maintain accurate inventory records. The United States, for example, in 1985 initiated the Bonded Warehouse Simplification Program and thereafter the Foreign Trade Zone Audit Inspection Program, both of which were aimed at reducing direct Customs involvement in supervision of in-bond

activities while maintaining requisite control. However, responsibility for recordkeeping and compliance was shifted to the operators of bonded warehouses and foreign trade zones.

- **Introduce an audit/inspection program for bonded warehouses.** Commensurate with the removal of Customs personnel from supervision of all movements into and out of bonded warehouses is the need for a program of regular audits, with stiff fines for violations. This has proven to be an effective means of controlling in-bond operations without direct supervision. The documentation required for entry into and exit from bonded warehouses is sufficient for Customs to maintain inventory records for each licensed facility, upon which audits can be made for verification. Customs currently audits bonded warehouses as part of its enforcement efforts; this change in procedure would mean relying on audits as the principal mechanism for control.

- **Eliminate the separation of transshipment and re-export warehouses.** This distinction is not necessary, as the controls for each type of transaction are similar. The lack of ability to mix each type of good in one warehouse is a constraint upon businesses, the relaxation of which will not decrease Customs controls.

- **Eliminate the requirement for Customs guards to accompany all in-bond and transit shipments.** This requirement, designed to ensure security in transit to and from entry/exit points and bonded warehouses, could be eliminated in favor of reliance upon Customs seals on containers or vehicles. While these are not fully tamper-proof, they are the basis for assuring security in transit in most countries. The reliance on Guards accompanying shipments is also vulnerable to abuse. Inspection and stiff penalties for infractions, if consistently enforced, will be as or more effective, and will not impose additional charges on merchants.

5.06 These measures should act to maintain or improve existing levels of control, while reducing the cost of these controls to both merchants and the Customs authorities. Although merchants complain of the two percent transit tax, in the consultants' view this should be maintained. Belize is still dependent on trade taxes for 60 percent of government revenues, and at two percent this level is not significant enough to impair trade. Conversely, however, we do not advocate increasing the transit tax.

B. DUTY-FREE RETAIL OPERATIONS

5.07 The principal area for expansion of duty-free retail operations is in Santa Elena. This area already functions like a commercial free zone, although it is in reality a collection of private bonded warehouses. In Santa Elena, the principal issue is whether to allow duty-free sales of liquor, cosmetics, and other luxury and consumer goods on a retail basis. Electronics and other merchandise are currently sold at retail; however the prices are not competitive with Chetumal and very

few sales are made. Most of the current activity is in liquor sales to Mexican distributors and retailers. The Belizean merchants active in this trade have indicated they could increase their business substantially were they allowed to sell retail quantities to individuals. This would require changes in current customs procedures, but would not require a separate effort establishing a commercial free zone. Indeed, as noted above, retail sales were permitted in 1983-1984.

5.08 It is uncertain that the simple allowing of retail sales at the border would be sufficient to generate the sales traffic which was common at that time. However, this could be done at relatively little cost in terms of Customs supervision and physical improvements, and may improve the Belizean merchants' ability to compete with Chetumal merchants.

5.09 **Therefore, retail duty-free sales should be allowed at Santa Elena, and the necessary measures taken to ensure proper controls.** It will be necessary to implement proper control mechanisms and procedures, which will include the computerization of Customs record-keeping. The new procedures could act as a proving ground for further computerization of customs systems elsewhere. While a manual records system could also be utilized, it is likely that the costs in terms of increased personnel would be greater over the long term than that of computerization.

5.10 The principal measures and procedures which will be necessary to provide adequate controls over the duty-free shopping center (DFSC) at Santa Elena will include the following:

- **Enclosure of the site.** The site must be physically enclosed with a fence and pedestrian and vehicle traffic controlled through one entry/exit point. It will be most efficient to have a parking area outside the duty-free area and allow pedestrian traffic only. Deliveries and truck traffic would be made through a separate vehicular access point. If possible, the other warehouses and factories not engaging in retail duty-free operations should be outside the enclosure to minimize complications with control procedures and access to the DFSC. The entry point would be attended by a Customs Officer, and fixed operating hours would be established by Customs and zone merchants.

- **Install computerized inventory control system.** Customs will maintain a computerized inventory control for all merchants participating in the DFSC program. The computer system would maintain individual records by each company, and within company records, each shipment (entry) would be given a unique identifier (lot number) to be used as the key for depleting stock. Therefore, at any given time, Customs would be able to review stock levels on a total and on a lot number basis. Physical storage of stock would be done by lot number for rapid inspection purposes.

- **Procedure for entry of stock into inventory.** To bring goods into the DFSC, complete Customs documentation would be presented for review. The stock entry package would consist of an Entry Form, a bill of lading, and a commercial invoice for the goods. Once reviewed and approved, goods can enter

the zone. This is similar to the procedure currently used in principle, however, as noted above, each shipment will be entered into the computerized inventory control system. The detail information contained in these documents, i.e. lot number part numbers , harmonic codes, descriptions, quantities, etc. would be entered into the computer system to establish stock levels. The data entry activities would be performed by Customs employees. Appropriate procedures would be followed regarding the physical delivery of the stock to the warehouse/store and adjustments made as necessary.

- **Procedure for removing goods from inventory.** In order to withdraw goods from stock when sales are made, a buyer would receive a Withdrawal Document from the merchant. This document would be a Customs form and would contain all the information required for updating the Customs inventory records and ensuring correspondence with the entry documentation.

- **Control of buyer entry and exit from the zone.** In order to assure that stock levels for Customs inventory reconcile with merchant inventories, and therefore provide a control mechanism, a procedure must be followed to accurately collect Withdrawal Documents for depleting stock from the computer. Two alternatives are possible for this process: either controlling the flow of shoppers or requiring that goods be delivered to a Customs holding area immediately prior to release and leaving the zone. Under the first alternative, a "Gate Pass" is issued to buyers. The Pass is logged and given to anyone entering the zone, and must be surrendered to the Customs Officer upon leaving the zone. Each sale is registered on the pass which alerts the Customs Officer that a Withdrawal document must be collected. In the second alternative, all goods are delivered to a holding area at the exit gate and when received by buyers upon exit, the withdrawal document is surrendered. (This is analogous to duty free sales in airports where goods are delivered to the gate or boarding areas as passengers depart to board their flight.) Under either of these alternatives, Customs has the opportunity to inspect goods and confirm that the proper documentation has been issued. Once buyers leave the zone area, they proceed directly across the border to return to Mexico, or pass directly to Belizean Customs and Immigration.

- **Conduct periodic random audits of zone merchants.** The procedures described above will provide Customs the necessary documentation to maintain current inventories for each merchant, and for each lot entered into a merchant's inventory. Periodic audits are then necessary to ensure that the inventories match Customs records. Fines should be established sufficient to deter any illegal sales or leakages, and should be consistently imposed. Repeated violations would be grounds for revoking the Bonded Warehouse license.

5.11 These procedures can be instituted by Customs, without the need for special legislation or other measures. Additional staff will be

required, and the expense of installation of a computerized system must be considered. The merchants themselves can be expected to pay for physical improvements to the site, i.e. the enclosure and construction of entry and exit gates. Recordkeeping and inventory control could initially be done manually with existing ledgers, so that the new system could be rapidly implemented prior to computerization. However, if there is to be any significant increase in volume or value activity, the ability to maintain current inventory records is critical for implementing adequate control procedures and regulating the flow of goods. The increased revenues from the two percent transfer tax should be sufficient in this case to more than offset the increased operating cost for Customs. If one assumes that a total of five full-time equivalent personnel would be required at a standard Customs officer's salary, then the total annual cost in wages and benefits would be approximately BZ$60,000. In order to cover these costs from the two percent transit tax, BZ$3 million in new sales would need to be generated. If Customs is not willing to incur these costs initially, then the merchants could be approached to defray the additional salaries required for maintaining the controls at the gate, keeping the inventory records, and supervising the operation. The cost of computerization should be considered as part of an eventual plan to computerize all Customs records. However, on a pilot basis the records could be kept on a single computer using standard database software, which would not be expensive to acquire and install.

5.12 There are potential problems or objections which may result from adopting this program for retail sales at Santa Elena. First, Customs is concerned about purchases by or on behalf of Belizeans which will be smuggled back into Belize without proper payment of duties, which would undermine the Belizean tariff system and result in a revenue loss to the GOB. It is doubtful that the ability to purchase liquor and other high tariff items in a DFSC at Santa Elena would significantly increase smuggling in the formal sense; the type of smuggling of concern to Customs occurs on a wholesale basis anyway and not in small quantities. What is more likely is that, for example, Belizean residents returning from Mexico would purchase single bottles of alcohol or perfume or other items and attempt to conceal them in their belongings as they pass through inbound Belizean Customs. This can be mitigated by structuring the physical flow of persons so that those entering Belize proceeded directly to the Customs and immigration hall from the duty-free shopping area.

5.13 Additionally, it should be noted that the BZ$10 limit for duty-free purchases by Belizean residents outside the national Customs territory is very low and largely unenforceable (as is all small-scale smuggling). An increase in that amount, perhaps to BZ$100, plus allowing a fixed amount of alcohol (1 liter) or tobacco (1 carton), would place Belize on a more comparable basis with other countries. (Mexico allows BZ$600 in duty-free imports per person; the United States allows BZ$800). This would relieve Customs from being concerned about control of small quantities, and allow them to concentrate on inspection and control of significant quantities of dutiable items which may be coming into the country without proper duties paid.

5.14 Second, the plan for a duty-free retail area at the border is strongly resisted by some Chetumal merchants, who are simply concerned

about losing business and market share to Belizean competitors. The fears expressed by these merchants is not uniformly shared by all Mexican officials and businessmen, and should not, by itself, affect the course of GOB policies on duty-free sales. Given the substantial trade surplus Mexico maintains with Belize, there is likely to be little opposition formally in Mexico from the government to increased duty-free sales to Mexicans. However, informal actions, such as increasing delays in processing goods through inbound Mexican Customs, could prove disruptive. In addition, should the introduction of duty-free retail sales at Santa Elena negatively affect Chetumal retail business, there could be retaliatory measures from the private sector. For example, merchants could shift wholesale purchases away from Belize, thereby decreasing transit trade through Belize. This is, however, an issue of commercial relations among private parties in Mexico and Belize, and should be resolved among the merchants themselves, many of whom have formal relationships. It is anticipated that the issue will not have a major impact, as Mexican merchants currently enjoy higher profit margins than their Belizean counterparts, with the possible exception of alcohol, can compete effectively with Belizean retailers.

5.15 These potential problems are not sufficient to prevent proceeding with the re-introduction of retail sales at Santa Elena. Initially, the economic impact of increased retail sales is likely to be quite small, but could increase significantly if the duty-free shopping area is effectively promoted, and Belizean merchants can be competitive with the alternatives in Chetumal.

5.16 The opportunities for expansion of duty-free sales elsewhere in the country also exist. The new airport terminal contains space for five duty-free retail shops, one of which will serve inbound passengers. Procedures for these operations are well established, and do not require significant changes at this time. Some provision for volume storage at bonded warehouses adjacent to the airport may be necessary in order to facilitate increased sales volumes and inventories. Additional duty-free sales could also be made out of stores in Belize City for cruise ships and hotel guests. The procedures outlined above for inventory control can form a basis for these operations, with specific procedures for delivering goods to vessels and aircraft.

* * * *

5.17 The existing mechanisms for wholesale and retail duty-free trade will be improved by the implementation of these recommendations, all of which can be made without major new legislative or other initiatives. Efforts on the part of private merchants and Customs at Santa Elena to implement appropriate controls and procedures for duty-free retail constitute the core of actions recommended to expand existing activity. Should the demand for transshipped and re-exported goods increase substantially, then consideration may be given to the centralization of duty-free warehousing capacity with streamlined procedures through the establishment of a commercial free zone. Although it was suggested above that the site for such a zone would be adjacent to or within the Belize City Port, the location of such a zone should be the result of private investment decisions, taken in conjunction with Customs, the Port

Authority, and other concerned organizations. The procedures for operating such a zone can be developed within the existing framework for Customs regulations, and also would not require a new legislative initiative. At the current time, with the limited potential for significantly increasing trade, the current decentralized system of private bonded warehouses should continue to be the principal vehicle for the conduct of transshipment and re-export trade.

ANNEX A

CUSTOMS FORMS FOR IN-BOND OPERATIONS

BELIZE CUSTOMS DEPARTMENT

APPLICATION FOR THE APPOINTMENT OF A BUILDING TO BE USED AS A BONDED WAREHOUSE

TO COMPTROLLER OF CUSTOMS

I apply for the appointment of the undermentioned building to be used as a bonded warehouse, Plans of the building and of its situation in relation to the neighbouring buildings are attached to this application.

Name and address of applicant .....

.....

State whether warehouse is for general or private use .....

Estimated amount of duty chargeable on goods likely to be warehoused at any one time .....

Name of proposed surety .....

Particulars of Building:

Address and Situation .....

.....

State whether whole or part of building .....

If part, for what purpose is the remainder used and by what means is the proposed bonded warehouse part secured from the rest .....

.....

Of what materials is the building constructed .....

.....

Dimensions of proposed Bonded Warehouse .....

.....

Descriptions of doors and how fastened .....

Description of windows and how fastened .....

Materials of roof or ceiling and how secured .....

Ventilation and how secured .....

.....

..... 19 .....

.....
Signature of Applicant

BELIZE

Exhibit B

General Bond for Security of Duty on Goods Warehoused

Know all men by these presents that we (1) _____

of _____ and (2) _____

of _____ are held and firmly bound unto Her Majesty

the Queen, in the sum of _____ dollars to be paid to Her Majesty the Queen Her Heirs and Successors for which payment well and truly to be made we bind ourselves and every of us jointly and severally for and in the whole our heirs, executors, administrators and assigns and every of them firmly by these presents.

Dated this _____ day of _____

in the year of Our Lord one thousand nine hundred and _____

Whereas the Comptroller, in virtue of the authority vested in him by the Customs Laws, has

appointed No. _____ Warehouse situated _____

in the port of _____ whereof the said (1) _____

_____ is the occupier, as a Warehouse for the warehousing

of goods without payment of duty on the first entry thereof and has directed that the said

1) _____ shall give security in the said sum of

_____ dollars and has approved of the said

(2) _____ as surety of the said (1) _____

_____

Now the condition of this obligation is such that if the full duties on all such goods as shall at any time be warehoused in the above-mentioned warehouse shall from time to time be duly paid to the Comptroller or if all such goods shall be duly exported then the above written obligation shall be void but otherwise shall be and remain in full force and virtue.

Signed sealed and delivered

by the above bounden _____)
in the presence of _____) _____
of _____)

Signed sealed and delivered

by the above bounden _____)
in the presence of _____) _____
of _____)

Approved:

_____
Comptroller.

(1) Occupier
(2) Surety

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IMPORT ENTRY FOR WAREHOUSE EX

* SHIP, ETC.
* QUEEN'S WAREHOUSE

FORM B

IMPORTER AND ADDRESS

CONSIGNOR

PORT OF

NAME OR NO OF SHIP / AIRCRAFT / VEHICLE

DATE REPORTED

ROT NO.

IMPORT LICENCE NO

RATE OF EXCHANGE

METHOD OF PAYMENT

B O L

NO AND DATE OF P / POST

NO OF VALUE SLIP

IMPORTER'S AUTHORISED AGENT (IF ANY)

*GOODS TO BE WAREHOUSED IN

WAREHOUSE

PACKAGES				TARIFF ITEM NUMBER	DESCRIPTION OF GOODS	STATISTICAL CLASSIFICATION NUMBER	QUANTITY		COUNTRY OF ORIGIN	No. of Country	VALUE C.I.F.		WAREHOUSE ENTRY NO. AND DATE
Marks	Numbers	No	Type				In Figures	Unit of					

TOTAL NO. OF PACKAGES IN WORDS

W/RENT

*I the authorised agent of the importer/importer declare that the particulars shown in this entry are true and complete.

Declared this day of 19

*Delete Words Inapplicable

*Importer / Agent

WARNING

Any person who makes or signs or causes to be made or signed any declaration relating to the customs which is untrue in any material particular is liable to heavy penalties and/or imprisonment.

ENTRY PASSED FOR PAYMENT

For Comptroller of Customs

FOR OFFICIAL USE ONLY

Date of Presentation of Entry	Initials

FOR OFFICIAL USE ONLY

TO IMPORTER:

TO VALUATION BRANCH.

TO INVOICE INSPECTION SECTION:

GENERAL REMARKS:

DOCUMENTS LODGED

TYPE	SUBMITTED NO	RETAINED NO
Licence		
Invoices		
A.W.B. or B.O.L.		
Insurance Certificate		
Draft		
Packing Lists		
Work Sheets		
Other		

DELIVERY ORDER

To the Keeper of the Queen's Warehouse

Please deliver the packages entered overleaf to

Date

Agent

WAREHOUSE RENT

FROM TO INCL.

LOT NO	PACKAGES		PERIOD	RATE	RENT
	Marks and Numbers	No and Type			
				TOTAL	

RENT IN ORDER

Date

Signature of W A O.

CERTIFICATE OF RECEIPT

Received _____ Packages

Into _____ Warehouse

Date

Warehouse Keeper

EXPORT ENTRY FOR RE-EXPORTS AND TRANSHIPMENTS EX WAREHOUSE

*FOR EXPORTATION
*FOR STORES/BUNKERS

FORM F

EXPORTER & ADDRESS	CONSIGNEE	PORT
	NAME OR NO. OF SHIP / AIRCRAFT / VEHICLE	B.O.L.
GOODS WAREHOUSED IN WAREHOUSE	EXPORTER'S AUTHORISED AGENT (IF ANY)	EXPORT LICENCE NO.
WAREHOUSE RECEIPT NO.		

PACKAGES				TARIFF ITEM NUMBER	DESCRIPTION OF GOODS	STATISTICAL CLASSIFICATION NUMBER	QUANTITY		COUNTRY OF FINAL DESTINATION	No. of Country	WAREHOUSING ENTRY		VALUE F.O.B.
Marks	Numbers	No.	Type				In Figures	Unit of			No.	Value	

TOTAL NO. OF PACKAGES IN WORDS

*I/ the authorised agent of the exporter/exporter declare that the particulars shown in this entry are true and complete.

Declared this day of 19

*Delete Words Inapplicable

* Exporter/Agent

WARNING

Any person who makes or signs or causes to be made or signed any declaration relating to the customs which is untrue in any material particular is liable to heavy penalties and / or imprisonment.

ENTRY PASSED FOR PAYMENT

For Comptroller of Customs

FOR OFFICIAL USE ONLY

W. A. O.

W/RENT	
ADMIN. FEE	
TOTAL	
Date of Presentation of Entry	Initials

CERTIFICATE OF RELEASE

Received _____
(in words)

packages as entered overleaf for delivery to the export office

_____ *Date*

_____ *Exporter or Agent*

CERTIFICATE OF SHIPMENT

_____ packages
(in words)

released for shipment were put on board the

_____

on the day of 19

_____ *Station*

_____ *Export Officer*

MASTER'S RECEIPT

Received _____ packages as above

on board the _____

this day of 19

_____ *Master*

IMPORT ENTRY EX - WAREHOUSE

FORM D

IMPORTER AND ADDRESS	CONSIGNOR	PORT OF	
	NAME OR NO. OF SHIP AIRCRAFT / VEHICLE	DATE REPORTED	ROT NO.
	IMPORT LICENCE NO.	RATE OF EXCHANGE	METHOD OF PAYMENT
B.O.L.	NO. AND DATE OF P / POST	NO. OF VALUE SLIP	IMPORTER'S AUTHORISED AGENT (IF ANY)
GOODS WAREHOUSED IN WAREHOUSE	WAREHOUSE ENTRY NO.	DATED	

PACKAGES				TARIFF ITEM NUMBER	DESCRIPTION OF GOODS	STATISTICAL CLASSIFICATION NUMBER	QUANTITY		COUNTRY OF ORIGIN	No. of Country	VALUE C.I.F.		IMPORT DUTY			Authority for Exemption from Duty
Marks	Numbers	No.	Type				In Figures	Unit of					Rate	Amount		

TOTAL NO. OF PACKAGES IN WORDS

*I the authorised agent of the importer/importer declare that the particulars shown in this entry are true and complete.

Declared this day of 19

*Importer / Agent

*Delete Words Inapplicable

WARNING

Any person who makes or signs or causes to be made or signed any declaration relating to the customs which is untrue in any material particular is liable to heavy penalties and/or imprisonment.

ENTRY PASSED FOR PAYMENT

For Comptroller of Customs

FOR OFFICIAL USE ONLY

Date of Presentation of Entry	Initials

IMPORT DUTY		
R.R.D.		
W/RENT		
TOTAL		

Exhibit E

FOR OFFICIAL USE ONLY

TO IMPORTER:

GENERAL REMARKS:

TO VALUATION BRANCH:

TO INVOICE INSPECTION SECTION:

RELEASES

NO. OF PACKAGES RECEIVED	SIGNATURE OF RECEIVER

TOTAL RECEIVED (IN WORDS)

Date

Importer or Agent

REVENUE REPLACEMENT DUTY

H.R.O.

TARIFF ITEM NUMBER	DESCRIPTION	STATISTICAL CLASSIFICATION NUMBER	VALUE	RATE	DUTY
				TOTAL	

WAREHOUSE RENT

FROM TO INCL.

LOT NO.	PACKAGES		PERIOD	RATE	RENT
	Marks and Numbers	No. and Type			
				TOTAL	

RENT IN ORDER

Date

Signature of W.A.O

ANNEX B

PRINCIPAL FIRMS ENGAGED IN BONDED WAREHOUSING, TRANSHIPMENT, AND DUTY-FREE RETAILING

PRINCIPAL FIRMS ENGAGED IN BONDED WAREHOUSING, TRANSHIPMENT, AND DUTY-FREE RETAILING

Corozal

1. Belize Estate and Produce Company Ltd.
2. COROMEX Ltd.
3. El Gran Samurai
4. Gonzalo and Co. Ltd.
5. James Brodie and Company
6. Tony's Duty-Free
7. Victor L. Bryant and Co.

Belize City

1. Angelus Press
2. Arthur Wagner
3. Associated Engineering Services Ltd.
4. Belize Air International
5. Belize Corrugated
6. Belize Estate and Produce Company Ltd.
7. Belize International Duty-Free
8. Bob Hotchandani
9. Bowen and Bowen
10. Caribbean Tobacco
11. Commonwealth Trading Corporation
12. Esso Standard Oil
13. Fort George Duty-Free Store
14. G. Ayuso and Sons Ltd.
15. George Forman
16. Gonzalo Quinto and Sons Ltd.
17. Hofius
18. James Brodie and Co.
19. JMA Motors
20. K.H. Menzies Ltd.
21. Macmillan Brothers
22. Marelco Ltd.
23. Matus Brothers
24. Mona Lisa
25. Price and Company
26. Santiago Castillo
27. Santos Dias
28. Screen Process
29. S.J. Turton
30. TACA
31. Tan Sasha
32. Traveler's Limited
33. Victor L. Bryant and Co.
34. Vildo Marin and Sons
35. William Quan
36. Williamson Industries Ltd.

Benque Viejo

1. S.J. Turton

Orange Walk

1. Cuello Brothers

Punta Gorda

1. Augusto Mak

ANNEX C

FIELD MISSION INTERVIEWS AND MEETINGS

FIELD MISSION INTERVIEWS AND MEETINGS

Belize: Public Sector

1. Efrain Aguilar, Acting Comptroller, Customs Department
2. D. Ashton, Manager, NAAFI, British Forces Camp
3. Conrad Arzu, Customs Officer, Customs Department
4. Harold Arzu, Economist, Ministry of Economic Development
5. Marvin Cacho, Acting Assistant Comptroller, Customs Department
6. Alfred Coye, Ports Commissioner, Belize Port Authority
7. Pablo Espat, Chief Executive Officer, Belize Airports Authority
8. C. Geban, Senior Customs Examiner/Warehousing, Customs Department
9. W. Gillett, Immigration and Nationality Department
10. Florencio Marin, Deputy Prime Minister and Minister of Natural Resources and Industry
11. Vildo Marin, Minister of State, Ministry of Foreign Affairs, Economic Development, and Education
12. S. Roberts, Chief Statistical Officer, Central Statistical Office
13. Daniel Silva, Minister of State, Ministry of Finance, Home Affairs & Defense, and Trade & Commerce
14. Romey Tagear, Director of Tourism (Designate), Belize Tourism Board
15. Edgar Woodeye, Acting Permanent Secretary, Ministry of Trade & Commerce

Belize: Private Sector

1. O. Ayuso, G. Ayuso & Sons Ltd.
2. A. Castillo, Tony's Duty-Free Store
3. Addy Castillo, Managing Director, Santiago Castillo
4. Tony Castillo, Owner, Tony's Motel and Tony's Duty-Free Store
5. Ernest (Al) Chanona, Executive Director, Belize Tourism Industry
6. Rafael Chavez, President, Universal Import & Export Ltd.
7. A. Duncan, General Manager, The Belize Estate & Produce Co. Ltd.
8. Luis Buenfil Duran, President, Buendurex S.A.
9. D. Escobar, Fort George Hotel & Marina
10. M. Flores, Director/President, Universal Customs Brokers Ltd.
11. Phillip Gallaty, Managing Director, Victor L. Bryant & Co. Ltd.
12. Jimmy Gegg
13. Bob Hotchandani, President, Cable Beauty Cave/Ideal
14. Paul Hunt, Executive Chairman, Fort George Hotel & Marina
15. Volio Marin, General Manager, Santa Elena Sewing Enterprises
16. E. Medina, Director/Secretary, Universal Customs Brokers Ltd.
17. Winston Miller, Investments Manager, Belize Chamber of Commerce & Industry Association
18. Albert Musa, President, Albert Musa & Son Ltd.
19. E.N. (Billy) Musa, Director/President, James Brodie & Co. Ltd.
20. Dan O'Neil, Belize Country Manager, Tropical Shipping
21. David Quinto, Manager, Gonzalo Quinto & Sons
22. William Quinto, Manager, Gonzalo Quinto & Sons
23. Paulino Quiros, Agencies Manager, The Belize Estate & Produce Co. Ltd.
24. John Robertson, Belize Timber Ltd.
25. John Searle, Managing Director, Belize Global Travel Services, Ltd.
26. Michael Singh, Tropical Shipping
27. L. Sylvestre, Belize International Duty-Free Store
28. M. Vasquez, Gonzalo & Co.

Mexico

1. Armando Hacur, President, National Chamber of Commerce and Tourism of Chetumal
2. Antonio Parra, Importer
3. Carlos Parra, Vice President - Commerce, National Chamber of Commerce and Tourism of Chetumal
4. Jorge Valencia, Former Belizean Consul to Chetumal, Chetumal