

# China Customs & Trade News

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## **Outsourcing for processing trade should be easier - Revised Processing Trade Supervision Measure**

On 14 January 2008, the General Administration of Customs (“GAC”) announced the revised “Processing Trade Supervision Measures” (“Measures”) in GAC Decree No.168. The previous version of the Measure was issued in February 2004, per GAC Decree No. 113. The main change of the new Measures is to loosen the limitation of the outsourcing, which is seen as a positive development.

What has changed?

- Cancelled the restriction of “main procedure”.

Per the previous version of the Measure, the “main procedure” cannot be outsourced. This restriction is cancelled in the new Measure, making it possible to outsource the main processing activity.

- Finished goods from outsourcing are not required to be returned back.

Upon approval from Customs, the finished goods are not required to be returned back. The previous old Measures required all finished goods from outsourcing to be returned to the operating enterprise.

- Residual materials, excess materials, defective products and by-products are not required to be returned to the operating enterprise.

- “Processing Trade Enterprise” is replaced with the term “Operating Enterprise”

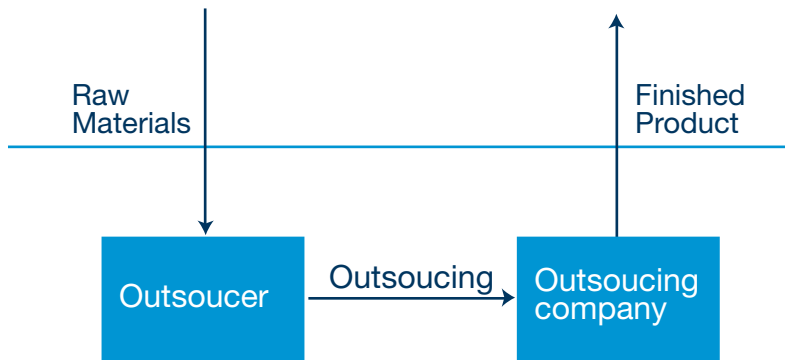
The definition of outsourcing replaces “Processing Trade Enterprise” with “Operating Enterprise” when stating the qualification of the outsourcing enterprise.

What is not changed?

- All the outsourcing should be approved by Customs;
- A company which has been found to commit smuggling crime or violation, will not be approved;
- Both the outsourcer and outsourcing company should be registered with Customs and meet the requirements from Customs for processing trade.

What will be affected?

- Since the finished goods are not required to be returned back, the below goods flow model will be more effective.



- Prohibition of outsourcing due to the “chief working procedure” was the main reason for local Customs to reject the application for outsourcing. This is no longer an obstacle. The outsourcing of any procedure is possible. In some special cases, all the procedures for finished goods may be outsourced.

What will be the focus of Customs?

Since many of the obstacles for outsourcing are removed in the new regulation, Customs will focus more on a company’s ability to put all the bonded material under the proper control of Customs. The following will be the key issues that Customs take into consideration:

- The qualification of outsourcing company:
  - Registered in Customs or not?
  - The recording and accounting system
  - The warehouse management
  - The internal control for processing and logistics
  - The compliance record
- The ability the outsourcer to control the outsourcing company:
  - How to set the handbook and special book to record the outsourcing
  - How to coordinate the difference of unit consumption in the outsourcer and outsourcing company
  - How to improve the management system of outsourcing company
  - How to monitor the compliance of the outsourcing company.

### **Customs duty refund for parts and materials for Mining**

The MOF issued <Notice Regarding the Adjustment of Importation Taxation Policy for Key Parts and Raw Materials for Certain Large Mining Grabs Issued by MOF> dated 28 December (see Cai Guan Shui [2007] No.101). The Notice will be followed by MOFCOM and main points are summarised as follows:

- For key parts and raw materials for certain large mining grabs imported by domestic enterprises after 1 January 2008 the customs duty and import VAT should be returned. The returned customs duty and import VAT shall be regarded as national investment and used for R&D of new products and self-innovation.
- Large mining grabs includes electronic coal mining machine, lift equipment etc. There is a list of import parts and raw materials that may enjoy import duty and VAT refund.
- Qualified companies can lodge application via provincial government or MOFCOM for import duty refund. Central owned companies can lodge to MOFCOM directly.
- For investment projects approved before 1 January 2008, the equipment can be imported duty-exempt before 1 July 2008.

There are certain exclusions from the refund program, such as newly-approved investment projects as of 1 January 2008 for machines such as mining grabs (power = 2200kw), conveyer machine (power = 1000kw) etc.

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