

Public notice regarding the promotion of the integrative customs clearance reform on a nationwide basis

July 2017

On 28 June, the General Administration of Customs (“GAC”) released a Public Notice regarding the promotion of the nationwide integrated customs clearance reforms (“GAC Notice [2017] No. 25”; or “the Notice”) which entered into effect on 1 July 2017.

Background introduction

As part of the reform efforts of China’s Central Government and the desire from industry for improved trade facilitation, the GAC issued the Notice and in doing so, the newly created National Customs Risk Prevention and Control Center (“RPCC”) and Tax Collection and Administration Center (“TCAC”) commenced operations as at 1 July 2017.

The customs reform in this round covers all goods specified in the Customs Import and Export Tariff of the People’s Republic of China (“Tariff”) crossing China’s borders by any means of transportations throughout all ports nationwide. Note current regional customs clearance centers will no longer perform the customs clearance function.

Main Changes

The main changes of these reforms involves the establishment of two centers, e.g. the RPCC and TCAC, and application of three new approaches with details outlined in the table below.

Two Centers		Responsibilities
RPCC	GAC Risk Prevention and Control Center (Shanghai)	<ul style="list-style-type: none"> ▶ Undertakes risk prevention and control over the importation and exportation of goods using the air freight mode of transportation on a nationwide basis; ▶ Risk assessment of the supply chain enterprises involved in air transportation; and ▶ Setting and reviewing the risk parameters to evaluate which shipments should be inspected based on the customs declaration information provided by the importer or exporter.
	GAC Risk Prevention and Control Center (Qingdao)	<ul style="list-style-type: none"> ▶ Undertakes risk prevention and control over the importation and exportation of goods using the sea freight mode of transportation on a nationwide basis; and ▶ Risk assessment of the supply chain enterprises involved in sea freight transportation.
	GAC Risk Prevention and Control Center (Huangpu)	<ul style="list-style-type: none"> ▶ Undertakes risk prevention and control over the importation and exportation of goods using the land transportation (e.g. road and rail) on a nationwide basis; and ▶ Risk assessment of the supply chain enterprises involved in the land transportation of goods.
TCAC	GAC Tax Collection and Administration Center (Shanghai)	▶ Responsible for major categories of mechanical and electrical machinery/equipment, vehicles, technical instruments, etc. (i.e. Chapters 84 - 87 and 89-92 of the Tariff).
	GAC Tax Collection and Administration Center (Guangzhou)	▶ Responsible for the major categories of chemicals, minerals, metals and their associated products, etc. (i.e. Chapters 25-29, 31-40 and 68-83 of the Tariff).
	GAC Tax Collection and Administration Center (Beijing and Tianjin)	▶ Responsible for the major categories of miscellaneous commodities, such as agriculture, forestry, food, pharmaceuticals, textiles, aircraft, miscellaneous articles, etc. (i.e. Chapters. 1-24, 30, 41-67, 88 and 93-97 of the Tariff).

Three new approaches refer to:

- 1) A single customs declaration can be submitted but the new approach now involves a multiple-step processing mechanism that manages and evaluates the customs declaration by the two centers mentioned above;
- 2) The importers/exporters are responsible for registering with China Customs ("Customs"), submitting their customs declarations (and in doing so, calculating their duty and import VAT liability), printing out their duty/import VAT invoices and making payment on their own while the Customs reserve the right to review documents during the whole procedure; and
- 3) Integration of national customs resources to conduct a collaborative supervision.

This new initiative will bring also significant changes to the customs clearance management processes. Specifically:

	Previous mode	New mode
Entry clearance /declaration	The importer/exporter submitted their customs declaration. Customs verified before approving and releasing the goods (i.e. an approval approach).	The importer/exporter submit their customs declaration and Customs releases the goods (i.e. an acceptance approach).
Import tax collection and administration	Customs calculated the duty/import VAT payable and issued the duty/import VAT invoices. The importer/exporter paid the duty/import VAT.	The importer/exporter calculates the duty/import VAT liability, prints out the duty/import VAT invoices and pays the applicable duty/import VAT.
Post Entry inspection	Customs reviewed the customs declaration data of goods imported or exported through its jurisdiction only.	TCAC can review the customs declaration data as per its assigned chapters on a nationwide basis.

Impact on Enterprises

This reform will bring significant changes to the previous customs supervision approach. The main changes are the following:

- 1) Customs clearance mechanism has changed from an approval approach to an acceptance approach to reduce manual intervention;
 - 2) The importer/exporter has more responsibilities with respect to the calculation, declaration and payment of the applicable duty/import VAT;
 - 3) By launching the two centers to review customs declaration data, the GAC expects to avoid the possible inconsistent implementation of customs regulations between different locations as possible.
- ▶ However, it is worth noting that these reforms enables Customs to increase their supervision and administration over the customs clearance process, and puts a higher onus on importers/exporters to comply with the applicable customs laws and regulations.
 - ▶ Small mistakes may lead to a big issue: As the customs clearance approach has changed, customs will no longer review declarations filed by importers/exporters in detail in most of the situations before the shipment release. As this new approach relies heavily on declarations made by the importer/exporter, any inconsistency not identified or corrected during the declaration process but repeated in subsequent customs declarations may have a cumulative effect. If identified by Customs during a Post Entry Audit, it may trigger financial penalties, late payment surcharges and/or a downgrade to the importers/exporters' customs rating (which may result in less facilitation and more scrutiny).
 - ▶ Customs are more likely to identify inaccurate customs declarations: The TCAC can review declaration data related to its assigned Tariff chapters on a nationwide basis by using Big Data analysis. Reporting different import prices and/or tariff classifications (HS codes) for the same commodity in different ports may be more easily identified and questioned.
 - ▶ It may become more challenging to resolve problems: As the GAC directly handles these functions through the two centers, there is an additional layer for importer/exporter to deal with. Thus, if an importer/exporter is challenged/questioned by Customs, they would need to deal with more departments than under the previous approach, making it more challenging to resolve issue(s) under the new Post Entry Audit process.
 - ▶ The frequency and intensity of post entry audits will increase: Currently, China Customs Audit Division only accounts for 5% of Customs total head count. During the reform and the reallocation of staff, the Audit Division which will gradually increase to 20% of Customs total head count. This change will greatly increase the frequency and intensity of post entry audits.

EY Recommendations

In respect of the above changes to the customs clearance environment, importers/exporters may enjoy faster customs clearances but at the same time, they also face stricter compliance requirements. In order to comply with these tougher requirements and better manage the associated risks, EY's recommendations are as follows:

- ▶ Carry out regular health checks on a periodic basis: With the above changes, the compliance risk has increased and regular health checks are an effective way to identify and mitigate potential risks;
- ▶ Make a voluntary disclosure as appropriate if any issue: For issues identified in during the aforementioned health checks, such as an inaccurate tariff classification, import pricing, origin/preference claim, etc., importers/exporters may seek more lenient treatment or reduced financial penalties through making a voluntarily disclosure to Customs; and
- ▶ Become an Advanced Authorized Enterprise: By becoming an Advanced Authorized Enterprise (China Customs equivalent of the Authorized Economic Operator ("AEO") enterprise), the importer/exporter not only enjoys preferential measures provided by Customs (i.e. lower inspection rates and given priority when it comes to dealing with tariff classification, import pricing, origin/preference issues and/or other customs formalities) as well as enjoy other incentives jointly issued by approximately 40 Chinese government authorities.

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