



China Tax Alert

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China signs AEO Mutual Recognition Agreement with Japan to accelerate Sino-Japanese Trade Cooperation

The regulation discussed in this issue:

Agreement between the General Administration of Customs of the People's Republic of China and Japan Customs Regarding Mutual Recognition of China Customs Enterprise Credit Management System and Japan Authorized Economic Operator Program

Background

On October 26 2018, China's General Administration of Customs (GAC) and Japan Customs officially signed the Agreement on Mutual Recognition of China Customs Enterprise Credit Management System and Japan's Authorized Economic Operator (AEO) Program (hereinafter referred to as "the Mutual Recognition Agreement"). Thereby, Japan becomes the thirty-sixth country to sign an AEO mutual recognition agreement with China.

Summary of the Mutual Recognition Agreement

According to the Mutual Recognition Agreement, AEO enterprises in China and Japan can enjoy the following four facilitation measures for trade in goods:

- AEO qualification will be given adequate consideration when conducting risk assessment to reduce inspection and supervision;
- Physical inspection of goods will be expedited to the greatest extent possible;
- Customs liaison officers will be designated to solve problems encountered by AEO enterprises during the customs clearance process;
- Customs clearance will be expedited for goods imported from AEO enterprises to the greatest extent possible after major

infrastructure returns to normal operation from trade disruptions.

The Current Status and Requirements of AEO Mutual Recognition between China and Other Countries

So far, China has signed AEO mutual recognition agreements with 36 countries/regions, including 28 EU member states, Singapore, Korea, Switzerland, New Zealand, Hong Kong, Australia, Israel and Japan. China is also actively engaged with United States, Canada, Mexico, Brazil, Malaysia, Thailand, Russia and South Africa for AEO mutual recognition.

According to China's current customs regulations, an AEO enterprise must be an Advanced Certified Enterprise ("ACE"), which is generally required to declare its imports and exports of goods as follows in order to enjoy facilitation measures:

First, an AEO enterprise shall exchange its AEO code with its importers/exporters from countries/regions which have signed an AEO mutual recognition arrangement with China;

Second, when a domestic importer/exporter declare its imported goods to the Customs, it is required to enter its AEO code/AEO code of its counterparty from a country/region which has established mutual recognition with China in the "Remark column" of the customs declaration form.

Third, facilitation measures would be automatically applied once the AEO codes are verified by the customs system.

KPMG Observations

1. The AEO system plays an increasingly important role in promoting China's trade facilitation as Sino-Japanese economic cooperation strengthens

The signing of the Mutual Recognition Agreement reflects the improvement of Sino-Japanese relations and the acceleration of economic cooperation between the two countries as US-China trade tensions continue.

In light of the current global economic and trade tensions, China has stepped efforts to improve its import and export credit system to build a new, credit-oriented customs supervision mechanism.

China also strives to utilize AEO mutual recognition to promote "interconnection" of international supply chains and trade facilitation, and continues to support the development of foreign trade enterprises.

2. Implications on enterprises

AEO mutual recognition not only provides enterprises with customs clearance convenience, but also offer them an opportunity to comprehensively review their current import and export business, rectify potential issues and mitigate customs risks from the perspectives of customs compliance, clearance

speed and trade safety.

Therefore, enterprises should grasp the opportunity of AEO mutual recognition to enjoy trade facilitation and fully enhance their customs management level under current regulatory environment.

What KPMG Can Do to Help Enterprises?

1. Analyze and interpret policies and regulations related to AEO mutual recognition/AEO certification, and provide training on and share information about customs enterprise credit management.
2. Provide advisory services for Chinese enterprises regarding their overseas expansion. As China continues to promote AEO mutual recognition, KPMG can leverage our global service network to inform enterprises of AEO preferential policies and trade regulatory requirements of countries concerned, so that Chinese enterprises can better implement their "going global" strategies based on the "Belt and Road" initiative.
3. Assist with AEO upgrade certification and re-certification. We can find out potential weakness and put forward suggestions for improvement through multi-angle and comprehensive analysis of enterprises' internal control system, financial status and import and export control, and press ahead with follow-up rectification to meet customs' certification standards for high credit enterprises.
4. Assess enterprises based on certification criteria and issue professional reports as a professional intermediary agency for enterprises in accordance with the provisions of the Measures of the Customs Administration of the People's Republic of China for the Administration of Enterprise Credit issued by GMC (No.237), which stipulates that "The customs and the applicant enterprises may entrust a social intermediary agency to issue professional conclusions on matters concerning enterprise certification."
5. Provide annual internal customs audit service. As AEO enterprises are required to review their own import and export operations and their compliance with certification criteria annually. KPMG can provide internal review services to help enterprises fully understand their level of conformity with customs requirements and provide improvement suggestions.

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