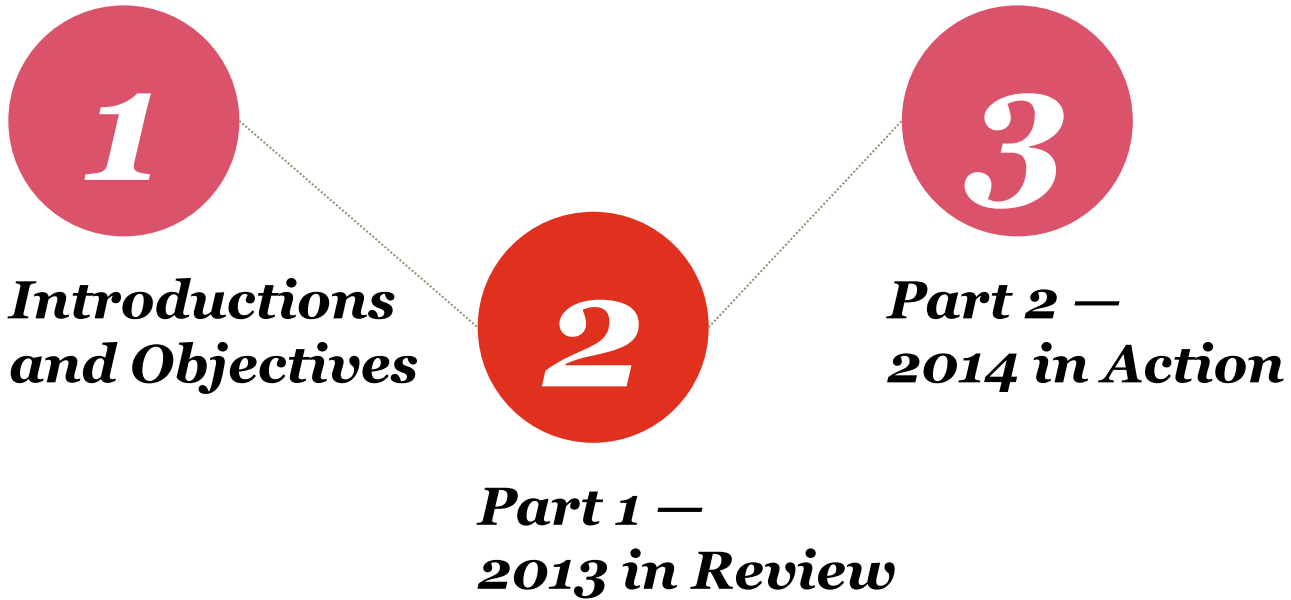


Managing China customs and international trade in 2014

27 February 2014

Agenda

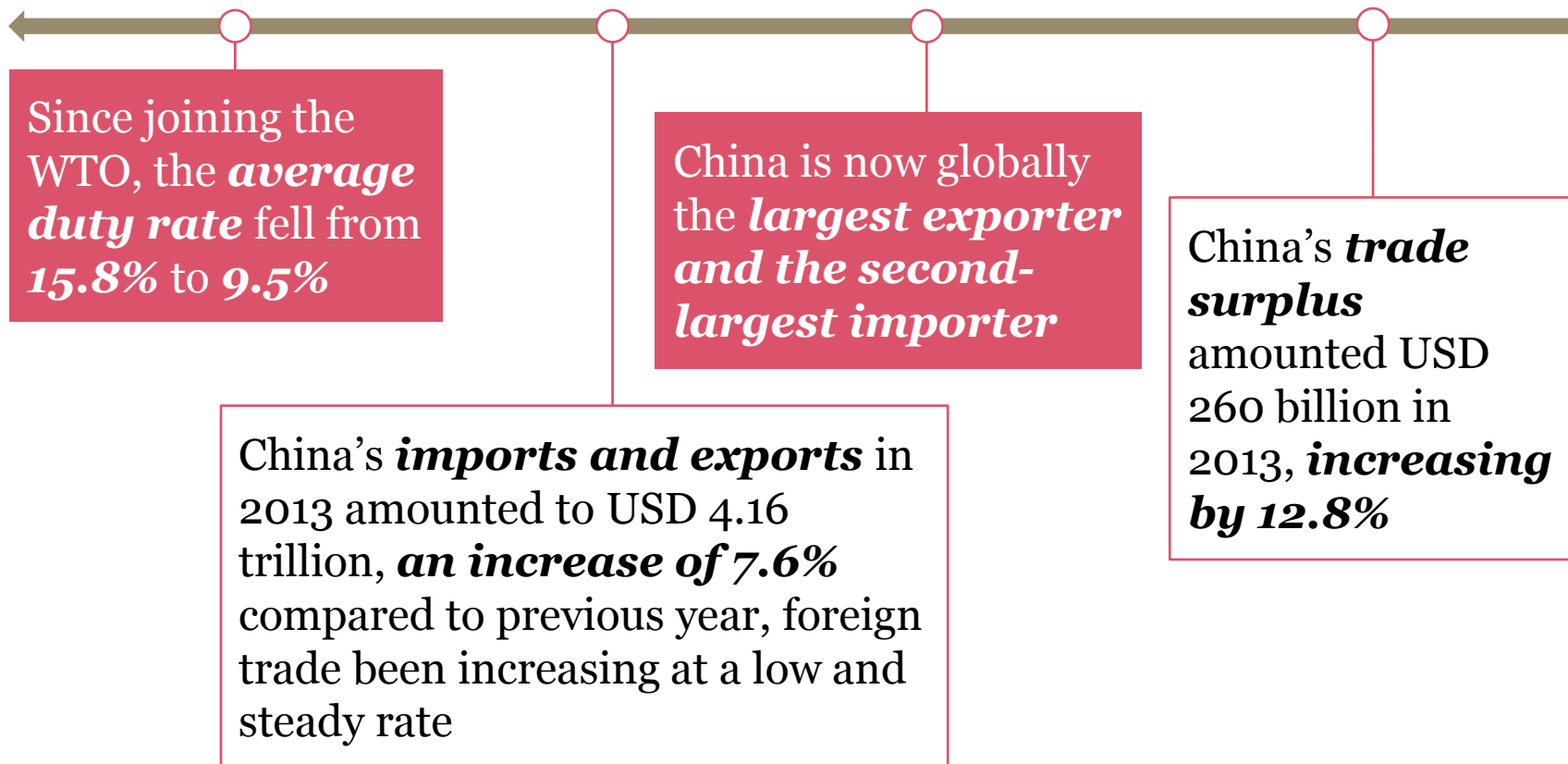


Objectives

The purpose of this Workshop is to provide you with an outlook of the key trends and events that will unfold in 2014 so that you can better manage customs and international trade within your company.

Warm up!

Looking back at 2013



Warm up!

Perspectives for 2014

Will trade frictions with the EU and US increase due to the economic situation and China's trade surplus?

Slow but steady growth in import/export volumes is expected

What new FTA will be signed in 2014 creating new customs duty saving opportunities?

What new trade facilitation measures will be in 2014 so that you can import/export more efficiently?

Part One

2013 in Review

1. Expanded Free Trade Agreement Network
2. The “three-ones” policy
3. Removal of Import/Export License
4. E-clearance
5. Deep processing under Processing Trade
6. China (Shanghai) Pilot Free Trade Zone

1. Expanded FTA Network

China — Switzerland

*Goods from
China to
Switzerland*

99.7%

Signed on 6 July 2013 in Beijing

Effective in July/August 2014

- Switzerland agrees to remove tariffs on up to **99.7 %** of Chinese exports

- China promises an overall tariff concession on 96.5 % of Swiss exports.

*Goods from
Switzerland to
China*

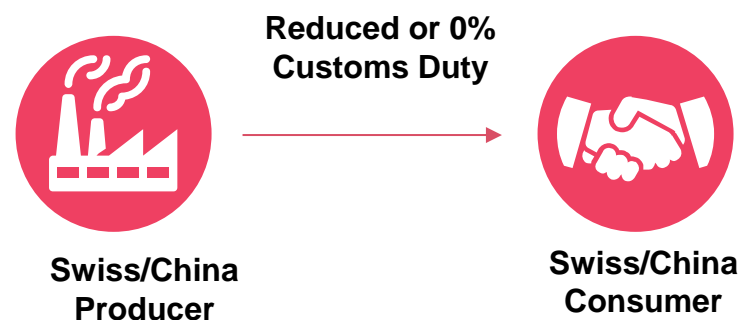
96.5%

1. Expanded FTA Network

China — Switzerland

Key features

- On “Day one”, most products will enjoy **0% duty rate**
- No “Sensitive Product List” from Switzerland
- For importation in China, certain products will face reductions taken place over several years (normally **5 to 15 years**)
- The product that can enjoy preferential duty rates must be originated from China or Switzerland (i.e. to meet the Rules of Origin)
- China’s first FTA that implements the “Approved Exporter System” (经核准出口商)



2. The “three ones” policy

*One entry,
separate
declarations*

Customs and CIQ Cooperation

Pilot in Guangdong to extend to the provinces, regions and cities of Tianjin, Shanghai, Fujian etc.

One Inspection

Example of the benefits to the importers:

- Nansha Port reduced from the original 21 hours to 15 hours, and efficiency was raised by 28.4%.
- The averaged import cost of one company located in Guangzhou was reduced by 400 M RMB for each batch.
- In Shanghai WGQ port, the solid waste products are inspected by CIQ/Customs at the same place now.

*One-time
Release*

3. Removal of Import/ Export License

Trade Facilitation

Policy Objectives

- Simplify I/E procedure
- Reduce I/E operation cost
- Save I/E operation time

Imports

<List of Goods Removed from the Automatic Import License Administration>

Effective 1 Sept 2013

Major changes:

- Meat including beef, pork and its byproducts, mutton, chicken
- Waste paper
- Steel scrap, aluminum scrap, copper, steel products
- Natural gas
- Fertilizer
- Mechanical and electrical

Exports

Renewed <Catalogue of goods subject to inspection and quarantine by CIQ>

Effective 15 Aug 2013

Major changes :

- 1,507 tariff codes no longer subject to CIQ inspection
- Addition of import inspection requirement on coal

4. e-clearance

Replace paper declarations with electronic ones by 2015

Key Requirements:

Category AA or Category A importers/
exporters and customs brokers

Using E-port and EDI systems

Not subject to any import/ export
licensing requirements

Submit electronic data of relevant
documents

Tax-due goods subscribed under
electronic tax payment method

- As of 30 March 2013, 68,174 companies (approx. 13,000 Category A and approx. 55,000 Category B) have signed the 3 party contract with Shanghai Customs for engaging in E-clearance.
- The pilot program has been further expanded to:
 - Category B
 - Companies registered outside of Shanghai
 - goods required Certificate of Inspection for Goods Inward/Outward; and
 - air shipments(not including preferential Certificate of Origin).

5. Deep processing under Processing Trade

Benefit: Digitalize the deep processing procedure to enhance the operation efficiency

GAC Notice [2013] No.2
Companies shall declare the transfer-related data to Customs by using Bonded Transfer Pre-Entry System or a standard data interface

June 1, 2013
The transfer business within direct-in-charge Customs zones shall be conducted through Bonded Transfer Management System

October 1, 2013

The transfer business across different Customs zones shall be conducted through Bonded Transfer Management System

Cost:
Maintenance cost for Customs pre-entry system

6. China (Shanghai) Pilot Free Trade Zone

Preliminary Facts & Figures

Registrations*

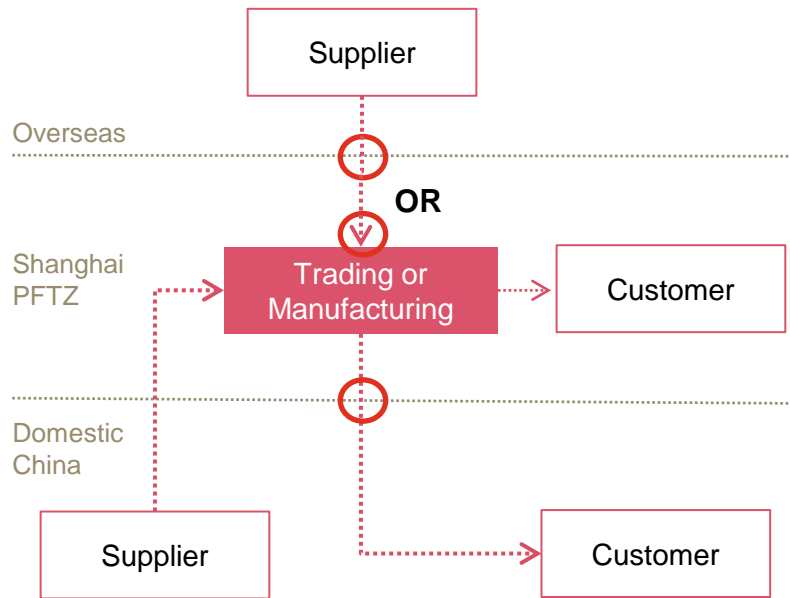
- 60% trading / 40% services
- About 1,400 domestic
- 38 foreign (67 pending)
 - 14 Hong Kong
 - 6 United States
 - 6 Japan
 - 4 Singapore
 - Other

* Based on the official data by the end of November 2013

6. China (Shanghai) Pilot Free Trade Zone

Typical Trading or Manufacturing Company

Transaction Flow



○ Customs Registration/Declaration Inward/Outward

Enhanced Trade Facilitation

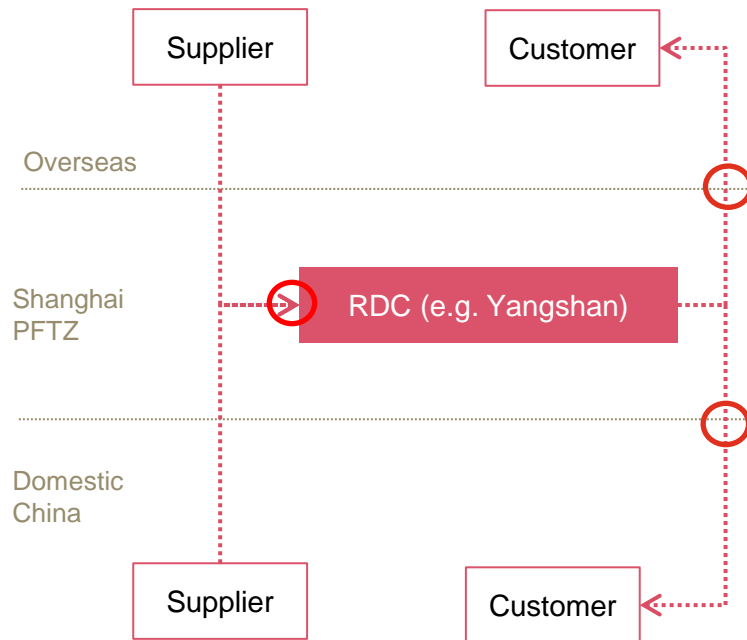
- Bonded transfers
- E-clearance
- Consolidated Declaration
- Enter-first Register-later (WMS)

Preferential tax treatment

- For goods manufactured in the PFTZ and subsequently sold to the domestic market, companies have two options: pay import tax according to the imported materials used or the status of finished products.
- An import tax exemption will be available to machines and equipment imported by manufacturing companies in the PFTZ

6. China (Shanghai) Pilot Free Trade Zone Regional Distribution Centre

Transaction Flows



Enhanced Trade Facilitation

- Actively facilitate the implementation of “Three One” policy with Customs to improve efficiency
- “Three One” refers to: one time declaration, one time inspection and one time release.
- Inward – Goods pick up first with manifest, inbound registration later
- Import – Goods delivery first, Customs Declaration with tax paid later

○ Customs Registration/Declaration Inward/Outward

Part Two

2014 in Action

1. Tariff measures
2. Non-tariff measures
3. Customs audits and investigations
4. Bonded operations
5. Trade facilitation

1. *Tariff Measures*

Revised Customs Valuation Rules

General Trade

- Arm's length pricing (Test Cases)
- Bonded storage costs
- Freight “related charges”
- Costs up to unloading
- Software

Dutiable Value of Non-bonded Goods (GAC Order 213-2013 effective 1 February 2014)

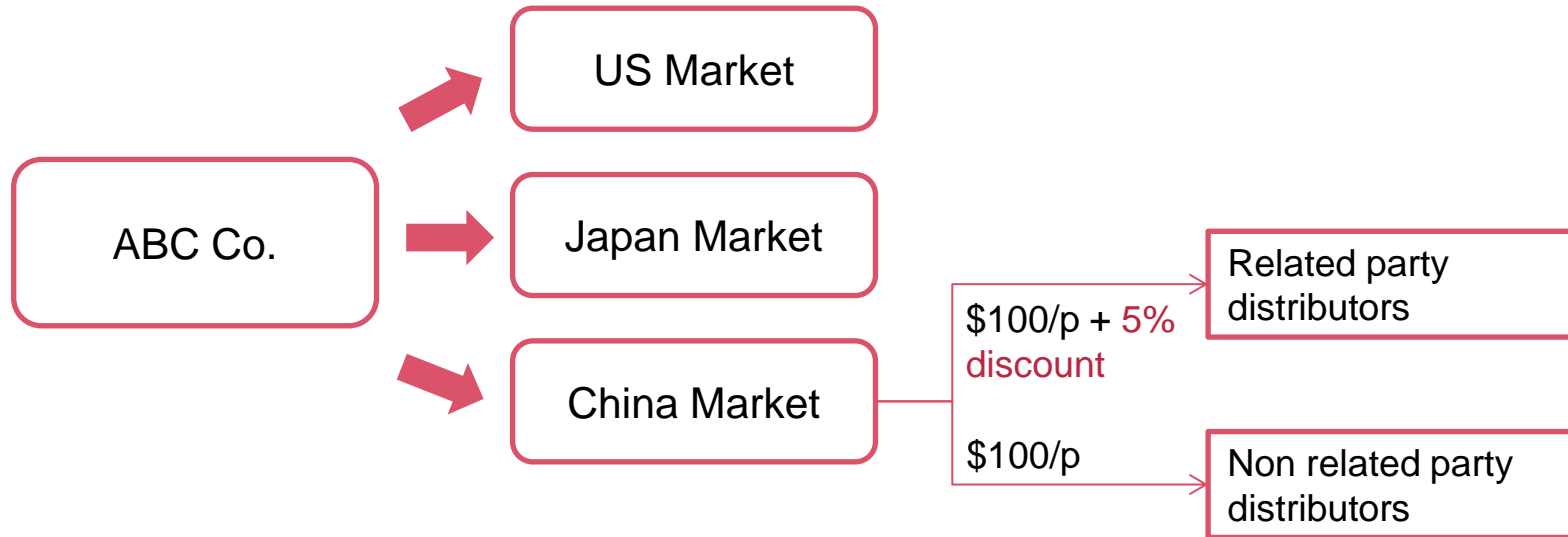
Processing Trade

- Outside Customs special supervision zone
- Within Customs special supervision zone
- Bonded storage costs of bonded logistic goods

Dutiable Value of Bonded Goods (GAC Order 211-2013 effective 1 February 2014)

1. *Tariff Measures*

Customs Valuation Case Study – Commercial Practice



Questions

1. Will Customs deem the import price with 5% discount declared by ABC Co.'s related party distributors as “consistent with commercial practice”?
2. When will it be more likely that Customs deems the arrangement of a transaction is “consistent with commercial practice”?

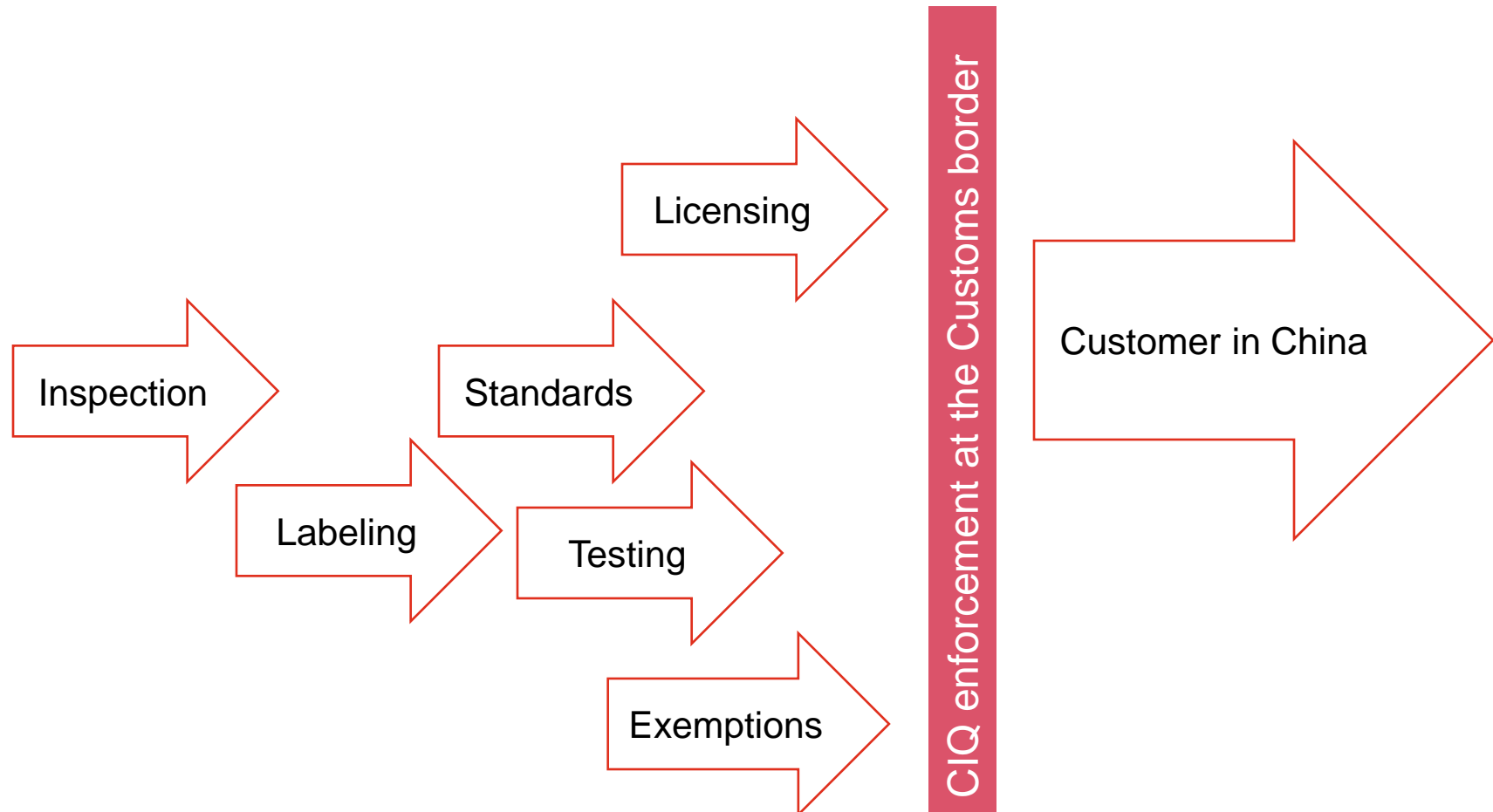
1. *Tariff Measures*

Planned FTA

Implemented	Under Negotiation	Under Feasibility
Hong Kong/Macau CEPA (2004)	Gulf Cooperation Council	India
ASEAN (2004)	Australia	Columbia
Asia-Pacific Trade Agreement (key trading partners: Korea & India) (2006)	Norway	
Chile (2006)	South Korea	
Pakistan (2007)	Japan and South Korea	
New Zealand (2008)		
Singapore (2009)		
Peru (2010)		
Taiwan ECFA (2010)		
Costa Rica (2011)		
Iceland (2014)		
Switzerland (2014)		

2. *Non-tariff Measures*

Is protectionism on the rise?



2. Non-tariff Measures

Case Study

Background

An Importer imported some goods and part of the shipment did not pass the CIQ inspection. However, the Importer sold the to-be-detained goods before obtaining the inspection result.

Goods seized by
CIQ and penalty
of 1.5 times
goods value

Observations

- Control the goods that fail the inspection
- Recall the sold goods
- Calculate the value of the recallable goods
- Deal with the unqualified goods

2. Non-tariff Measures CIQ Credit Management System

Announcement
2013-93 effective
1 January 2014

What is my initial
ranking?

How does the
ranking system
work?

What is the
evaluation
standard?

Who is
responsible?

What is the
preferential
treatment ?

2. Non-tariff Measures

CIQ Credit Management System

What is the ranking evaluation period and methodology?

- A ranking for Category "A" to "D" will generally be made based on a one-year rating cycle and according to AQSIQ enterprises do not need to apply for Category "A" to "D".

What preferential treatment is granted based on the ranking?

- Detailed preferential treatment is likely to vary in different regions and local CIQ should submit pilot plans on the preferential treatment for central AQSIQ review and approval. The preferential treatment will most likely be granted not only based on the ranking of the enterprises but also on the risk of the imported/exported products.

Who is responsible for violations and points deductions therein?

- When multiple enterprises are involved, deduction will be determined on a case by case basis in terms of the corresponding enterprise 's responsibility.

3. Bonded Operations

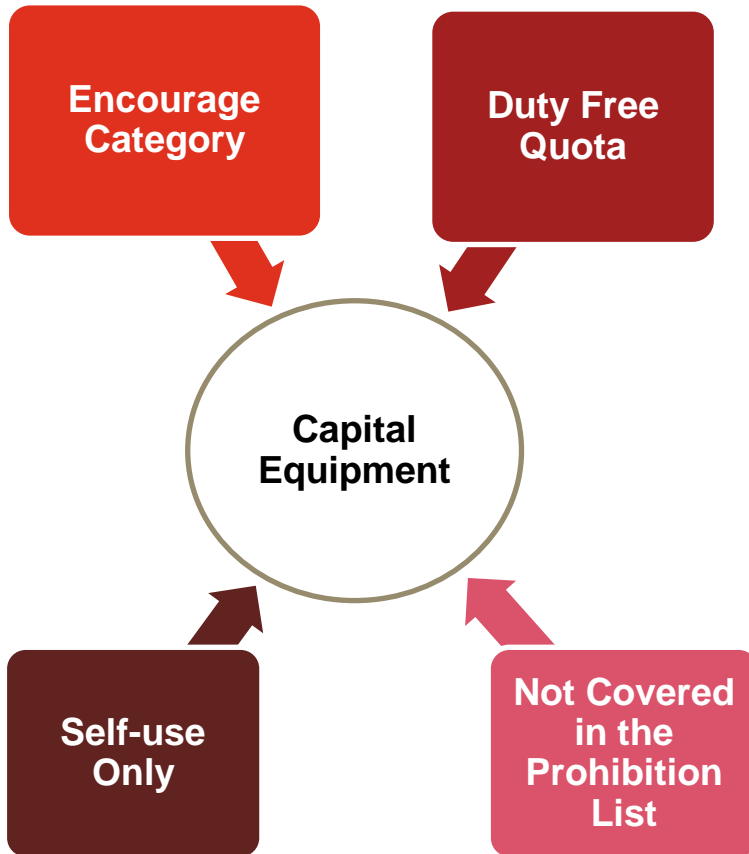
Processing Trade – automation

- Online supervision is to be fully implemented
- Customs Handbook and ERP interface is digitalized
- Internal management system is becoming important
- External software service providers are springing to offer solutions



3. Bonded Operations

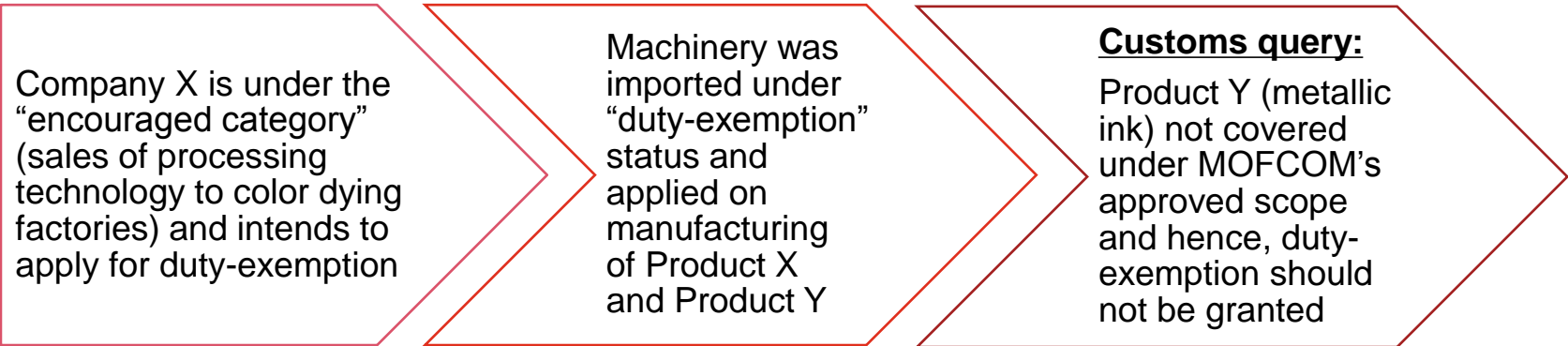
Capital Equipment



- **Focus on Supervision**
 - Deregistration
 - Transfer
 - Sales
- **Practical Challenges**
 - Transition between different Encouraged Catalogues
 - Lease equipment and consign equipment
 - Importation with guarantee placement
 - Disposal under company merger
 - Remote location supervision
 - Use of equipment for other purposes
 - Customs audit after deregistration

3. Bonded Operations

Capital Equipment (Case Study)



Issue	Solution	Lesson Learned
<ul style="list-style-type: none">• Products may not be covered under MOFCOM’s approved scope	<ul style="list-style-type: none">• Expand MOFCOM’s approved scope and obtain duty-exemption status through strategic communication with in-charge Customs	<ul style="list-style-type: none">• Risks may arise from audits• Expand MOFCOM’s approved scope possible• Strategic communication/ negotiation is vital

4. Customs Audits and Investigations

Points of Focus

“False” Declaration	Processing Trade	Duty-Exempted Equipment	Valuation Dispute
<ul style="list-style-type: none">• Duty collection• Export VAT refund• License	<ul style="list-style-type: none">• Unit of Consumption• Transfer or dispose bonded materials without Customs’ pre-approval• Customs Handbook unbalance	<ul style="list-style-type: none">• Used for other purposes• Transfer without Customs’ pre-approval• Mortgage without Customs’ pre-approval	<ul style="list-style-type: none">• Transfer price• Royalty• Freight and Insurance• Non-trade payables• Year end adjustment

5. Trade Facilitation

WTO Agreement on Trade Facilitation

Purpose

- Reduce red-tape at the Border
- Reduce cost of international trade
- Spur international trade and economic growth

Contents

- Publication
- Review drafts
- Advanced Rulings
- Appeal
- Fees and Charges
- Penalty
- Release & Clearance
- Customs Brokers

Next Steps

- Agreed on 6 December 2013 in Bali.
- To be officially signed in Geneva in June / July 2014
- Member implementation

5. Trade Facilitation

Mutual Recognition Agreements (MRA)

As-is Status

- AEO (“Authorized Enterprise Operator”) is still at start-up phase
- MRA signed with Singapore effective 15 March 2013.
- Shenzhen Customs, Shanghai Customs and Chongqing Customs have also entered into a pilot MRA with the EU since 2012.
- As for the progress in Shanghai:
 - 13 Rank AA enterprises are approved
 - Ocean shipments declared and cleared in Shanghai
 - Shipments delivered from designated EU sea ports are qualified, including Rotterdam (Netherlands), Felixstowe (UK), Le Havre (France), Genoa (Italy), Hamburg (Germany), Antwerp and Zeebrugge (Belgium).

5. Trade Facilitation

MRA

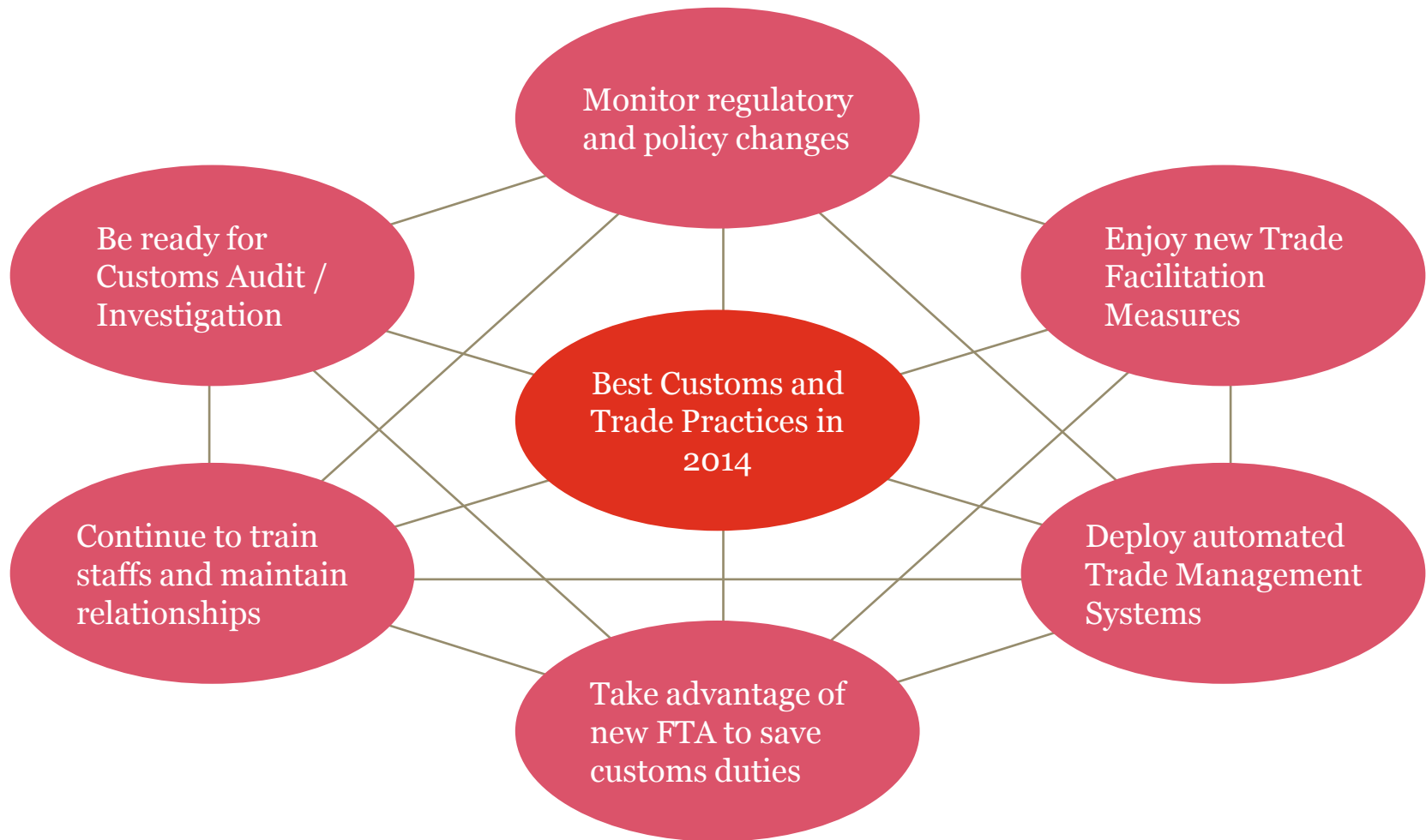
Description

- Provide convenient clearance procedures and reciprocal
- Example: Enjoyed by the IoR in China if the goods are imported from AEO exporter in Singapore or EU;
- Similarly, the same facilitation measures will be provided by Singapore or EU Customs if the goods are exported by AEO enterprises in China;
- Only Rank AA enterprise can be qualified for AEO MRA in China.
- STP-Plus enterprise can be qualified for AEO MRA in Singapore

Case Study Benefits

- Reduce the clearance lead time and inspections
- Enjoy a 0% inspection rate
- Enjoy priority of declaration, inspection (if any)

Closing Remarks...



Thank You

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The materials contained in this presentation were assembled on 20 February 2014 and were based on the law enforceable and information available at that time.

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