

Achieve Greater Facilitation through Improved Customs Procedures

Yufan Dong, Customs general administration of China, China

I. Introduction of the APEC SCCP and Its C.A.P.s

The nature of the global trade environment in which Customs administrations operate is changing rapidly, providing new challenges for Customs administrations. Customs administrations operate as an integral part of the global marketplace, which is experiencing:

A dramatic increase in international trade;

- Greater use of information technology, including the internet for supply logistics and purchasing;
- A reduction in effective tariff rate increases, the relative value of saving that could be achieved through greater efficiencies in customs procedures; and
- A rapid increase in the volume and sophistication of transnational crime, particularly as it relates to drugs.

Because of these challenges, Customs administrations have more complex roles and increasing volume of work. In most cases, the need for improved performance is made more difficult by diminishing resources.

Harmonisation and simplification of Customs practices and procedures will directly contribute to trade facilitation and reduce costs of international trade transactions, as well as improve efficiency within Customs administrations. These changes to the international trade environment require Customs administrations to re-think the ways in which they operate. Old practices no longer work and are no longer appropriate in a freer and globalised trade environment.

Customs has a diverse role of trade facilitation and community protection and revenue collection while being a necessary presence in the global trading system. However, while business must ensure compliance to fair Customs procedures, inefficiencies must be addressed. The big challenge for Customs administrations is to reduce costs to industry while providing a capacity for Governments to fulfil their community protection (or enforcement) roles.

▪ **APEC Sub-Committee on Customs Procedures**

To help APEC address these issues, the APEC Sub-Committee on Customs Procedures (SCCP) came into existence in 1994. Its mandate is to facilitate trade by simplifying and harmonising Customs procedures within the Asia Pacific region.

There are the Key Principles issued by the APEC SCCP which are appropriate guiding principles to help Customs administrations to move ahead in Customs reforms and modernisation. These Principles called FACTS comprising: *Facilitation, Accountability, Consistency, Transparency, Simplification.*

In 1995 the SCCP agreed on a work program known as the Collective Action Plan (C.A.P.), by which all member economies would implement a number of specific initiatives which fell under the umbrella of the five Guiding Principles. The Collective Action Plan has since evolved from the initial nine-point in 1995, twelve-point in 1997 and thirteen-point in 1999 into fourteen-point in 2001. The advantages of the Collective Action Plan are

▪ **Specific objectives to provide a focus for the SCCP's work and co-operation;**

- Specified target dates for implementation;
- Framework for technical assistance and human resource development, and
- Supportive program whereby the more experienced Customs administrations pool their resources and expertise in order to provide technical assistance and training to the less experienced members.

▪ **The APEC SCCP's Collective Action Plan**

(1) *Harmonisation of Tariff Structure with the HS Convention*, (the standard international harmonised system for the classification of goods. The objective of this CAP is to ensure accurate, consistent and uniform application of the HS Convention by all APEC economies.)

(2) *Public Availability of Information on Customs Laws, Regulations, Administrative Guidelines, Procedures and Rulings*. (The objectives are to ensure traders have access to all pertinent Customs information required for business decisions, to improve transparency of APEC Customs administrations, to enhance the APEC Customs administration's competency in the dissemination of information on customs laws, regulations, procedures, rulings and guidelines.)

(3) *Simplification and Harmonisation on the Basis of the Kyoto Convention*. (The Kyoto Convention is the International Convention (WCO) for the Simplification and Harmonisation of Customs Procedures. It specifies certain minimum standards for customs procedures and aims to improve efficiency in Customs clearance and the delivery of goods. Simplified and standardised Customs procedures implemented by all APEC members will in turn improve the trade facilitation environment.)

(4) *Paperless Trading* (Using appropriate technology will speed up customs clearance procedures and reduce the need for paper. It seeks the reduction or elimination of requirements for paper document needed by Customs by the year 2005 for developed economies and the year 2010 for developing economies.)

(5) *Adoption of the Principles of the WTO Valuation Agreement and the WTO Intellectual Property (TRIPS) Agreement*

(7) *Clear Appeals Provision.* (This is to provide business with an opportunity to challenge Customs decisions which they believe are incorrect through mechanisms for transparent, independent, and timely appeals.)

(8) *Advance Classification Ruling System.* (The objective is to speed up the clearance process by classifying goods prior to importation, and to establish simplified procedures for providing classification information prior to importation into the customs procedures of each APEC economy.)

(9) *Provision for Temporary Importation, e.g. Acceding to the A.T.A. Carnet Convention or the Istanbul Convention.* (Its objective is to help business temporarily import goods such as commercial samples, professional equipment, tools of trade and exhibition material with a high degree of certainty as to how they will be treated by Customs.)

(10) *Harmonised APEC Data Elements.* (The objective is to simplify and harmonise the data required by Customs for the importation of commercial goods. Eventually it is expected that this will form a foundation for harmonised Customs clearance procedures in the APEC region.)

(11) *Risk Management Techniques.* (This CAP item will assist all APEC Customs administrations to implement risk management techniques which are appropriate to their needs and which will focus their enforcement efforts on high-risk goods and travellers while facilitating the movement of low-risk shipments.)

(12) *Express Consignment Clearance.* (The objective is to implement the principles contained in the WCO's "Guidelines on Express Consignments Clearance", the international standard procedures for clearance of express goods. This CAP item is implemented in partnership with express industry associations.)

(13) *Integrity.* (The objective is to improve the levels of integrity in Customs administrations, specifically to develop Integrity Action/ Implementation Plans and individual Customs 'Codes of Conduct')

(14) *Customs-Industry Business Partnerships.* (This CAP item was adopted by the SCCP to develop Customs-industry partnerships and enhance cooperation for compliance and facilitation purposes.)

The CAP was initiated in 1995 and considerable work has been undertaken. In 2001, the SCCP has completed a comprehensive evaluation of the implementation of its CAPs. As a result of the findings, a number of CAPs have been implemented according to their target dates, and the future work program has been determined to move into a new stage of the implementation of the various CAPs.

Over the last decade, we have seen many Customs administrations in APEC moving to include the SCCP's Guiding Principles in implementing Customs Reforms and Modernisation. The reality is that some Customs administrations have embarked on Reforms and Modernisation earlier than others. Some have incorporated the Principles to a greater depth while others have done it to a lesser extent.

While significant progress has been made, it should be pointed out that the SCCP cannot achieve implementation of the CAP collectively. The responsibility is on each individual economy to implement the CAP objectives in their own Customs administration.

In the APEC trade and liberalisation process, it should be emphasised that there is a role for business in assisting domestic governments to implement the Customs reforms that the SCCP is working towards.

II. Implementation of the Shanghai Model Port Project

In April 1998, the U. S. Customs Service (USCS) and some U. S. Business sector represented by the U.S. National Centre for APEC (NCAPEC) launched an initiative to work with China Customs under the framework of APEC to build the entry port of Shanghai into a model port by 2001 when the APEC Leaders' Meeting would be held in Shanghai. This initiative was intended to set Shanghai Customs as a model for other economies of APEC region.

In April 1999, China Customs, the U.S. Customs Service and the U.S. National Centre for APEC jointly signed a letter of intent to establish a coalition, which symbolized the birth of the Shanghai Model Port Project, known as SMPP. The purpose of the project was to boost earlier implementation of the SCCP's 13-point Collective Action Plans by Shanghai Customs.

After several rounds of discussions and common efforts among the three parties, a concrete phase-in work plan was developed. On the basis of the SCCP's CAPs, we mapped out the general cooperative schedule of the Project, which was broken down into four main components: IT upgrading, an express consignment centre, training programs and an IPR display centre.

▪ IT Upgrading

This important component was related to the implementation of eight CAP items, including transparency of rules and regulations; pre-classification, risk management, adoption of WTO valuation code, adoption of WTO TRIPs agreement, express consignments, clear appeals provisions and temporary importation. The component was to upgrade the existing hardware to a modern level, to upgrade the operating system software and all database programs, and to introduce a server platform for the internet. The Chinese side developed/upgraded the existing software and also provided the hardware equipment, while Compaq and Oracle companies tested the IT system of Shanghai Customs and proposed solutions to the technical problems. Technical advisor from the U.S. Customs Service provided valuable expertise and suggestions on the implementation of this component. This part of the project was satisfactorily completed by mid 2001.

▪ Training program

During the implementation of the SMPP, around sixty officers from Shanghai Customs attended overseas training courses, workshops and field studies which were sponsored by the National Centre for APEC and organised and conducted by the U.S. Customs. The training program covered subjects on goods classification, Customs valuation, risk management, express consignment clearance and information technology. Three follow-up training courses on IT sponsored by the U.S. Trade Development Agency (TDA) have also been organised for Chinese Customs officers recently.

▪ Express consignment centre

Another outstanding component of the SMPP was the construction of Shanghai international express consignments Customs supervision centre located at Shanghai Pudong airport. The Centre was designed and constructed according to the principles of the WCO Guidelines on Express Consignment Clearance and in consultation with express companies, making use of experiences and best practices of international Customs. The Chinese side invested US\$14 million to the construction of the centre. In addition, China Customs provided US\$2.25 million financial support for purchasing Customs inspection equipment. The Centre was completed and put into operation in August 2001.

The centre now serves as an effective and efficient vehicle for processing all express consignments and providing expeditious release of inbound and outbound packages. With the support of advanced facilities and information technology for control of movement of shipment, the centre has adopted the latest fast clearance mode in the world and created a favourable operating environment for both Customs and business sector. Inside the centre, Customs operate 24 hours, providing “one stop shopping” services on commodity inspection, quarantine inspection, security inspection and bank. Also Customs procedures for advance classification of goods, risk management, release against security, EDI declaration, pre-arrival declaration, EDI payment of duties, are all fully adopted within the centre. With such simplified procedures in place, clearance of more than 95% shipments can be realised in less than one hour.

▪ **Customs-business partnership**

An MOU is a manifestation of the willingness and determination of both parties to promote trade through the establishment of a better Customs-industry partnership. It provides for enhanced co-operation in promoting efficiency and effectiveness of Customs controls and facilitation in the clearance of express consignments. The MOU paves the way for collaborative efforts in the interdiction of narcotics smuggling and commercial fraud. Shanghai Customs has signed MOU with the enterprises and set up a mechanism for holding regular business dialogues, improving transparency of Customs performance, sharing shipment data for the purpose of advance risk analysis so as to expedite release of goods, thus raising the efficiency of clearance.

In general, the development of the centre has enabled Shanghai Customs to achieve full implementation of SCCP's thirteen collective action plans.

▪ **Shanghai Customs website and IPR information centre**

On 1 July 2001, the Shanghai Customs website was officially open to the public. The address is “www.shcus.gov.cn”. The website provides the public with timely information on Customs laws and regulations, Customs guidelines and announcements, status of ships as well as status of other Customs offices. The website is also open with a function of providing online advises on Customs procedures, as well as monitoring and reporting function. In addition, there is an SMPP homepage on the website which provides applicable information on Customs laws and regulations, clearance of express consignments, advance classification of goods, electronic transfer of payment of duties, etc. The SMPP homepage sets up an online IPR information centre which is the replacement of the original IPR display centre under this project. The IPR centre sets up columns of IPR-related laws and regulations, application for recordation, online advises, enforcement information, international co-operation, case explanation. Currently, the daily visitors of Shanghai Customs website are over 5,500 averagely.

The construction of SMPP underwent for two and half years and came to a completion in last October when its achievements were showcased to the APEC Leaders and the public. In the course of this project, Shanghai Customs, in conjunction with the China Customs modernisation process, has made positive, comprehensive and effective efforts in simplifying and harmonising Customs procedures, raising transparency of Customs enforcement, optimising information technology and protecting the legal right and interest of importers and exporters. The SMPP project has promoted deeper implementation of SCCP's CAPs in China Customs. It has improved the operating environment and clearance efficiency of Shanghai Customs in particular. The successful outcome of this project has also strengthened the contact and co-operation between Customs and business. We believe that the success of SMPP will be of great significance in moving ahead the APEC trade and investment liberalisation process, expanding the trade between China and other APEC economies, and improving co-operation between Customs and business community of APEC.

III. China Customs' Major Efforts in Trade Facilitation

Over a long period of time, China Customs has set its prioritised tasks of achieving a more cost effective Customs clearance and giving full support to the national economic growth. In recent years, China Customs has taken various measures to facilitate trade in the following areas:

Easier and faster movement of goods through Customs

To ensure undisturbed movement of legitimate goods through the Customs, China Customs has opened 24-hour clearance facilities at some busy ports of entry by increasing manpower and creating other necessary working conditions.

- **Provision of an easier clearance procedure for large and high-tech enterprises**

To support the development of high-tech industries and the exportation of their products, China Customs and MOFTEC have jointly initiated 10 facilitation measures so as to provide a "Green Channel" for the exportation of large and high-tech enterprises. Any enterprise engaged in the production of high-tech products that are listed in China High-tech Export Products Catalogue and have achieved an annual export value of over US\$100 million may apply to the Customs for the facilitation measures which are pre-arrival declaration, on-line declaration, fast transit procedure, checking and release at the premise, urgent clearance, release with deposit and prioritised consultation. As the "Green Channel" is based on the credibility of the enterprises, the concerned enterprises must comply on their initiative with the relevant laws, regulations and their own commitments, strengthen their internal control and subject themselves to the Customs supervision.

- **Implementation of electronic clearance procedures**

In recent years, China Customs has been making great efforts in bring forth new ideas in science and technology and facilitation procedures to accelerate the process of Customs modernisation. From 1 February of this year, a trial operation of paperless clearance was first carried out in Shanghai Customs and came to be very successful. Another trial operation was started in Qingdao Customs on 1 March. According to the plan, paperless clearance procedures will be tried in other six regional Customs from April 2002.

With the adoption of paperless clearance procedures, Customs can improve trade efficiency and Customs control, while business can reduce transaction costs and strengthen its international competitive power. The implementation of paperless clearance is an important breakthrough in China Customs reform, by which any segments in the clearance process that can undergo paperlessly are all electronicised. This enables most enterprises to have their cargo go through Customs, complete all the clearance procedures, be put into production and markets in the fastest speed. As a result, the time for release of goods has been greatly shortened and the enterprises have gained unprecedented benefits. Taking the trial operation in Qingdao Customs as an example: from 1 March to 8 March, there were 139 export shipments belonging to 10 enterprises which were cleared smoothly with paperless method. The matrix below indicates a comparative study on the time used to clear goods before and after introducing paperless clearance procedures.

From the matrix, we can see the difference, the efficiency and effectiveness brought about by implementation of paperless clearance procedures by China Customs.

	from arrival of cargo to declaration to Customs (Average time)	From declaration to Customs to release of cargo (Average time)	Feedback of information on release of cargo by Customs (Average time)
Before intro. of paperless pro.	3 hrs	25 min.	Depending on speed of passing info by a broker
After intro. of paperless pro.	5 min. and 17 sec.	5 min.	7 sec.

▪ **Basic framework of China Customs modernization regime**

In 1998, China Customs embarked on a strategic process of Customs reform and modernisation and developed an ambitious blueprint. The near-term objective for China Customs modernisation construction is to establish a modern Customs regime, specifically to develop a new Customs administration system with vitality and energy that is adaptable to the market-oriented economy and opening-up, and meets requirements of new situations through modernised administration concepts, administration system, administration methods and administration instruments, so as to realise all functions of China Customs in a comprehensive and high-quality manner. The general framework of China Customs modernisation regime comprises of eight systems, namely: (1) *Modern Customs legal system*, (2) *business compliance management system*, (3) *informatisation management system*, (4) *modern Customs clearance system*, (5) *goods flow control system*, (6) *modern Customs anti-smuggling system*, (7) *modern Customs administration system*, and (8) *Customs public relation system*.

According to the two-phase implementation strategy proposed in 1998, China Customs would take five years to preliminarily set up the basic framework of modern Customs regime in all Customs regions across China, and would then use another five years or by 2010, to finish establishing a relatively perfect modern Customs regime. By now, four years have passed, and we have reached the expected goals with the progresses achieved to different extents in the above mentioned eight systems. The tangible results have thus brought the construction of China Customs modernisation regime into a new level.

With China's accession to the WTO and its participation in international market competition and with the change of international trade rules, China Customs is confronted with more opportunities and challenges. There are big challenges which include:

- the accelerated integration of global economy,
- the increasingly close international and regional economic relationship, which requires Customs to move forward trade facilitation,
- the formation and rapid development of modern international logistics service and the progress of business electronicalisation driven by information technology, which require the informatisation of Customs administration,
- rapid updating of enterprise management theories and practices, which require Customs to innovate administrative concepts and control methods,
- increasingly intense international economic competition, which requires Customs to strictly enforce laws and regulation and protect national socio-economic safety.

It is more important that being a member of WTO, Customs law enforcement will be under dual restrictions of national legal system and international rules. The primary function of Customs is no longer to make direct interventions in behaviours of enterprises and markets. Instead, Customs shall play a major role to maintain market rules and order, and to provide better public services. To meet these challenges, China Customs, in the course of moving forward the construction of modern Customs regime, needs to constantly adjust its goals, set up “market-oriented” concepts and resolve the contradictions between “strict control and efficient operation”. Customs shall not only enforce laws strictly, but also facilitate trade and serve to enhance the competitiveness of domestic industries and enterprises.

It is equally important that Customs works together with business sectors to promote compliance and facilitation. While simplifying and harmonising its procedures, China Customs shall endeavour to develop a strategic partnership with business community, extend constant dialogues and communication between Customs and the business, maintain and enhance the economic competitiveness, create a set of new Customs administration modes which can not only adapt to the needs of new operating methods of enterprises, but also meet the requirements of Customs control, so as to create a “win-win” situation for both Customs and business sectors.