

New Model to Cut Time and Cost for Customs Clearance in FTZ

By David Yu and Shirley Hou

Shanghai Customs published on 21 April 2014 the *Notice for the Implementation of an Operating Model for the Delivery and Customs Clearance of Foreign Goods in the China (Shanghai) Pilot Free Trade Zone* (Shanghai Customs Notice 2014 No. 6) (Doc. 6) which came into force on 1 May 2014.

The so called “Customs Clearance after Delivery of Goods” model (the New Operating Model) is one of the positive attempts to facilitate the customs declaration process within the Shanghai Customs’ “first-tier deregulated” innovative regulatory regime under the *Overall Planning for the China (Shanghai) Pilot Free Trade Zone*, published by the State Council on 18 September 2013. Prior to the publication of Doc. 6, Shanghai Customs established in early October 2013 the New Operating Model for the first group of six companies registered in the Shanghai Pilot Free Trade Zone (FTZ) under a pilot scheme. The number of companies under this pilot scheme was increased to 47 by December 2013, mostly comprising business entities and warehousing companies under Category AA (a management category provided by customs to certain companies) as well as some qualified manufacturers under Category A. The publication of Doc. 6 aims to expand the innovative regulatory approach to cover qualified companies across the FTZ.

Based on Doc. 6, the concept, the applicable requirements and operation procedures for the New Operating Model are briefly summarized below.

Concept and Requirements

The New Operating Model means that during the process for the delivery of foreign goods into the FTZ, companies in the FTZ can make a brief customs declaration first based on shipping bills and other documents of the imported goods, pick up the goods at ports and deliver them into the FTZ, and afterwards proceed to complete the official declaration formalities for the goods at customs within a prescribed time limit.

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Companies in the FTZ that wish to carry out this New Operating Model are required to meet the following requirements:

- They must be a company classified under Category B and above;
- They must have established a computer management system that meets the customs regulatory requirements. Such system has to be able to link to the customs regulatory information system in the FTZ via a data exchange platform or other computer networks pursuant to the authentication method stipulated by customs, so as to transmit relevant data to customs.

A company in the FTZ will be suspended from applying the New Operating Model if (a) it fails to meet the requirements as indicated above; (b) it is subject to investigation by customs over suspected smuggling or export of goods infringing intellectual property rights; or (c) at customs' discretion, they suspect/they have grounds to believe the company is involved in other illegal activities which may lead to the suspension. Moreover, the operating model does not apply to those goods which are prohibited or restricted for importation into China.

The New Operating Model

Companies in the FTZ are required to complete filing procedures first at the competent customs authority by submitting the originals and copies of the filing form for the New Operating Model and the registration certificate issued by a customs clearance entity. Companies may be required to submit other materials or documents that customs might estimate necessary. Within three working days of the receipt of all the documents, the competent customs authority will provide their decision to the companies.

Eligible companies in the FTZ can choose to apply the New Operating Model to all or part of their business. Once the New Operating Model is chosen, it should be carried out according to the following steps:

- Truthfully fill in an "Application Form for Picking Up Goods" in the information system and send it to the competent customs authority;
- Upon receipt of approval, pick up the goods at the ports and print out a "Notice for Picking Up Goods" in the information system;
- Operators at the regulated premises handle the pickup and departure procedures for the goods based on customs electronic information;
- Transport the goods into the FTZ based on the Notice for Picking Up Goods within 24 hours after picking up the goods;
- Declare entry records to the competent customs authority within 14 days from the date of declaring the entry of goods.

If the goods have been delivered into the FTZ but have not been filed for the record, they are not allowed to be delivered out of the FTZ.

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Not to Relax Regulation

Under the New Operating Model, qualified companies in the FTZ can make a brief customs declaration first based on the shipping bills and other documents of the imported goods, pick up the goods at ports and deliver them into the FTZ first, and then complete the official declaration formalities for the goods at customs within a prescribed time limit.

Compared with the previous conventional customs clearance model, the New Operating Model allows qualified companies in the FTZ to pick up and deliver goods into the FTZ and process the filing procedures simultaneously, so that the time required for customs clearance of the goods in the FTZ can be shortened significantly and logistics costs can also be reduced accordingly.

However, we believe this New Operating Model does not mean that customs has eased its regulation on customs clearance of goods. Based on the information system, customs clearance formalities can be completed after the goods are delivered into the FTZ. Nevertheless customs has the right not to allow goods already in the FTZ to be delivered out of the FTZ if no record is filed. Customs also has the right to suspend the application of the New Operating Model to those companies not qualified or involved in offences. Thus, companies still need to be aware of their compliance management during the import process under the New Operating Model to ensure the information and data submitted to various government departments are cross checked and well managed internally. In addition, companies shall examine and verify their internal management process to prevent various risks such as downgrade of the companies' management category under the customs system.

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