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A Brief Discussion on 2012 PRC Tariff Policy

By Clare Lu

I have heard that China has cut some of its import duties. I want to know which products are affected under the new measures and how can I import products into China under the lower tariffs?

As part of the PRC government's efforts to reinforce the macroeconomic control and accelerate the industrial restructuring as well as the transformation of economic development patterns, the Tariff Committee of the State Council issued *the 2012 Tariff Implementation Plan* (Shuiweihui [2011] No. 27, Circular 27) on 9 December 2011.

In Circular 27, for the purpose of encouraging import business and satisfying needs on local economic development as well as local consumption, 737 commodities were approved to enjoy the interim import duty rates, with the average rate of 4.4%, which is more than 50% lower than the Most Favored Nation duty rates. Commodities with interim import duty rates in 2012 cover the following five categories:

- Energy and resource related commodities, such as coal, hard coke, refined petroleum products, marble and copper;
- Key equipment and parts required for high-end equipment manufacturing, new information technology, new-energy automobile and other industries with strategically importance, such as air jet looms, camera components for cell phones, special mold used for body stamping and press parts for processing automobile;
- Means of agricultural production, such as tractors with large horsepower engine, chemical fertilizer, and animal fodder;
- Daily necessities that used to improve people's livelihood and encourage consumption, such as baby food, preparations for the care of the skin, and kitchenware; and

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- Public health related commodities such as vaccines and serum.

Furthermore, to encourage the development of China's culture industry and meet spiritual culture needs of the public, interim import duty rates are also applied to commodities like digital movie projectors, original paintings and sculpture.

For the interim tariff rate of a specific commodity, importers may refer to Appendix III of Circular 27 (i.e. the Table of 2012 Interim Duty Rates on Imported Goods) by searching the HS code of such commodity.

On 28 March 2012, the State Council Executive Meeting announced four measures to stimulate import into China for the purpose of better balancing import and export trade. Such measures include, i) reduce import duty rates by means of applying interim tariff rates, expanding scope of commodities under zero rates, and importing from free trade zones; ii) provide diversified financing facilitation to stimulate import; iii) improve the level of trade facilitation; and iv) reform customs administration methods to reduce import costs.

According to the above, we believe that during 2012 the PRC government will still encourage import business and therefore some companies might find it easier to get goods into the PRC market because of the reduced import tax costs.

However, when applying for the reduced tariff rates, importers are recommended to pay attention to the following issues:

- As usual, in addition to the announcement of annual interim tariff rates, the PRC government has also adjusted and increased tariff codes in the published 2012 Tariff Codes. The total number of tariff codes increased from 7977 in 2011 to 8194 in 2012. Such change might affect importers' tax costs on commodities to be imported and exported. Companies are suggested reviewing the tariff codes that are currently used against the 2012 new codes. In such review, companies might identify potential tax-saving opportunities and might consider adjusting the tariff codes of imported/exported goods to enjoy reduced tax costs. However, importers shall be aware of and control the risks related to the adjustments on tariff codes.

- Due to a cut of import duty, some importers that used to take advantage of the Free Trade Zones might find less benefit in operating through such Free Trade Zones by comparing the saved tax costs against the increasing warehouse and management fees. Companies might need to review their current business models under the revised 2012 Tariff Codes.

- Besides the revised Tariff codes, PRC government is now expanding its treaty network by negotiating with more countries and regions. It was reported that PRC companies have not fully used treaty network during the past. In addition to the review of current tariff codes, it is also suggested that companies paying more attention to the treaties entered into and to be entered into by the PRC government. Companies might need to review and adjust business models to maximize the benefits under the PRC treaty network.

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