TheCityUK

China-Britain Business Council 英中贸易协会

1954 - 2014

CHINA FREE TRADE ZONES DISCUSSION PAPER

DEVELOPING BONDED WAREHOUSING: EXPERIENCE FROM THE UK

JUNE 2014

Deloitte.

LONDON METAL EXCHANGE

CONTENTS

FOREWORD

I am honoured to chair the International Experts Consultation Group which has been established to assist Chinese policymakers in their key task of developing Free Trade Zones. The Group brings together experienced practitioners from a wide variety of backgrounds and nationalities. It provides an extensive knowledge bank which China can use and adapt as the Free Trade Zones evolve.

This Discussion Paper is one of a series that is being produced in response to specific requests from Chinese policymakers. We hope that it will provide practical support to the development of the Free Trade Zones policy to the benefit of China and its people. Successful Free Trade Zones will be an important catalyst for economic reform and will greatly enhance international trade and investment flows. This will have a direct and positive impact on increasing global prosperity.

I am very grateful to those who have contributed their insights to this paper and who have given their time so generously to the work of our Group. We look forward to discussing it in detail and to participating in an ongoing dialogue with Chinese experts in future seminars and workshops.

Sir Gerry Grimstone
Chairman, TheCityUK

1 EXECUTIVE SUMMARY

This paper is intended to provide readers with a general overview of the bonded warehousing regime in the United Kingdom (UK) and to provide points for discussion to the government of China. The paper provides insight from Deloitte LLP and the London Metal Exchange (LME), giving an overview from a regulatory and commercial perspective, in addition to practical examples of how warehousing schemes operate and the advantages for industry.

The rapid proliferation and economic impact of special economic zones have been documented in numerous studies. By some estimates, there are over 3,000 zones in 135 countries today, accounting for over 68 million direct jobs and $500 billion of direct-trade related value-add within zones. Most of these studies however focus on government-owned, developed and operated zones, missing the fact that there have been dramatic developments in the private sector and the use of public/private zones, supported by the implementation of the World Trade Organisation and World Customs Organisation frameworks, focused on providing customs duty (and other related taxes) relief and incentives.

The UK used to operate five Free Trade Zones[1]. UK Free Zones were located at certain ports of entry and controlled principally on the basis of the requirements of customs warehousing procedures and there were no special reliefs in Free Zones from other taxes, excise duties or local authority rates. However, due to the development of customs legislation in the EU and the more commercially attractive benefits of utilising customs procedures such as customs bonded warehousing, the UK ceased to renew the licenses for the Free Zones in 2012. Since then, there has been growth in the development of bonded warehousing.

Bonded warehousing is a customs procedure allowing the import of goods for storing in a secure area without payment of import taxes until the goods are removed for domestic consumption. Generally, the duty liability is cancelled upon re-export of the goods outside the EU. A bonded warehouse can be both public or private and the authorisation to have a bonded facility can be granted over the operators' existing premises or preferred location. The authorities govern the bonded warehouses via customs legislation and users can be granted an integrated authorisation, allowing importers to benefit from other customs processing reliefs. This makes bonded warehousing a relatively easy to use and attractive mechanism for importers, traders and manufacturers.

China is a world leader in the development of special economic zones including free trade zones (FTZs). As it looks to develop its FTZ strategy and open up the Shanghai FTZ, it should consider focusing on improved customs facilitation to make the regime more attractive to foreign investors and importers. Such measures could include (1) no time limit on storage of goods in the zone; (2) apply tax relief to other processes, such as storage, repacking and cleaning and allow the movement of product from one zone to another 'in bond'; (3) allow tax free transactions between counter-parties of goods stored the zone regardless of the domicile of the owner of the goods; and (4) remove the domestic tax registration requirement/domestic tax liability for foreign parties who only operate within the zone.

From a 'quick win' perspective, China could also align its customs bonded warehousing requirements with those of the UK, to provide some of the benefits listed above, and encourage the use of the regime in manufacturing, importing and exporting. A customs bonded warehouse can offer some of the benefits of a Free Trade Zone, with the exception of income tax incentives.

[1] A Free Zone is a designated area in which non-EU goods are treated as being outside the Customs territory of the EU for the purpose of import duties. This means that import duties (including agricultural charges) are not due provided the goods are not released for free circulation. Import VAT is also suspended until the goods are removed to the UK market or used or consumed within the Free Zone.

2 POLICY SUGGESTIONS

2.1 China today

China is a world leader in the development and use of Free Trade Zones. Special Customs areas in China are deemed to be within the physical territory of China but outside of the PRC Customs territory from a customs duty and Value-added Tax ("VAT")/Consumption Tax ("CT") perspective. As a result they enjoy preferential treatment in terms of customs duty and VAT/CT. Facilities used in China today include Bonded Warehouses, Free Trade Zones, Export Processing Zones, Bonded Logistics Parks/Centers, Bonded Port Zones and Comprehensive Bonded Zones, Cross-border Industrial Parks and other special supervision areas.

Although the LME does not currently have approved warehouses operating in China, it has experience of operating within the country and, has held discussions related to the development of FTZ/customs regimes. Following discussions, it was determined that the Waigaoqiao Bonded Logistics Zone (WBLZ) bonded warehousing rules at that time (2006-2009) were the most compatible with the LME's global Good Delivery Location (GDLs) and trading requirements, with the exception of business taxes.

In spite of the initial discussions with WBLZ, progress was placed on hold following the China Securities Regulatory Commission CSRC's general prohibition on foreign exchanges licensing warehouses in Mainland China, making the zone unfeasible for LME. However, the LME's experience in working with WBLZ and, in particular, the significant legal and financial due diligence conducted as part of WBLZ's application process has informed the points set out in this paper.

2.2 Zone success factors

There is an emerging global trend in zone development through public/private partnerships, further supported by international standards set by the World Trade Organisation and World Customs Organisation that place significance on providing import/export incentives and efficiency advantages to today's global businesses. Whilst some zones aim to accelerate policy reform, others focus on attracting foreign investment and driving competitiveness with international markets. The policy and incentive framework is therefore key to the success of a zone.

The most common factors contributing to the success of a zone include:

- Beneficial tax reduction/elimination incentives that are easy to obtain
- No limitation on foreign/local users (ie. no need to be domestically registered)
- Allows for sales to the local market and intra-zone transfers
- Conditions and procedures of use/operation that suit today's importer/exporter
- Strong customs facilitation
- Co-location of users within the zone, allowing for shared areas and tax-free transfers within the zone
- Attractive locations supported by local infrastructure and global links, reducing the need for further capital expenditure.

The most common barriers to success of a zone include:

- Over-complicated conditions and procedures for operating within the zone
- Limited tax incentives
- Limited application across typical user supply chains
- Poor site locations and surrounding infrastructure development
- Weak operation of the zone, including on-site logistics and administration.

In summary, the success of a zone comes down to the management, location and operation of the zone, not just the incentives themselves.

2.3 Benefits to industry and government

An open, free and transparent international market for trading and storage is attractive to financial investors, traders, brokers and other commercial organisations to create a positive economic landscape.

During the first decade of the 21st century, China has risen to become an international power whose growth remains heavily resource intensive. As an example, in the commodity landscape, China has taken a leadership position as one of the largest producers and consumers across the spectrum of base metals (approximately 45% of imported/exported London Metal Exchange metals). In the meantime, economic power is still held both by markets where demand is strong – such as the EU, USA, China, Southeast Asia, Africa, and by countries that control strategically important resources. This not only means that the Chinese market has an important impact on the prices of international commodities, leading to growth and profits for resource exporters world-wide, but more importantly that this will broaden China's interactions with the world, leading to increased economic competitiveness and wealth.

As set out above, the opening-up of the Shanghai FTZ to global businesses will bring significant benefits to the Chinese market. This will be the case if the regime is implemented appropriately and lessons from other such regimes are considered. The next section details some of the rules which are currently in place globally and which serve to ensure the regime has a positive impact on the global trade landscape.

2.4 Recommendations for customs facilitation

Customs facilitation is critical to the success of the zone. Should China look to more quickly develop trade incentives, it could consider aligning its customs bonded warehouse regime with that of the UK, providing some of the benefits of an FTZ without the policy complications and infrastructure requirements. More flexible bonded warehousing in China would encourage the use of the regime in manufacturing, importing and exporting. A customs bonded warehouse can offer most of the benefits of a Free Trade Zone, with the exception of income tax incentives. Regardless of the approach China may take, customs facilitation is key. We have provided below some of the areas for consideration to drive improvement of customs facilitation in a zone or through a bonded warehouse regime. This list is by no means exhaustive.

- There must be no time limit on storage of goods in customs warehouse regimes
- Other goods and services in customs warehouse regimes, such as storage charges, repacking and cleaning, must be free of taxes
- There must be a limited amount of processing allowed within the zone, with opportunities to extend the warehouse authorisation to cover other more substantial processing activities
- Transactions of goods stored at all times in customs warehouse regimes are VAT and duty free regardless of the domicile of the owner of the goods
- Foreign parties are not required to register for domestic tax liabilities if their only business is transactions on goods stored within the zone/customs warehouse
- There must be no restrictions on domestic goods and customs cleared goods being stored with foreign goods and non-domestically owned warehouse companies must be allowed to set up warehouse businesses, providing they comply with local regulations
- It must be possible to transfer goods from one customs location to another in bond without any requirement for tax/duty payments
- There could be easier requirements for warehouse keepers to adhere to, without over-complicating the administrative burden which can often eliminate the attractiveness of the zone. For example, no obligation on warehouse keepers to make available to the authorities the ownership of any specific lots in the warehouse so long as the warehouse keeper is willing to assume liability.

The above are some general principles that will help underpin a successful zone or global bonded warehouse network which will benefit both the Chinese market and those nations engaged in trade with China.

3 BACKGROUND ON THE GLOBAL BONDED WAREHOUSING LANDSCAPE

3.1 Definitions

Bonded warehousing is a customs procedure allowing the import of goods for storing in a secure area without payment of import taxes until the goods are removed for domestic consumption. Generally, the duty liability is discharged (i.e. cancelled) upon re-export of the goods outside the country. In addition to customs bonded warehousing (known as customs warehousing in the legislation[2]), a number of countries around the world have implemented alternative customs regimes that offer similar tax benefits to facilitate trade and attract foreign investment. For example, many countries have Free Zones or ports that are treated as duty-free zones for imported goods intended to be trans-shipped or re-exported from the country in question.

Whilst conceptually similar in most countries, such regimes may be referred to by names other than those below which are based on the definitions as per the EU legislation:

Customs Regime	Definition
Free Trade Zone ("FTZ")	A territory or premises situated in the customs territory of the import country where taxes are suspended for goods, which are intended for export. (similar schemes/ synonyms include Free Zone, Special Economic Zone and Export Processing Zone).
Inward Processing Relief ("IPR")	A customs procedure allowing the import of goods for the purposes of processing and re-export outside the territory. The import taxes are either suspended, or initially paid and refunded when the goods are re-exported. This procedure can be adopted by importers through obtaining customs authorisation and used in any facility (no designated area is necessary).
Outward Processing Relief ("OPR")	A customs procedure allowing the export of goods for processing abroad and the re-import of the processed products under total or partial import tax relief. Similarly to IPR, OPR can be used once the importer has obtained customs approval and used in any facility (no designated area is necessary).
Processing under Customs Control ("PCC")	A customs procedure allowing goods to be imported under suspension of import taxes for the purposes of processing into a finished product that attracts a lower rate of duty, wherein import taxes are only due on the finished product. As with IPR and OPR, PCC is available to importers upon application to the customs authority.

3.2 Typical operator requirements for deciding to use a bonded warehouse

Bonded warehousing is typically best suited for companies that import goods with the intention of storing or processing for re-export or for those who wish to obtain a cash flow advantage on delaying tax payments on imported stock. There are a number of basic requirements to be considered by a company choosing to seek authorisation to operate a bonded warehouse. These include supply chain flows and the relating logistics processes (e.g. does the supply chain support the use of a bonded warehouse regime), information technology (are the systems in place to allow for the right level of reporting) and financial impact (what are the financial benefits but also the administrative costs to implementing the regime). Investment required is typically limited to an inventory tracking system/capability that allows the user to meet the conditions of the warehousing authorisation upon import and export.

The advantages of operating a customs warehouse include cash flow savings and duty exemption for re-export and the ability to store imported goods in a customs warehouse if there is difficulty at the time of import in meeting particular conditions, such as import licensing requirements. The disadvantages include the cost of implementation and maintenance and the increased compliance burden, which increases the potential for penalties and supply chain delays should non-compliance arise.

[2] The EU Customs Code (Council Regulation (EEC) No 2913/92) and its implementing provisions (Commission Regulation (EEC) No 2454/93) form the basis for EU customs legislation and apply to all Member States.

3.3 Global landscape

Most countries adopt similar principles in relation to customs warehousing and related regimes. This section provides an overview of the global landscape highlighting practices in well-known trading countries around the world.

Europe: European Union

EU countries (including the UK) implement customs regimes as laid down in the EU Customs Code and its implementing provisions; these include Free Zones, Customs Warehousing (CW), Inward Processing Relief (IPR), Outward Processing Relief (OPR), Processing under Customs Control (PCC) and the Fiscal Warehousing regime. Whereas Free Zones are optional and only implemented by some countries, other regimes (i.e. CW, IPR, OPR, and PCC, collectively known as Customs Procedures with Economic Impact) are mandated by law and implemented by all Member States of the EU. In spite of this, the way in which the regimes are administered, controlled and audited can vary between Member States, for example, some require guarantees for the duty liability of goods stored, or duty suspended and others do not. Below is a snapshot of customs regimes implemented in select EU countries:

Customs Regime	Netherlands	Belgium	UK	Germany	Poland
Free Zone	3	7	7	3	7
Special Economic Zone[3]	7	7	7	7	3
Bonded Warehouse	3	3	3	3	3
Inward Processing Relief	3	3	3	3	3
Outward Processing Relief	3	3	3	3	3
Processing under Customs Control	3	3	3	3	3

Americas: United States, Brazil, Mexico

US

In the US, several regimes offer tax/duty benefits to traders, including Foreign Trade Zones (FTZ), Bonded Warehouse (BW) and the Duty Drawback Program (DDP). An FTZ is a secured area outside of the US customs territory where companies are permitted to implement special procedures to encourage US commercial activity by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings. A bonded warehouse is a similar regime which can be used to import and process goods under duty suspension, without payment of duty for up to 5 years until they are removed for domestic consumption. The duty liability is cancelled when exporting the goods or when they are withdrawn for supply to a vessel or aircraft. This scheme is in contrast with the EU where a customs warehouse only allows for storage or minimal handling of the goods. Another scheme available in the US is the duty drawback program which allows eligible parties to claim a refund of 99% of 'ordinary' customs duties and taxes paid on imported merchandise that is subsequently exported or destroyed.

Brazil

Although the tax system is complex within Brazil and different to other countries, from a customs perspective, the schemes available and implemented within Brazil are similar to those available in the US. As with the Member States of the EU, the administration and control of these regimes may be different in differing territories however the regime types are notably similar for example, Areas de Livre Comércio (Free Trade Zone), Zona Franca de Manaus (Free Trade Zone), Zonas de Processamento de Exportação (Export Processing Zone), Entreposto Aduaneiro (Customs warehousing scheme in Brazil) and Admissão Temporária para aperfeiçoamento ativo (Drawback regime similar to IPR).

Mexico

The schemes implemented by the Mexican government aim to provide incentives to export traders, particularly in the export manufacturing industry, to defer the payment of general import tax, value added tax

[3] Special Economic Zones (SEZs) in Poland are regulated by national law (Act of 20 October 1994 on special economic zones – J.L. 2007 No. 42, item. 274). Under this scheme, businesses are granted specific income tax exemptions by the government, with the aim of promoting regional development by attracting new investment and creating more jobs.

and, where appropriate, countervailing duties on raw materials, machinery and equipment for their operations.

Bonded warehousing is implemented in Mexico under two regimes:

- Bonded Warehousing: for processing, transforming or repairing goods allows importers to introduce goods into this regime with the deferment of import duties and for its subsequent export; and
- Strategic Bonded Warehousing: for handling, storage and custody of goods, exhibition, sale, distribution processing, transforming or repairing which allows companies who have this authorization to introduce goods with the deferment of import duties

The Manufacturing, Maquila and Export Services Industry (IMMEX) is another scheme, which allows companies to obtain a relief from customs duties and a certification for VAT exemption for processing the imported goods and export the finished goods.

Asia: India, Singapore, Malaysia

The provisions for schemes implemented in these countries vary according to local legislation. Singapore, Malaysia and India have implemented Free Trade Zones, Bonded Warehousing and Special Economic Zones. These countries have significant trading globally and through the implementation of such regimes have encouraged and promoted trade in their respective countries. Singapore, in addition to FTZs, also has two separate bonded warehousing schemes, Zero-GST Warehouse (ZGS) and a Licensed Warehouse (LW), whereas Malaysia has a drawback facility which allows for recovery of import duty and sales tax paid on the importation of parts for manufacturing and subsequent re-export (as finished goods). India also implements special schemes in addition to FTZs such as Advanced Authorisation (which is the equivalent of IPR), Duty Free Import Authorisation (DFIA), Export Oriented Units, Electronic Hardware Technology Park and Software Technology Park, with the aim of promoting trade and foreign investment.

Currently, companies trading within the global network must adapt to the differences in regime. Consequently, the LME has experience of a number of different regimes as LME approved warehouses operate across the globe under different customs specifications. For example, LME warehouses operate within the 'Free Trade Zone' in Malaysia, under, the 'Fiscal and Customs Warehouse' regime in Europe, and under a 'Foreign Trade Zone' designation in the US.

4 UK BONDED WAREHOUSING

In the UK, the term 'customs warehousing' is used to refer to the bonded warehousing regime[4]; this section explains how this regime is structured from a legal perspective and also the way it works in practice in the UK.

4.1 Definition

A customs bonded warehouse is defined to be either a defined location (such as premises or place) or an inventory system authorised by the UK customs authorities (Her Majesty's Revenue & Customs or HMRC) for storing non-Community[5] goods that are chargeable with import duty, excise duty and/or VAT, or otherwise not in free circulation. Within the UK, there is generally no time limit on how long goods can be stored in a customs warehouse.

In certain circumstances, before an authorisation is granted by HMRC, the applicant may be required to provide security, normally in the form of a guarantee. Typically, this is driven by the type of goods and the financial standing of the applicant. The level of guarantee (or bond) required is reviewed on a regular basis, taking into consideration on going compliance with the conditions of the customs warehousing authorisation. Normally a bonded warehouse is only used for storing goods, however some forms of processing may be permitted (although these are fairly limited). Normally if processing is being conducted, the applicant will apply for an integrated authorisation, utilizing bonded warehousing with another customs procedure that apply to the processing of goods (for example, Inward Processing Relief).

There are special requirements for the use of warehousing for excise goods (such as alcohol and tobacco). In order to store excise goods under excise duty suspension, 'excise warehousing' is used[6]. HMRC will require a guarantee for the storage of excise goods in an excise warehouse and the movement of excise goods from an excise warehouse under duty-suspension.

4.2 Typical users of customs warehousing

Within the UK and other territories, customs bonded warehousing is traditionally used by industries that are impacted by higher duty rates, or where volumes and values significantly increase the duty burden. Such industries include, the retail and consumer business sectors, and technology sectors. Eliminating or delaying customs duty payments makes customs warehousing an attractive option to a number of large UK importers.

Companies within manufacturing industry (e.g. automotive, industrial products, aerospace and defence) tend to use customs warehousing in conjunction with other regimes such as IPR and PCC. Due to the option available to transfer goods between regimes under duty suspension (from one party to another, depending on the supply chain), and often because further manufacturing/processing may be conducted in the UK, making another customs procedure more beneficial.

[4] In the remainder of this paper when referring to the EU/UK regime, we will use the term "Customs Warehousing", in adherence to terminology defined within the EU Customs Code. The term "Bonded Warehouse" would be a misnomer for the EU scheme because the regime generally does not mandate financial security or "bonds" except under special circumstances.

[5] Non-Community goods means goods other than the following:
a. Wholly obtained in the customs territory of the EU Community under certain condition stipulated in the Customs Code
b. Imported from countries or territories not forming part of the customs territory of the Community which have been released for free circulation (i.e. after payment of import duties)
c. Obtained or produced in the customs territory of the Community, from goods referred to in (a) or (b)

[6] Excise goods are covered under national legislation, the main law concerning excise warehousing is the Excise Warehousing (Etc.) Regulations 1988.

4.3 Types of customs warehousing

Customs warehouses are operated by warehouse keepers who are authorised by HMRC. Traders can store their goods in an existing customs warehouse (i.e. public warehouse) or they can apply for authorisation to establish their own customs warehouse on their own premises (i.e. private warehouse).

There are currently 6 types of customs warehouse in the EU and 4 of them are available for use in the UK:

Types of customs warehouse in the EU	Availability in UK
Type A Public warehouse where anybody can store their goods and where the warehouse keeper is responsible for customs obligations.	3
Type B Public warehouse where anybody can store their goods but the depositor is responsible for customs obligations.	7
Type C The basic private warehouse where only the warehouse keeper can store the goods and is the same person as the depositor (but not necessarily the owner of the goods).	3
Type D Alternative private warehouse where only the warehouse keeper can store the goods and is the same person as the depositor (but not necessarily the owner of the goods). This is used by traders that import primarily to free circulation.	3
Type E Private warehouse in which a company and its commercial accounting and stock control systems are authorised (the inventory system) rather than a defined location.	3
Type F Public warehouse where anybody can store their goods, which is operated by the customs authorities.	7

4.4 How is a bonded warehouse set up?

A business must be authorised by HMRC prior to operating the customs warehouse regime. The authorisation can either be in relation to a physical location or systems based, depending on the type they wish to use. An application for a customs warehouse authorisation within the UK is made on form C1410. The following conditions must generally be satisfied for a customs warehouse authorisation to be granted:

Conditions for authorisation
The applicant is established in the EU.
The warehouse will be used primarily for the storage of goods.
There is a genuine economic need.
Stock records are adequate to verify the receipt, storage, handling and disposal of the goods and they must be able to show at all times the current stock of goods that are held under the customs warehouse procedure.
The applicant is able to comply with all the conditions that will be stated in the authorisation.
The applicant must be solvent and have a good compliance record.
The customs authorities must be able to supervise and monitor the customs warehouse procedure without having to introduce administrative arrangements that are disproportionate to the economic need involved.

4.5 How is a customs warehouse operated/managed?

A customs warehouse is operated by an authorised warehouse keeper. A user of the warehouse (or 'depositor') can import goods into the warehouse procedure under duty suspension[7].

Both the warehouse keeper and the depositor have a number of responsibilities related to a customs warehouse including the following (this list is not exhaustive):

Warehouse keeper	Depositor
The security and proper control of the warehoused goods, including maintaining stock records for those goods throughout the customs warehousing procedure and accounting for any shortfall.	In order to declare goods under the customs warehouse procedure a depositor or their declarant must be established in the EU.
Ensuring that the conditions of the customs warehouse authorisation are met.	The person who declared the goods to the customs warehousing procedure – a depositor in a public warehouse (or a private warehouse keeper), is bound by the declaration placing the goods under the procedure and must therefore ensure that the goods are sent directly to the warehouse shown on the declaration (within five days of the declaration being made).
Fully co-operating with the customs authorities in the supervision of the authorisation.	The depositor is liable for any customs debt that arises if the goods fail to be accounted for at the intended warehouse destination.

In addition to meeting obligations specified under the authorisation, a customs warehouse authorisation holder is required to maintain stock records and an audit trail for imports and exports such that, at any time, customs authorities can verify whether the warehouse keeper is meeting the conditions of the authorisation.

[7] In a customs warehouse, only those operations that fall under "usual forms of handling" as defined in Annex 72 of the Implementing Provisions are permitted; these can be:
- Simple operations to ensure the preservation in good condition during storage (e.g. ventilation, cleaning, treatment against parasites)
- Operations which improve the presentation or marketable quality (e.g. stemming of fruit, dividing the goods if only simple operations are involved)
- Operations which prepare goods for distribution or resale (e.g. packing and unpacking, ironing of textiles)

4.6 Reporting requirements

Transactional declarations are required to be made to HMRC for goods moving into and out of the warehouse. There are several methods of reporting the movement of goods, such as making a full declaration electronically to CHIEF[8], or by using simplified procedures.

Simplified Procedures (SP) can be used alongside a customs warehouse approval to facilitate the electronic processing of records. A warehouse-keeper authorised to use Customs Freight Simplified Procedures (CFSP) can use either a Simplified Declaration Procedure or the Local Clearance Procedure followed by a supplementary declaration.

In the UK, HMRC requires that the authorised businesses meet the conditions of the customs warehouse authorisation, including reporting and record-keeping obligations. Any violation detected by the authorities could result in penalties and demand for duty payment. HMRC will typically audit a company within three years of their obtaining the authorisation, and thereafter, the frequency of audits depends on a risk-based assessment by the authorities (i.e. 'risk-based intervention'). Penalties for violations are stipulated under the UK Finance Act.

HMRC has been able to tie in the requirements of using customs reliefs and simplified procedures with its supply chain security programme, Authorised Economic Operator (AEO). AEO provides a 'green lane' to trade if companies who are certified can meet certain physical and IT security controls and compliance requirements. The authorities now look to applicants of customs reliefs and procedures to meet AEO standards. This means that even though the AEO programme remains voluntary, the criteria is being mandated as a benchmark for traders who want to continue to use customs reliefs and procedures.

4.7 Fiscal Warehousing within the UK

In the UK, fiscal warehousing is also available to traders. Fiscal warehousing is a regime under which certain specified commodities (such as tin, copper, zinc, nickel, aluminium, lead, indium, cereals, coffee, silver and tea) may be placed in a notified warehouse and traded by businesses which are not required to be VAT registered. As such, this is a VAT (not customs duty) focused relief for certain, specified commodities.

VAT on the supplies of commodities, both entering a fiscal warehouse and made whilst within the warehouse, is relieved and accounted for when the commodities are removed from the regime. VAT on certain services made within a fiscal warehousing regime is also relieved and accounted for when commodities are removed. Both EU origin and non-EU origin commodities in free circulation are eligible for the regime.

In order to be eligible for fiscal warehousing in the UK, certain conditions must be met and, as with other regimes, it is a requirement to obtain prior approval for operating fiscal warehousing. Traders must apply to HMRC for authorisation.

[8] Customs Handling of Import and Export Freight (or CHIEF) is HMRC's computer system for making electronic customs declarations to the authorities.

5 BONDED WAREHOUSING IN CHINA

5.1 Current state

As with other countries, there are currently a number of available regimes within China of which bonded warehousing is one. The below table describes the customs regimes (i.e. Special Customs areas) currently available in China:

Customs Regime	Definition
Bonded Warehouse	A warehouse approved by customs and set up by a PRC entity approved to engage in the business of bonded warehousing. It is specifically used for storage of goods which are bonded from import taxes and customs clearance.
Free Trade Zone	An FTZ is a bonded area approved by the State Council where customs exercise supervision and control over goods, transportation vehicles and articles carried by individual entering or leaving the bonded areas. On 29 September 2013, China officially launched China (Shanghai) Pilot Free Trade Zone ("Pilot FTZ"),
Export Processing Zone	A special zone mainly designed for the purpose of processing export goods. No commercial retail, general trade or other business unrelated to the export processing zone can be conducted within the EPZ. However, research and development, repairing, testing and bonded logistics services are allowed in EPZs.
Bonded Logistics Park/Centre	A special administrative zone under customs supervision and control, approved by the State Council to be established in the areas of FTZ or port near an FTZ for the purpose of developing logistics support between FTZ and the port districts. BLCs are similar to BLPs in functions undertaken and the applicable tax policies.
Bonded Port Zones and Comprehensive Bonded Zones	BPZs, approved by the State Council, refer to areas which possess port, logistics, and processing functions and are established under the special administration and supervision of customs. As in the case of BPZs, a comprehensive bonded zone (CBZ) is also a special customs administrative area. CBZs enjoy the same policies as those of the BPZs.
Cross-border Industrial Park	From a tax perspective, the cross-border Industrial Park enjoys the same polices as those of the EPZs.

5.2 Implications for industry of current state

With the recent launch of the Shanghai Pilot FTZ, China is introducing several new measures to promote the development of an open economy. The Pilot FTZ was officially launched on 29 September 2013, combining four existing special Customs areas in Shanghai: Waigaoqiao FTZ; Waigaoqiao BLP; Pudong Airport CBZ; and the Yang Shan BPZ. The package of measures being rolled out in the Pilot FTZ, if successful, is expected to be implemented throughout the country.

The new measures are intended to simplify and expedite the customs clearance processes thus facilitating trade and reducing administrative burdens/cost for businesses; the proposed measures include reducing logistics costs and improving the efficiency of customs.

TheCityUK

TheCityUK champions the international competitiveness of the UK-based financial and related professional services industry. Created in 2010, we support the whole of the sector, promoting UK financial and professional services at home and overseas and playing an active role in the regulatory and trade policy debate.

TheCityUK has a global export focus with a commitment to help UK based firms grow their business in other parts of the world. The financial and related professional services industry accounts for around 13% of UK GDP. Financial services employs over one million people, more than 66% of whom work outside London, and underpins the businesses that drive jobs and growth. Added together with nearly one million employed in professional services, it is easy to see the importance of a sector that employs 7% of the working population.

TheCityUK provides constructive advice and is the practitioner voice on trade policy and all aspects of taxation, regulation, and other legislative matters that affect the competitiveness of the sector. We conduct extensive research and run a national and international events programme to inform the debate. Our senior team regularly engages with regulators and policymakers at home and overseas, ensuring the sector's views are represented at the highest levels. We are tasked with creating a new vision for the financial services sector. We are focused on supporting policymakers and business to deliver the new policy ideas which will help deliver growth.

China-Britain Business Council 英中贸易协会

The China-Britain Business Council (CBBC) is the leading organisation helping UK companies grow and develop their business in China. We help UK companies of all sizes and sectors, whether new entrants or established operations, access the full potential of the fastest growing market in the world. We offer practical in-market assistance, services, industry initiatives and a membership programme delivering access, seminars and networking.

Through 60 years of engagement, we have built up exceptional connections with government and business across China. Our Board is made up of senior business people from companies with a strong China interest, and our business advisers have extensive first-hand experience of doing business in China. We deliver our services and advice through 10 UK offices and 13 offices across key locations in China. This in-country network provides invaluable local insight, access, and knowledge. Find out more at **www.cbbc.org**

About the authors

This paper has been produced by Deloitte LLP and the London Metal Exchange in conjunction with TheCityUK's Free Trade Zone International Experts Group and the China-Britain Business Council.

Deloitte LLP

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence. Deloitte's Customs and Global Trade practice advises clients around the world on customs and international trade matters, including the implementation of trade facilitation measures.

London Metal Exchange

The London Metal Exchange ("LME") is the world centre for industrial metals trading.

More than 84% of global non-ferrous futures business is conducted on the LME's three trading platforms totalling $14.6 trillion, 4 billion tonnes and 171 million lots in 2013. Volumes were up 7.1% on 2012.

Futures and options are available for aluminium, copper, tin, nickel, zinc, lead, aluminium alloy (including North American special aluminium alloy) as well as futures contracts for steel billet, cobalt and molybdenum.

In December 2013, approximately 7.4 million tonnes of material were held on LME warrant in over 732 storage facilities in 15 countries across 37 locations globally.

The LME is a member of HKEx Group. **www.lme.com**

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