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Pilot Free Trade Zone Series — 14 new supervisory rules issued by Shanghai Customs to facilitate foreign trade in China (Shanghai) Pilot Free Trade Zone

Regulations discussed in this issue

- *Announcement of Shanghai Customs [2014] No.6*
- *Announcement of Shanghai Customs [2014] No.7*
- *Announcement of Shanghai Customs [2014] No.8*
- *Announcement of Shanghai Customs [2014] No.9*
- *Announcement of Shanghai Customs [2014] No.10*
- *Announcement of Shanghai Customs [2014] No.11*
- *Announcement of Shanghai Customs [2014] No.12*

Background

Recently, Shanghai Customs announced that 14 new rules on supervision in China (Shanghai) Pilot Free Trade Zone (FTZ) would be issued in the first half of this year, among which:

- seven of the rules have been issued in Shanghai Customs announcements, including rules on goods entering the FTZ before declaration, self-transport in the FTZ, write-off based on work orders, exhibition of bonded goods, maintenance for domestic and overseas customers, bonded delivery of futures and finance leasing. The first batch of new rules will take effect on 21 April and 1 May.

- the rest will successively enter into force by the end of June, including the rules on centralised declaration of incoming and outgoing batches, simplified procedures and documents for customs clearance, unification of lists for records, selective levying for domestic sales, centralised tax payment, monitoring the logistics of bonded goods, and intelligent permission for entering and exiting the zone.

Executive summary of the 14 new rules

1 Declaration-after-entry Mode (Announcement of Shanghai Customs [2014] No. 6)

The original procedure for imported goods of entry to the FTZ after declaration has been revised. Eligible enterprises are now allowed to bring in goods in advance by presenting the manifests and then completing the declaration within 14 days. Such an adjustment may reduce the time and costs required for customs clearance. Forty seven enterprises in the zone have participated in the pilot implementation of this rule. From 1 May, the implementation will be extended on a voluntary basis to enterprises in the zone with a management class of B or above.

2 Self-transport in FTZ (Announcement of Shanghai Customs [2014] No. 7)

The enterprises in the zone may choose to use their own vehicles for transportation instead of using those supervised by customs after comparing the data in the information system for the four areas of the FTZ. This will help lower the logistics costs of the enterprises. Seven enterprises in the FTZ have participated in the pilot implementation, and the policy will now be fully rolled out.

3 Write-off Based on Work Orders for Processing Trade (Announcement of Shanghai Customs [2014] No. 8)

Relying on the network management of the processing and manufacturing enterprises that use the ERP system, review and filing of unit consumption will be cancelled. Write-off should be based on daily work orders, which are sent automatically. This rule harmonises the customs supervision and control model with the production of enterprises, in addition to motivating the relevant enterprises to optimise their production processes. The pilot implementation in Caohejing export processing zone brought positive results, which led to a comprehensive implementation for qualified enterprises in the FTZ from 1 May.

4 Exhibition of Bonded Goods (Announcement of Shanghai Customs [2014] No. 9)

This rule allows enterprises with effective guarantees (i.e. deposits or bank guarantees) to carry out bonded-goods related exhibitions and transactions inside or outside the FTZ. Levying of tax after sales and collective declaration may be adopted for domestic sales during exhibition periods. The rule was fully implemented in the FTZ on 21 April.

5 Maintenance Service for Domestic and Overseas Customers (Announcement of Shanghai Customs [2014] No. 10)

Qualified enterprises in the FTZ are allowed to conduct high-tech, high value-added and pollution-free maintenance activities for domestic and overseas customers. Relying on the information system, customs utilises the bonded processing supervisory method to promote high added value manufacturing transformation at both ends of the industry chain, focusing on areas such as R&D, testing and maintenance. This rule was fully implemented in the FTZ on 1 May.

6 Transfer of Bonded Future Goods (Announcement of Shanghai Customs [2014] No. 11)

With this rule, the enterprises are allowed to physically settle futures of physical goods under bonded supervision in the FTZ. A pilot implementation was carried out in Yangshan port free trade zone. The rule was fully implemented in the FTZ on 21 April, with the types of goods extended from copper and aluminum to all goods permitted by Shanghai Futures Exchange.

7 Financial Lease Business (Announcement of Shanghai Customs [2014] No. 12)

This rule authorises customs to levy duties and VAT by period based on rental installments, as determined by investigation, and also allows the qualified enterprises to provide securities in the form of guarantee letters to reduce costs. The pilot implemention was carried out in Pudong Airport Comprehensive Free Trade Zone and the policy was fully implemented in the FTZ on 21 April.

8 Collective Declaration for Batches of Goods Transported in or out

The enterprises are allowed to declare several batches of goods in one declaration form, and to make collective declaration within a prescribed period for several batches of goods imported or exported. Due to this policy, enterprises will benefit from greater declaration flexibility, lower clearance costs and higher clearance efficiency.

9 Simplified Procedures and Documents for Customs Clearance

The requirements to attach related certificates or documents to the first-line entry and exit list and the second-line import and export customs declaration form without tax duty are cancelled by this rule. Enterprises are only required to provide the attachments when expressly instructed to do so. The verification of clearance forms during first-line importation has already been cancelled by Shanghai Customs and Shanghai Entry-exit Inspection and Quarantine Bureau during the previous phase of procedural reform.

10 Unifying the record List

This rule unifies the two types of record list formats applied in different specific supervision areas of the FTZ to establish a standardised list of 30 declaration factors, in order to simplify and standardise declaration procedures. It is designed to reduce the burden on enterprises and promote integration of the FTZ.

11 Selective levying on domestic sales

The enterprises in the FTZ are allowed to produce and process goods that will be sold in the local market through a second line. Enterprises can selectively pay customs duty according to the corresponding imported materials or the actual inspection status. This policy will attract more enterprises to set up operations in the FTZ and will expand domestic sales.

12 Centralised tax payment

This rule transfers the traditional customs-oriented levying model to an enterprise-oriented levying model. On the premise that enterprises have provided effective guarantees, customs will allow enterprises to pay tax duty centrally within a prescribed period for goods already released. In order to simplify tax collection procedures, customs supervision methods will be transformed from real-time checks to intensive follow-up audits and tax audits, which will improve efficiency and reduce the costs of enterprises.

13 Supervisory network for bonded goods logistics

This rule will reform the existing procedure of storage record, inventory taking and writing-off to a management model of “system network + storage management + real-time verification” for enterprises applying a warehouse management system (WMS). The updated procedure will allow monitoring of the import, export, transfer and storage of goods on a real-time and dynamic basis in order to improve the efficiency of logistics.

14 Intelligent permission management for FTZ entry and exit

This rule requires customs to upgrade the checkpoint facilities of the FTZ and simplify the procedures in the checkpoints in order to realise automatic matching, differentiation and permissions, as well as to cut the time spent in the checkpoints and ensure efficiency and safety.

KPMG observations

The 14 rules mentioned above have been released by Shanghai Customs based on previous pilot implementation. They take account of internationally accepted standards and focus on the requirement for simplified, convenient, safe and efficient procedures. The new rules will greatly improve the efficiency of customs clearance and have a positive impact on import and export business.

It is understood that, in addition to the above 14 rules, Shanghai Customs will release further innovative policies in the second half of the year in order to support the deeper expansion of the FTZ and promote the development of new trading business models on the premise of safe and efficient supervision and in accordance with the principles of "reform and innovation". We will actively follow up on the issuance and implementation of the relevant regulations.

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