

**LAW OF MONGOLIA**

**February 12, 2015**

**Ulaanbaatar city**

**ON FREE ZONE**

**/REVISED VERSION/**

**CHAPTER ONE**

**GENERAL PROVISIONS**

Article 1. Purpose of this Law

1.1. The purpose of this law is to set out principles pertaining to establishment, reorganization and dissolution or liquidation of Free Zones, their location, management powers, control systems, and determines the legal basis for taxes, customs, entry/exit clearance, registration of legal entities and individuals, and employment to be adopted at Free Zones and regulates the relations connected therewith.

Article 2. Free Zone Legislation

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

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

Article 3. Definitions

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

3.1.1. "Free Zone" means a special site within the territory of Mongolia that are deemed to be outside of the customs territory for the purposes of customs area, customs duties and other taxes, adopting special regulatory treatments for a business activity;

3.1.2. "special treatments of operation in Free Zones" means a special regulation set forth in this Law with regard to tax credits or exemptions from the levy of customs duties or other taxes, or facilitating conditions for entry-exit clearance, registration, customs controls, travel to, and employment in the Free Zones as afforded to business entities or individuals operating in Free Zones, in order to attract investments, introduce new technologies, promote export and develop tourism and services;

3.1.3. "customs territory" means a territory as referred to in clause 4.1 of the Customs law;

3.1.4. "simplified customs clearance procedure" means a procedure as referred to in article 30 of the Customs law;

3.1.5. "non-tariff barrier" means a trade restriction as referred to in Clause 3.1.14 of the Customs Law;

3.1.6. "facilitating trade" means an international trade process or activities such as reducing, simplifying and coordinating the flow of information, data and documents related to the supply of goods, raw materials or products from the seller to the buyer, registration of barcodes and payment;

/This provision was revised by the law dated 28 December 2016/

3.1.7. "barcode" means non-duplicate number identifying goods, war materials, products and services;

/This provision was revised by the law dated 28 December 2016/

3.1.8. "travel to a Free Zone" means entry into a Free Zone by a Mongolian citizen, a foreign national, or a stateless person, for business or private purposes;

3.1.9. "Mongolian goods" means such goods as referred to in clause 3.1.2 of the Customs law;

3.1.10. "good manufactured in a Free Zone" means any goods of which more than 40 percent of the value-added cost spent on production of products is created in the territory of a Free Zone;

3.1.11. "economic cooperation zone" means a Free Zone established in the respective border port area of a neighboring country on the basis of an inter-governmental agreement;

/This provision was revised by the law dated 17 December 2021/

**CHAPTER TWO**

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

Article 4. Purpose for Establishing a Free Zone

4.1. The purpose for establishing a Free Zone is to increase an economic growth by ways of accelerating regional development, facilitating trade, introducing and adopting new technologies, increasing transits and logistics, developing new industries of trade and services and tourism, attracting investments, promoting exports and imports by individuals and business entities and developing export-oriented production upon creation of favorable regulatory and investment environments in the region.

#### Article 5. Principles and Prerequisites for Establishing a Free Zone

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

5.1.1. to be based on open, transparent and fair competition to promote businesses;

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

5.1.3. to have water resources and power supply available to Free Zone;

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

5.1.5. to create a legal basis for establishment of a Free Zone and offer favorable environments and conditions of reliable operation for investors and business entities;

5.1.6. to be environmentally friendly;

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

Article 6. Establishment, Reorganization and Dissolution of Free Zones, and Determination of Their Locations and Boundaries, and Opening and Temporary Closure of Operation

*/The title of this article was amended by the law date 17 December 2021./*

6.1. The State Great Khural shall make resolutions with regard to establishment of a Free Zone in the territory of Mongolia, determination of its location, size of an area to be allocated to the Free Zone, its boundaries, and its reorganization, dissolution, and defining types and areas of operation upon submission of the Government.

6.2. Free Zones shall be set up in border areas or in such regions as recommended by the Government.

*/This provision was amended by the law dated 17 December 2021/*

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

*/This provision was revised by the law dated 17 December 2021/*

6.3. In accordance with inter-governmental agreements, an economic cooperation zone may be established with a neighboring country, and the policies and directions to be followed in a Free Zone as well as the issue of connecting them through cross-border facilities shall be regulated by the agreement concluded with the relevant country.

*/This section was revised by the law dated 17 December 17, 2021/*

6.4. The Government shall make a decision on opening or temporary closure of the Free Zone activities upon the proposal of the Cabinet member in charge of Free Zone issues.

*/This section was added by the law dated 17 December 2021/*

6.5. If the issue of opening or temporarily closing the activities of an economic cooperation zone is specified in the international agreements concluded with the neighboring countries and relevant laws and regulations except for clause 6.4, it shall be resolved in a diplomatic way.

*/This section was added by the law dated 01 December 2021/*

### CHAPTER THREE

#### MANAGEMENT OF FREE ZONE

Article 7. Powers of Cabinet member in charge of Free Zone issues

*/The title of this article was amended by the law date 17 December 2021/*

7.1. The Cabinet member in charge of Free Zone issues shall exercise the following powers:

*/This section was amended by the law dated 17 December 2021/*

7.1.1. to formulate policies and directions to be adopted by the government with respect to Free Zones;

7.1.2. to develop a proposal on establishment, reorganization or dissolution of a Free Zone and submit it to the Government for review;

7.1.3. to coordinate the operations of Free Zones and provide overall management;

7.1.4. to report the operations of Free Zones to the Government annually;

7.1.5. to develop budgets related to governmental regulations and operations of Free Zones;

7.1.6. to coordinate activities of governmental agencies and economic entities operating at Free Zones;

7.1.7. to provide management to, ensure its implementation of, and exercise control over projects and programs to be implemented in a Free Zone under loans and financial assistance;

7.1.8. to ensure control over implementation of resolutions and decisions issued by the State Great Khural and the Government in relation to Free Zone's development projects or Free Zones;

7.1.9. to approve the rules and procedures to be followed in operations of a Free Zone;

7.1.10. to determine the eligibility criteria for projects and programs offered by the Investor's Council referred to in 21.1 of this law;

#### Article 8. Governor of Free Zone and Governor's Powers

8.1. The Governor of a Free Zone is a government representative whose function is to implement public administration management in a Free Zone.

8.2. A Cabinet Member in charge of Free Zone issues shall appoint and dismiss the Governors of Free Zones.

8.3. The Governor of a Free Zone shall be accountable before the Cabinet Member in charge of Free Zone issues for his/her performance.

8.4. The Governor of a Free Zone shall have a Governor's Office, and its structure, staffing and cost limits shall be determined by the Government.

8.5. The Governor of a Free Zone shall use a common seal and printed letterhead as prescribed.

8.6. The Governor of a Free Zone shall issue an order in respect of matter of his/her functions to give effect to the laws. If such order is inconsistent with the laws and regulations, the Governor or the Cabinet Member in charge of Free Zone issues shall modify or revoke such order.

8.7. The Governor of a Free Zone shall exercise the following powers:

8.7.1. to represent the Free Zone in matter relating to operations of the Free Zone and make decisions within the authority his/her powers;

8.7.2. to prepare draft program and budget for the development of Free Zone for approval and ensure implementation;

8.7.3. to enter into agreements and contracts on behalf of the Free Zone;

8.7.4. to formulate and enforce the workforce and employment policies of the Free Zone;

*/This provision was considered invalid by the law dated 24 December, 2021./*

8.7.5. to facilitate infrastructure and construction of the Free Zone, be in charge of utilization of state-owned facilities and ensure a control;

8.7.6. to register and deregister legal persons operating in the Free Zone;

8.7.7. to issue a land use license to individuals, business entities or organizations in the territory of the Free Zone;

*/This provision was amended by the law dated 17 December, 2021./*

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

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

8.7.10. to facilitate and coordinate public order, fire safety and emergency services in the territory of the Free Zone;

8.7.11. to grant licenses for sales and service of alcoholic drinks, sales of cigarettes, or for production of alcoholic beverages produced by traditional technology as per the procedures approved by the Government for the purpose of exporting as specified in the Law on Licensing;

*/This provision was amended by the law dated 17 December, 2021/*

*/This clause was revised by the law dated 17 June, 2022 and will be in force from 01 January 2023/*

/This clause was amended by the law dated 05 July, 2022 as "license for production of alcoholic beverages produced by traditional technology as per the procedures approved by the Government for the purpose of exporting" after the word "as per the procedure" and will be in force from 01 January 2023/

## CHAPTER FOUR

### SPECIAL TREATMENTS OF OPERATION IN FREE ZONE

#### Article 9. Regulation of Special Treatments of Operation in Free Zone

9.1. Special Treatments shall be maintained in a Free Zone in terms of customs, visa, travel by Mongolian nationals, foreign nationals and stateless persons, registration of legal entities, currency regulation, specialized inspection, employment, taxation and other areas.

9.2. The governmental services shall be based on a one-window electronic service in the Free Zones for facilitating trade, tax relations, business and investment.

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

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

10.1.1. for goods entering a Free Zone from overseas, cargo manifest, waybill, and if necessary, relevant permit;

/"license" was deleted from this clause by the law dated 17 June, 2022 and will be in force from 01 January 2023./

10.1.2. for goods entering a Free Zone from the territory of Mongolia, tax receipt in addition to documents specified in clause 10.1.1;

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

10.3. Non-tariff restrictions shall not be set for goods imported from overseas into a Free Zone or exported from a Free Zone to a foreign country.

10.4. A simplified customs clearance procedure shall apply to goods imported into the Free Zone from overseas or exported from the Free Zone to a foreign country.

10.5. A risk-based customs control shall be exercised against goods imported into the Free Zone.

10.6. Any business entity or organization operating in a Free Zone shall be connected with a customs office through an electronic data network and the registration of goods imported into the Free Zone shall be completed electronically.

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

11.1. National of a neighboring country adjacent to a Free Zone located in a border port may visit the Free Zone without a visa for a period of 30 days. A travel by a national of a third country shall be subject to the terms and conditions of mutual visits provided by the international agreement to which Mongolia is a party.

/This provision was amended by the law dated 17 December, 2021./

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

11.3. Visa validity period or visa-free travel of a foreign national or stateless person referred to in 11.1 of this Law may be extended for up to 30 days for once.

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

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

11.4.2. if a foreign national or a stateless person, foreign passport or equivalent document;

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

#### Article 12. Regulation of Registration of Legal Entity in Free Zones

12.1. A legal entity engaged in an economic activity in a Free Zone shall submit the following documents to the governor's office of a Free Zone:

12.1.1. if a Mongolian legal entity, an application, a copy of the state registration certificate of legal entities and registration fee payment receipt;

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

12.2. The Governor's Office of a Free Zone shall review and process the application materials within 5 business days from the date of receipt of the documents referred to in 12.1 of this Law. If an applicant is deemed to have met the relevant requirement specified in the relevant procedure, such applicant shall be registered in registration of legal entities of a Free Zone and be provided a certificate which is valid only in the given Free Zone.

12.3. The Governor's Office of a Free Zone shall submit an information on foreign-invested legal entities and investments to the Cabinet member in charge of Free Zone issues quarterly.

/This provision was amended by the law dated 17 December, 2021./

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

12.5. A legal entity operating in a Free Zone shall be removed from the records of legal entities of a Free Zone on the following grounds:

12.5.1. failure to commence the main production or service specified in its memorandum and articles of association or charter within a one-year period from the date of signing of the investment agreement and issuance of certificate of legal entities of a Free Zone;

12.5.2. interruption or cessation of operation due to its own reasons for a consecutive 12 months' period after commencement of its operation;

12.5.3. court decision was issued for its dissolution;

#### Article 13. Payment Settlement in Free Zone

13.1. Payments in Free Zones shall be made in national or foreign currencies.

13.2. Establishment of a Bank, Non-Banking Financial Institution or its branches shall be subject to the relevant legislation.

#### Article 14. Specialized Inspections in Free Zone

14.1. The central specialized inspection agency shall coordinate the specialized inspections in a Free Zone.

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

14.2.1. it is necessary to inspect livestock, animals, plants, or quarantine during the customs inspection;

14.2.2. complaint is received with regard to products, goods, food hygiene, quality of facilities or environmental pollution inside the Free Zone;

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

15.1. Clause 4.1.4 of the law on sending labor force abroad and receiving labor force and specialists from abroad shall not apply to recruitment and employment of foreign manpower in a Free Zone.

/This provision was considered invalid by the law dated 24 December, 2021./

15.2 If a legal entity or an individual in a Free Zone employs a foreign national who is engaged in income generating works or service, it shall be exempt from the payment of employment fees.

15.3. If a legal entity operating in a Free Zone implements a project or program to develop skills and capabilities of its employees, the cost shall be deducted from the taxable income of the given year.

#### Article 16. Special Treatment of Taxation in Free Zone

16.1. The following tax exemptions and discounts shall apply to a Free Zone:

16.1.1 goods imported from overseas into a Free Zone shall be exempt from the levy of import tax, customs duties, VAT and excise tax;

16.1.2. no tax shall be imposed on goods entering a Free Zone, which are previously imported into the customs territory upon payment or import tax, customs duties, VAT and excise tax. Deductions shall be made from other taxes against payment receipts for taxes paid in the customs territory;

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

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

from a Free Zone;

16.1.5. goods other than those referred to in 16.1.4 shall be subject to the customs duties and other taxes under applicable laws when entering the customs territory from a Free Zone;

16.1.6. no tax shall be imposed on goods exported from a Free Zone to overseas;

16.1.7. no VAT shall be imposed on goods manufactured or sold or services rendered in the territory of a Free Zone by a citizen or legal entity registered in a Free Zone.

16.2. The Government shall from time to time approve a list of goods worth up to MNT3.0 million as referred to in 10.2 and 16.1.4 of this Law.

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

16.4. /This provision was considered invalid by the law dated 22 March, 2019/

16.5. In addition to the provisions of 16.1 of this law, the following tax discounts/credits and exemptions apply to the Free Zone.

/This provision was amended by the law dated 22 March, 2019/

16.5.1. A business entity conducting an innovation and high technology-based production in a Free Zone shall be exempt from corporate income tax during the subsequent five years from its commencement of economic operation;

/This provision was considered invalid by the law dated 22 March, 2019/

16.5.2. The facilities constructed and recorded in a Free Zone shall be fully exempt from immovable property tax.

16.6. A legal entity registered in a Free Zone shall issue its financial and tax statements of its operations in a Free Zone and submit to the Governor's Office of a Free Zone.

#### Article 17. Enforcement of Special Treatments and Other Services in Free Zones

17.1. The Governor's Office of a Free Zone shall enforce and implement the special treatments of state registration, taxation, customs, entry-exit clearance, checkpoint inspection and quarantine on the basis of agreements concluded with the relevant public administration agency via their representations.

17.2. The Governor's Office of a Free Zone shall implement the services for ensuring social order, fire safety, medical emergency, hygiene and infrastructure supply on the basis of agreements concluded with the state or private entity in charge of such matters.

17.3 The Governor's office of a Free Zone shall provide information on enforcement status of activities specified in 17.2 of this Law to the relevant agency as set out in legislations.

### CHAPTER FIVE

#### BUSINESS ACITIVITIES IN FREE ZONE

##### Article 18. Type of Business Activities

18.1. All types of business activities that are in conformity with the requirement of the effective regulations of Mongolia, including production, services, tourism, trade, international banking, finance, paid puzzle games and gambling games are permitted in a Free Zone.

18.2. Any business activity for which licensing is required in a Free Zone shall be subject to Law on Licensing.

/"Licensing of business activities" was amended as "Licensing" in this provision by the law dated 17 June 2022 and will be in force from 01 January 2023./

##### Article 19. Revenues from Business Activities of Free Zone

19.1. The Governor's Office will collect the following revenues in the state budget:

19.1.1. income tax and charges of business entities, organizations or individuals of a Free Zone;

19.1.2. fees for possession or utilization of state-owned buildings and facilities located in a Free Zone and rendering of services;

19.1.3. land fees;

19.1.4. revenues from other business activities and services;

19.2. Up to 20 percent of the revenues referred to in 19.1. of this Law shall be used for the development of a Free Zone, acceleration of infrastructure construction works, increase of an economic efficiency and supports of local development.

Article 20. Communication of Governor of Free Zone with local Citizens' Representatives meeting and Local Governor

20.1. The Governor of a Free Zone shall cooperate with the local Citizens' Representatives meeting and Local Governors on the matter of establishment and development of a Free Zone.

*/This provision was amended by the law dated 17 December, 2021./*

20.2. The Governor of a Free Zone shall improve employment and living standard of local population.

20.3. The Governor of a Free Zone shall cooperate to implement projects and activities for development of infrastructure in an environmentally friendly manner for general importance to Free Zones, province and local community.

Article 21. Investors' Council

21.1. A Free Zone shall have an Investors' Council consisting of representations of investors aimed at attracting investment, protecting investors' interests and supporting and promoting the development of a Free Zone.

21.2. The Investors' Council shall be governed by its charter approved by its meeting.

21.3. An investor may implement a Free Zone management on the basis of agreement signed with the Cabinet member in charge of Free Zone issues.

*/This provision was amended by the law dated 17 December, 2021./*

## CHAPTER SIX

### LAND RELATIONS IN FREE ZONE

Article 22. Land Management

22.1. Land of a Free Zone shall not be subject to the border port's territory.

22.2. The Governor of a Free Zone shall issue a decision on use of land by individuals, business entities or organizations within the territory of a Free Zone and specify the size of area to be used and a period of possession or use in the decision. The Governor's Office shall sign an agreement with land users.

*/This provision was amended by the law dated 17 December, 2021./*

22.3. The Government shall determine the basic value and an amount of land fees for a land to be used by individuals, business entities or organizations in a Free Zone.

*/This provision was amended by the law dated 17 December, 2021./*

22.4. The rights for land use shall be granted in the form of either by project selection/tender or auction.

*/This provision was amended by the law dated 17 December, 2021./*

22.5. A certificate of rights for land possession or use shall be issued to a legal entity who won in a tender process in a Free Zone after such legal entity has paid one-time fee equal to the nominal value of an auction set by ratio in accordance with the applicable laws and regulations.

*/This provision was amended by the law dated 17 December, 2021./*

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

*/This provision was amended by the law dated 17 December, 2021./*

22.7. Other relations pertaining to use of land in a Free Zone that are not specified in this law shall be governed by the Land Law.

*/This provision was amended by the law dated 17 December, 2021./*

Article 23. Land fee exemption and discount

23.1. A business entity engaged in trade, tourism or hotel /hospitality services shall be fully exempt 100 percent from land fees in terms of land used in a Free Zone during the first 5 years of its operation and 50 percent during the subsequent 3 years respectively.

*/This provision was amended by the law dated 17 December, 2021./*

23.2. A business entity and its branches engaged in infrastructure and production in a Free Zone including energy and thermal sources, engineering network, pure water supply, sewage and sanitary system, auto road, railway, airport and communications network shall be 100 percent fully exempt from land fees in terms of land used in a Free Zone during the first 10 years of its operation.

*/This provision was amended by the law dated 17 December, 2021./*

23.3. A Mongolian or foreign national or legal entity who concluded a land use or land possession agreement in a Free Zone may be exempted from the land fee for a certain period of time in consideration of performance of their obligations in respect of effective land use or protection.

*/This provision was amended by the law dated 17 December, 2021./*

23.4 The Government shall determine the duration and percentage of a land fee exemption or discount referred to in 23.3 of this Law.

## CHAPTER SEVEN

### INFRASTRUCTURE OF FREE ZONE

#### Article 24. Infrastructure and Building Facility of Free Zone

24.1 The general development plan of a Free Zone shall be approved by the Government.

24.2 Any relations with respect to urban planning, infrastructure and construction of facilities of a Free Zone to be completed under the general plan as referred to in 24.1 of this Law shall be governed by the Law on Urban Planning, Law on Construction, Auto Road Law, Energy Law and other applicable laws.

24.3. The infrastructure and facilities of a Free Zone may be constructed on the basis of a concession agreement.

24.4. In addition to the provision referred to in 24.3 of this Law, the infrastructure of a Free Zone may be financed by national or local budget funds, private sector's investment, foreign loans or financial assistance or Government Bonds.

## CHAPTER EIGHT

### SECURITY OF FREE ZONE

#### Article 25. Security of Free Zone

25.1. A Free Zone shall be a state special facility.

25.2. The security functions of a Free Zone located in a border port shall be performed under an agreement signed with the border protection agency. In case of other Free Zones, the security functions shall be performed under the agreement signed with relevant agencies.

*/This provision was amended by the law dated 17 December, 2021./*

25.3 Fighting against crime, protecting public order and ensuring public safety of a Free Zone shall be the responsibility of a police organization and national army.

*/This provision was revised by the law dated 17 December, 2021./*

*/This provision was amended by the law dated 09 February 2017./*

## CHAPTER NINE

### MISCELLANEOUS

#### Article 26. Liability for Violation of Legislations

26.1. The Governor of a Free Zone shall revoke the certificate of registration of a citizen or legal entity for operation of business in a Free Zone in the event of breach of special treatments followed in the Free Zone.

*/This provision was considered invalid by the law dated 04 December, 2015./*

26.2. In the event of dissolution or cessation of operation by a business entity or an individual operating in a Free Zone for reasons other than bankruptcy prior to the expiry of an agreement signed with the governor of a Free Zone, the sum of rates of tax credits and/or exemption shall be calculated as transferred into tax debts of the business entity.

26.3. If the act of an official who violates this law is not criminal, he or she shall be liable as provided in the State Public Law

*/This provision was revised by the law dated 04 December, 2015./*

26.4. Any person or legal entity who violates this law shall be charged with the liability specified in the Criminal Law or the Infringement Law.

*/This provision was added by the law dated 04 December, 2015./*

SPEAKER OF THE STATE GREAT KHURAL OF MONGOLIA

ENKHBOLD. Z