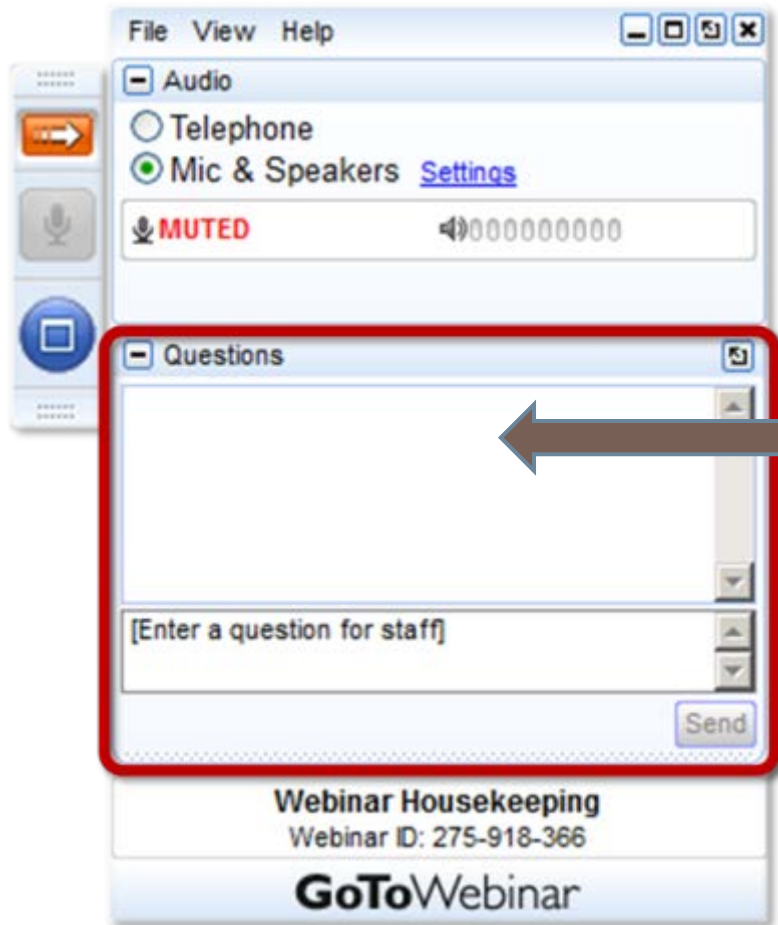




**WELCOME TO THE
EU SME CENTRE
WEBINAR SERIES**





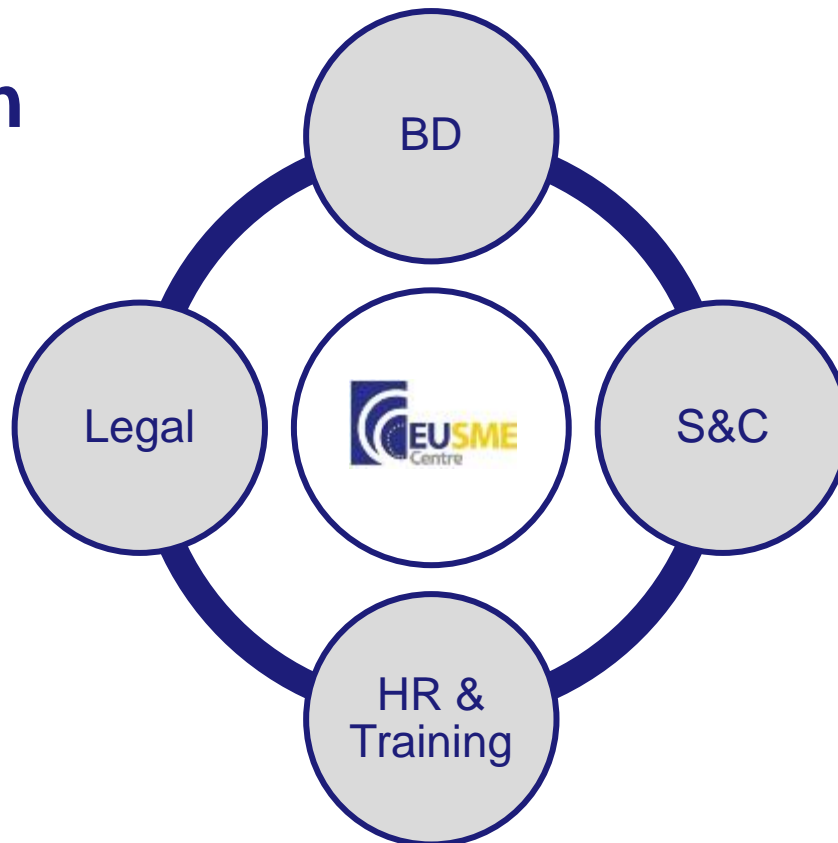
Please continue to submit your text questions and comments using the Questions Panel



- The EU SME Centre in Beijing is a project funded by the European Union
- To assist European SMEs to export to China and **establish, develop and maintain commercial activities** in the Chinese market
- Free, confidential **information and advice**, and practical **support services**

Information and advice

- Enquiries
- Publications
- Training
- Webinars
- Databases



Support services

- Hot desks
- Briefings
- Matchmaking and networking



Utilization of Special Customs Zones for Your Business in China

March 4, 2014



Dr. Deming Zhao (LLM, UCL; LLB,LLM PHD, Xiamen University)

- Since 1993, Dr. Deming Zhao has been a PRC licensed lawyer engaging in the corporate, commercial and litigation practices.
- As the leader of HaoLiWen Customs & Trade Practice Group, Dr. Zhao regularly advises many renowned multinationals on import & export tariff and VAT, tax deduction and exemption for imported equipments, export tax rebate, transfer pricing in import, tariff classification, processing trade, bonded logistics models, customs supervision zones and other customs issues. Deming Zhao has also represented many corporate clients in administrative and criminal proceedings relevant to smuggling charges, and as well as in customs compliance investigations/audits.
- Deming Zhao and his team have been highly appraised by clients as “the real experts on customs law and practice”.
- Ranks as one of 20 leading lawyers in China, in the first client choice survey conducted by ALB in 2012.
- Arbitrator with China International Economic & Trade Arbitration Commission.

Dr. Deming Zhao

Senior Partner, HaoLiWen Partners
Shanghai & Beijing Offices

zhaodeming@haoliwen.com
www.haoliwen.com

- Topic 1 – Overview of Special Customs Zones in Mainland China
- Topic 2 – Case Studies: Structuring Your Trade Model By Using Special Customs Zones
- Topic 3 – Shanghai FTZ V.S. Other Special Customs Zones
- Topic 4 – U-Turn via Hong Kong or BLP
- Q&A Session



Topic 1 - Overview of Special Customs Zones in China

Major Types of Special Customs Zones throughout China (Literally Called “Customs Specially Supervised Areas”):

- Free Trade Zones (“**FTZs**”) E.g. Shanghai WaiGaoQiao FTZ
- Export Processing Zones (“**EPZs**”) E.g. Jiangsu Kunshan EPZ
- Bonded Logistics Park (“**BLPs**”) E.g. Tianjin BLP
- Bonded Ports (“**BPs**”) E.g. Shanghai Yangshan BP
- Comprehensive Bonded Zones (“**CBZs**”) E.g. Suzhou Industrial Park CBZ

Common Features of Special Customs Zones (“SCZs”):

- Bonded System
 - Goods can be imported from overseas into SCZs in China free from import duties and VAT (“**Import Taxes**”) and exempted from normal import/export licences.
 - The bonded goods are all under the customs supervision, normally either via the models of processing trade or bonded logistics.
- Flow of Goods
 - *From overseas to SCZs*: Goods may enter SCZs in bond upon the entry filing clearance with the customs.
 - *From SCZs to non-SCZs*: The sale of goods into non-SCZs from SCZs is regarded as importation, which means that the import clearance procedures with the customs must be followed and the Import Taxes must be paid up. (“**Domestic Sale**”)

Common Features of Special Customs Zones (“SCZs”):

- *From non-SCZs to SCZs:* In general, the sale of goods from non-SCZs to SCZs is regarded as exportation, under which the export clearance procedures with the customs must be followed.
- Normally, no export customs duty would be triggered unless goods sourced from non-SCZs fall into the export customs duty dutiable category. However, goods entry to SCZs under processing trade may be not treated as exported.

Comparison of SCZs

Features	Free Trade Zones	Export Processing Zones	Bonded Logistics Park	Bonded Ports	Comprehensive Bonded Zones
Key Functions	<ul style="list-style-type: none"> •International Trade •Bonded Warehouse •Export Processing •Product Display 	<ul style="list-style-type: none"> •Export Processing 	<ul style="list-style-type: none"> •Bonded Warehouse •International Sourcing and Distribution •Simple Processing •Trans-ship-ment 	All	All

Comparison of SCZs

Features	Free Trade Zones	Export Processing Zones	Bonded Logistics Park	Bonded Port	Comprehensive Bonded Zones
Bonded Warehouse	Yes	For Export Trade Processing Purpose	Yes	Yes	Yes
Bonded Processing	Yes	Yes for Export Trade Processing Purpose	No (except for simple processing)	Yes	Yes
Export VAT Refund upon Entry into SCZs from Non-SCZs	No until goods are physically exported out of China	Yes	Yes	Yes	Yes

Comparison of SCZs

Features	Free Trade Zones	Export Processing Zones	Bonded Logistics Park	Bonded Port	Comprehensive Bonded Zones
Import Duty/VAT for Domestic Sale	Based upon: <ul style="list-style-type: none"> • Entire value of finished goods if all raw materials are sourced overseas • Value of raw materials sourced overseas if finished goods contain materials sourced from non-SCZs 	Based upon entire value of finished goods	Based upon entire value of goods	Based upon entire value of finished goods	Based upon entire value of finished goods

Topic 2 – Case Studies: Structuring Your Trade Model by Using SCZs

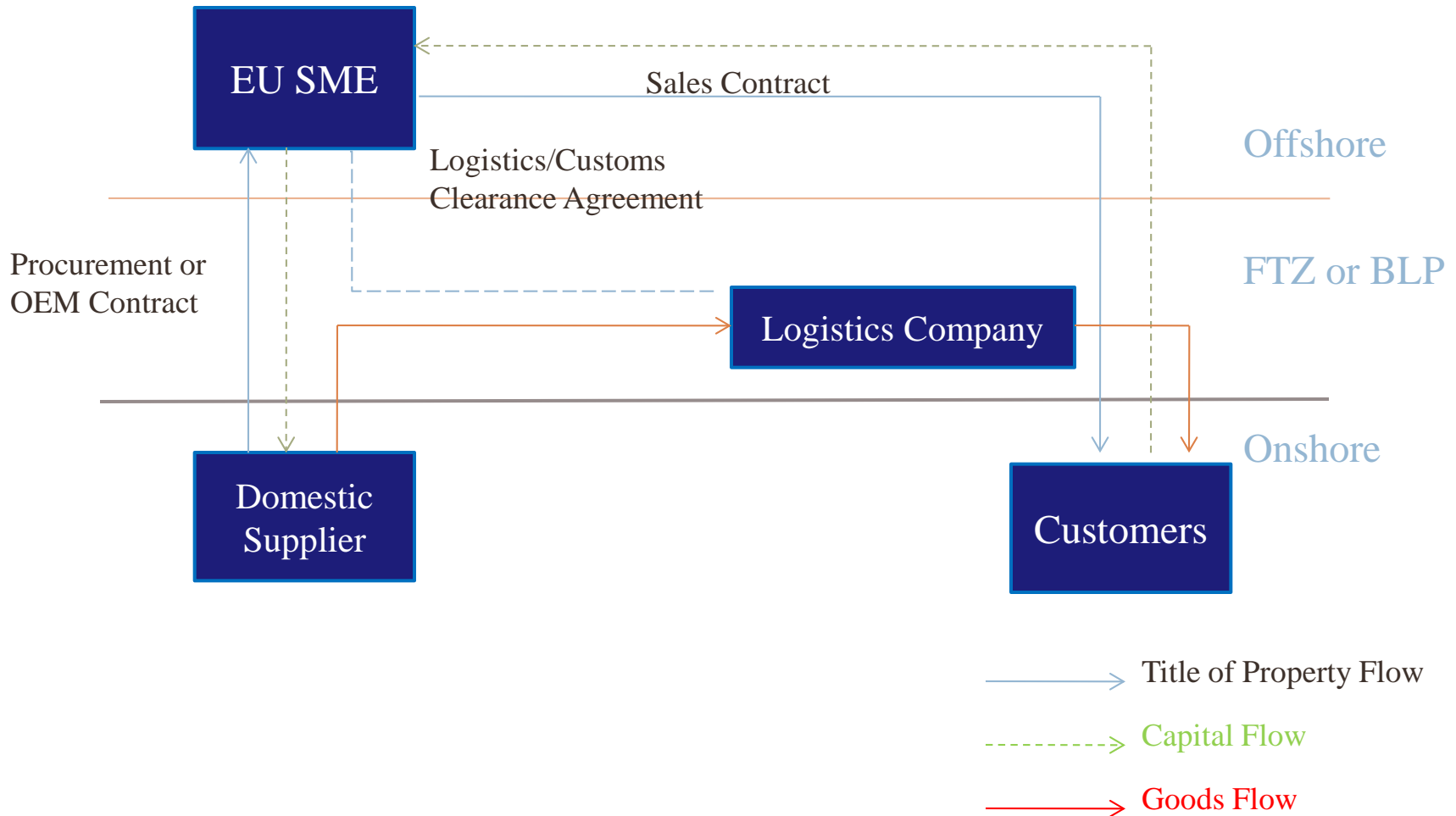
The Central Issue:

How can an European small-medium enterprise (“**EU SME**”) trade goods in China without setting up a legal entity in China?

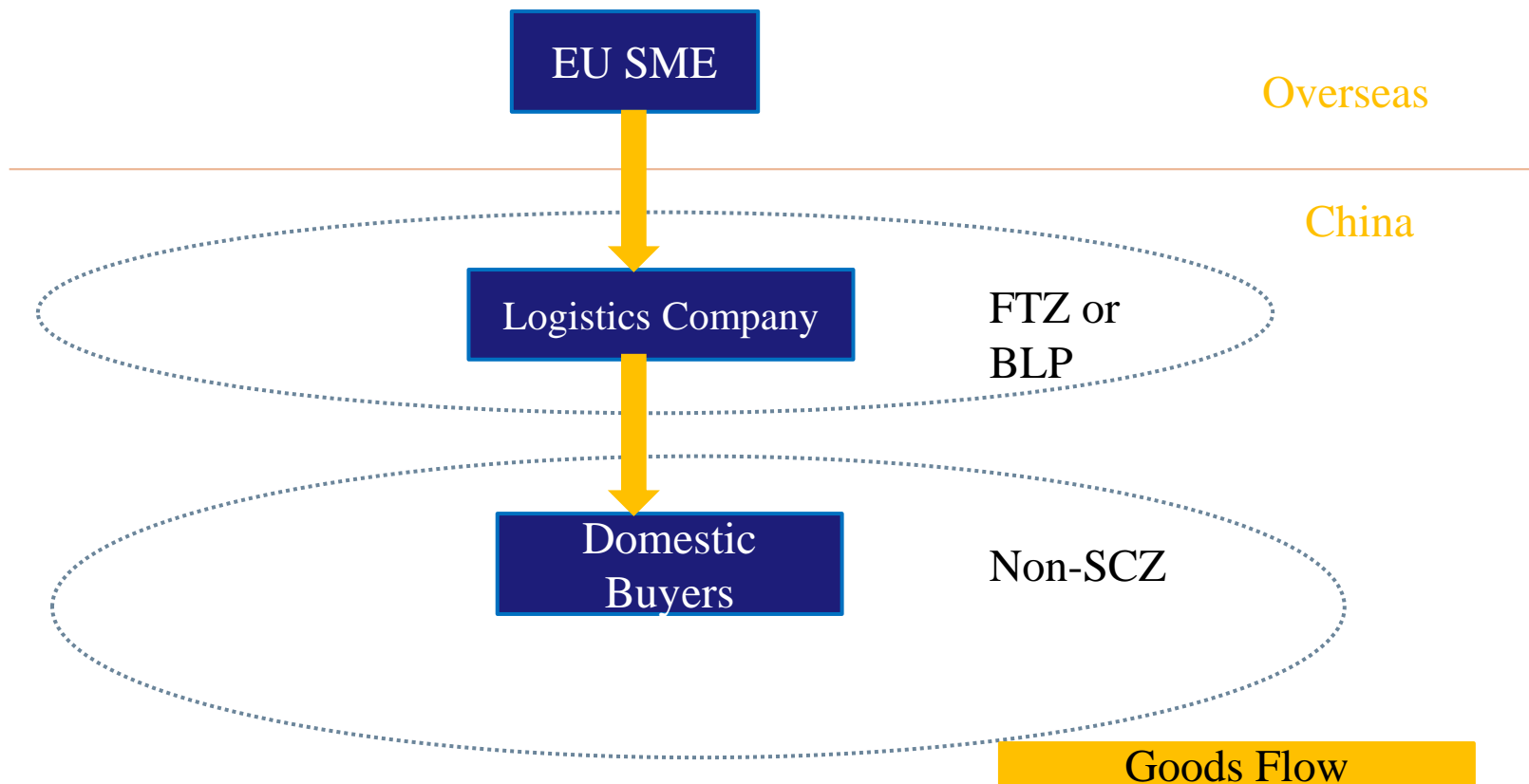
Characteristics of SCZs for Trade Model Structuring

- The goods into SCZs are normally bonded, free from the Import Taxes and exempted from the import license
- Bonded goods stored in SCZs can be further processed (except in BLPs) and sold into the Chinese domestic market with the relevant Import Taxes being paid up.
- Once goods sourced from non-SCZs enter SCZs (**except FTZs**), the local suppliers in China may claim the export VAT refund.
- Goods sourced from non-SCZs may be put into and stored in the SCZs for export sale purposes.
- The goods transported between SCZs stays in the bonded status.

Flow Chart of General Transaction Structure



Sale of Goods Sourced from Overseas to Downstream Buyers in Non-SCZs, through or not through SCZs



Sale of Goods Sourced from Overseas to Downstream Buyers in Non-SCZs

Example:

EU SME

Logistics Company in Tianjin BLP

Buyer in Hebei Province, China

Product: Vacuum

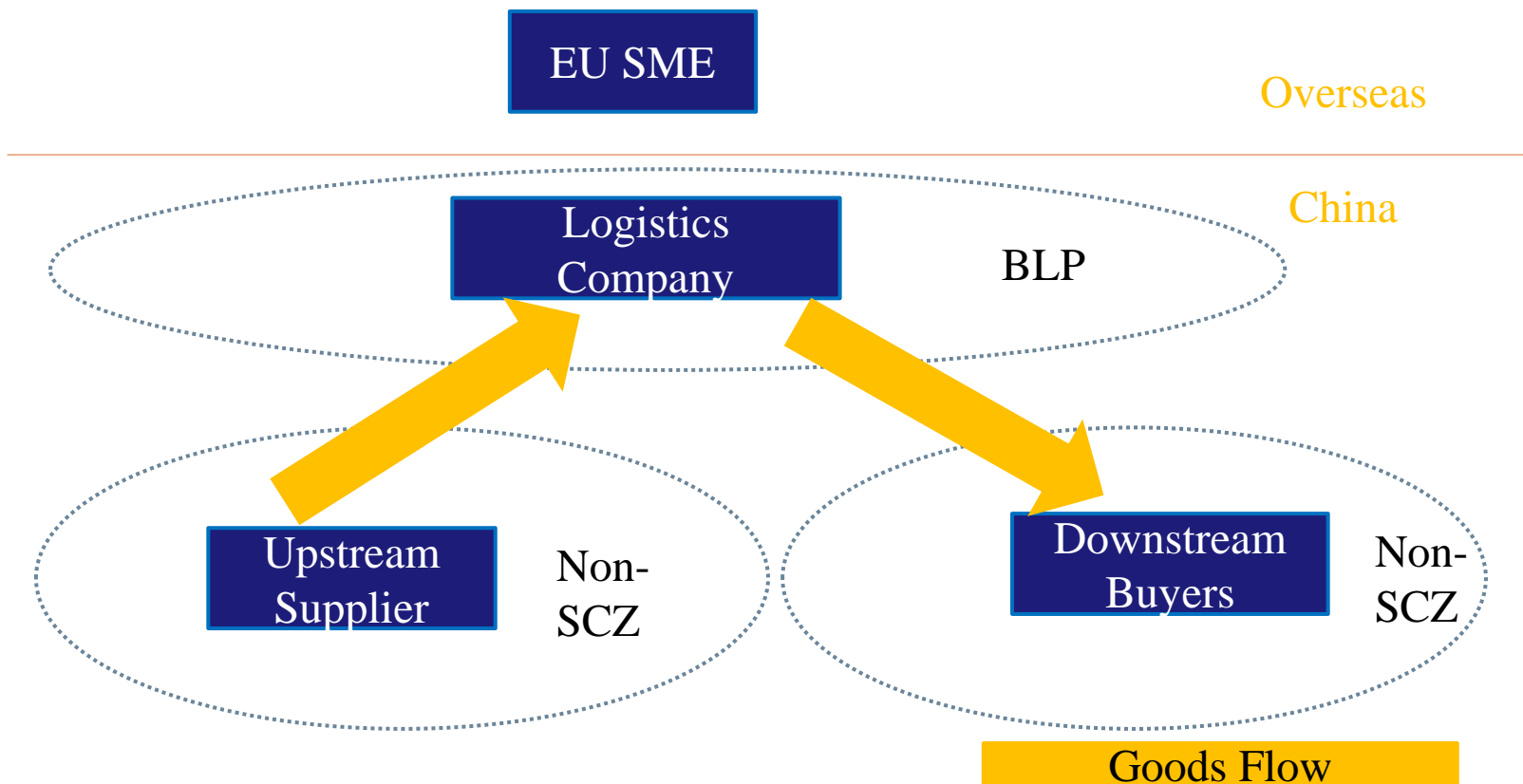
Workflow:

- An EU SME may engage a logistics company in a BLP, whose Business License allows it to do logistics services, trade agency, commercial distribution and customs broker services.

Sale of Goods Sourced from Overseas to Downstream Buyers in Non-SCZs

- The shipment of Vacuum sourced overseas enters the BLP on bonded basis upon the entry filing clearance with the customs which is carried out by the BLP Intermediary.
- The goods are stored in the Intermediary's warehouse in the BLP.
- Upon instruction from the SME, the Intermediary processes the import clearance and has goods delivered to the Buyer in Hebei. The Buyer bears the Import Taxes.
- Foreign exchange flow: The Buyer in Hebei pays foreign currency either directly to the EU SME or via the Intermediary as import agent.

Sale of Goods Sourced from Non-SCZs to Downstream Buyers in Non-SCZs



Sale of Goods Sourced from Non-SCZs to Downstream Buyers in Non-SCZs

Concerns

- The Chinese Supplier might identify EU SME's Chinese customers and contact them directly.
- The Import Taxes paid at the sale from SCZs into non-SCZs add cost to the transaction.

Example:

EU SME

Logistics Company in Shanghai WaiGaoQiao BLP

Upstream Supplier in Yiwu, China

Downstream Buyer in Nanjing, China

Product: Fashion Belts

Sale of Goods Sourced from Non-SCZs to Downstream Buyers in Non-SCZs

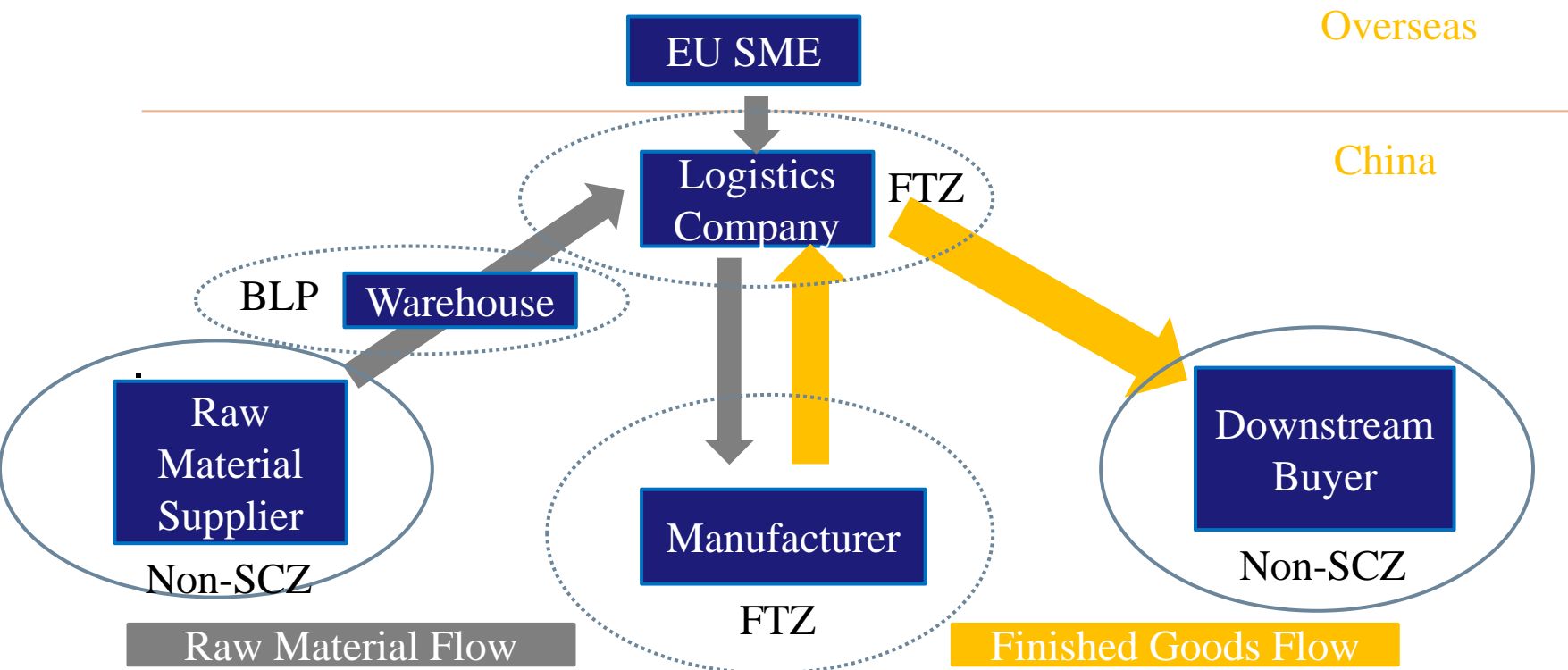
Workflow:

- An EU SME may engage a logistics company in a BLP (“**Intermediary**”), whose Business License allows it to do logistics services, trading agency, international sourcing and customs broker services.
- The SME signs a purchase contract with the Upstream Chinese Supplier. The contract includes non-circumvention provision.
- The Supplier prepares its documentation and exports the goods into the BLP. The BLP Intermediary processes the export declaration with the customs. Upon the entry into the BLP, the Supplier may claim the export VAT refund directly.
- The goods enter the BLP and are stored at the Intermediary’s warehouse in the BLP.

Sale of Goods Sourced from Non-SCZs to Downstream Buyers in Non-SCZs

- To avoid the Supplier from knowing SME's downstream Buyers, simple processing may be done to the goods in the BLP, such as labeling and marking and new packaging through a third party. The quality control may also be carried out in the BLP.
- Upon instruction from the SME, the Intermediary processes the import clearance and has goods delivered to the Downstream Buyer. The Buyer bears the Import Taxes.
- Foreign exchange flow: The Down Stream Buyer pays foreign currency either directly to the EU SME or via the Intermediary as import agent for the Buyer.

Sale of Finished Goods Assembled in SCZs into Non-SCZs which Contain Raw Materials Sourced from Overseas and Non-SCZs



Sale of Finished Goods from SCZs to Non-SCZs which Contain Raw Materials Sourced from Overseas and Non-SCZs and Assembled in SCZs

Features:

Raw Material Sourcing (Scenarios One and Two) Plus Third Party Export Processing

Example:

EU SME

Logistics Company in Shanghai WaiGaoQiao FTZ (Operating Warehouses in FTZ and BLP)

Manufacturer in Shanghai WaiGao FTZ

Upstream Supplier in Ningbo, China

Downstream Buyer in Beijing, China

Product: OEM Camera

Sale of Finished Goods from SCZs to Non-SCZs which Contain Raw Materials Sourced from Overseas and Non-SCZs and Assembled in SCZs

Workflow:

- An EU SME engages a logistics company in a FTZ (“**Intermediary**”), whose Business License allows it to do logistics services, trading agency and customs broker services. The Intermediary also operates warehouses in FTZ and BLP.
- The SME signs an export processing contract/OEM contract with a manufacturer located in FTZ. The contract includes non-circumvention provision and IP protection provision.
- The SME ships certain raw materials/components sourced overseas to the Intermediary as receiver. Please see Scenario One for details.

Sale of Finished Goods from SCZs to Non-SCZs Which Contain Raw Materials Sourced from Overseas and Non-SCZs and Assembled in SCZs

- In the meanwhile, the SME buys certain raw materials from the Upstream Chinese Supplier via the Intermediary (Please see Scenario Two for details). Upon the entry into a BLP warehouse operated by the Intermediary, the Supplier may claim the export VAT refund directly. Later, the Intermediary transports such raw materials to the Manufacturer in FTZ. The goods transported between SCZs stays in the bonded status.
- The Manufacturer further processes the raw materials into finished goods in the FTZ, and has them delivered to the Intermediary's warehouse.
- Upon instruction from the SME, the Intermediary processes the import clearance and has the finished goods delivered to the Downstream Buyer. The Buyer bears the Import Taxes.
- Foreign exchange flow: The Down Stream Buyer pays foreign currency either directly to the EU SME or via the Intermediary as import agent.

Sale of Finished Goods from SCZs to Non-SCZs which Contain Raw Materials Sourced from Overseas and Non-SCZs and Assembled in SCZs

Issues:

- Customs Clearance
 - Tariff Classification
 - Goods Value
- IP Issue

Topic 3 – Shanghai FTZ V.S. Other SCZs

Unique Advantages of Shanghai FTZ

- Expedite Customs Clearance from overseas into FTZ
E.g. Prior to goods' physical arrival at the Shanghai FTZ, the entry filing clearance may be carried out with the Shipping Manifest. from the carrier
- At domestic sale of finished goods into a non-SCZs, Shanghai FTZ users has to the option to pay either the Import Taxes that apply to the imported components, or that which applies to the finished goods.

Topic 4 – U-Turn Via Hong Kong or BLP

- The traditional “Hong Kong U-turn” seems gradually replaced by the “BLP U-turn”. The international transport and logistics costs are significantly reduced, and the export VAT refund cycle is also shortened.
- In practice, to seek illegal benefits, some companies would like to select Hong Kong for U-turn given its loose supervision measures in comparison with those in BLP. They might fraudulently claim VAT refund via Hong Kong U-turn through untruthful declaration of description and value.

Summary

Q&A Session



EUSME
Centre

www.eusmecentre.org.cn

info@eusmecentre.org.cn

