

China Customs & Trade Alert

Processing Trade: The trend of termination of manual handbooks and attaining optimum e-handbook operation



Termination of manual handbooks

Many processing trade enterprises are still using Manual (paper) handbooks. These traditional manual handbooks are now being terminated for all processing trade enterprises and will be replaced by paperless handbooks. A paperless handbook is simply an electronic record of what is currently in a manual handbook. Registration,

declaration, and reconciliation will all be handled electronically. An ERP system is not necessary and logistics and warehousing data does not have to be transmitted to Customs. Paperless handbooks are already operating on a trial basis in Dongguan and Foshan and this will expand to all parts of China in 2008.

Manual handbooks will be replaced by the following three types of e-handbooks:

Type	Network Connection	Validity	Software
Paperless	No	Per Contract	dB MS
e-handbook	Yes	Per Contract	Various Types
e-account handbook	Yes	Defined Period (e.g. 6 months)	Designated (e.g. H 2000)

Attaining optimum e-handbook operation

E-account handbook provides for the most efficient handling of bonded manufacturing for large scale manufacturing enterprises, because it covers a period of trade and not each contract individually. But it also places more responsibility on the processing trade enterprise to ensure compliance. The processing trade enterprises may seek to move direct from a manual handbook to an e-account book or to update an existing paperless or e-handbook to an e-account handbook. Success in application approval will depend on trade volume, grading with the Customs, internal control and management systems, as well as communication with the in-charge Customs.

Transition from manual to paperless handbooks

The first step for many processing trade enterprises will be to transition from existing manual to new paperless handbooks.

Guangzhou Customs completed a trial run of the first ever paperless handbook in December 2006. Starting from early 2007, Foshan Customs (including Nanhai, Shunde, and Sanshui) have launched a paperless handbook campaign for all enterprises.

Huangpu Customs is now promoting paperless handbook for enterprises in Dongguan, including the districts of Dongcheng, Nancheng, Guancheng, Wanjiang and Fenggang and Chang'an towns. Huangpu Customs have installed a system named QUICKPASS for paperless handbook. No manual handbooks have been issued in these districts since April.

For enterprises with multiple processing trade site locations throughout China, the transition from manual to paperless handbook may be lead by factories in Southern China in 2007, followed by other factories in Central and Northern China in 2008.

The challenges ahead

1. Transition Period

- Accurate reconciliation and cancellation of existing manual handbooks.
- Mitigate the imbalance in the manual handbook and the risk of claw-back of customs duty, import VAT and imposition of interest charges.
- Manage and close the customs audit for 'sensitive' products and enterprises.
- Accurate physical inventory count and transposing of data for bonded materials from the manual handbook(s) to the paperless handbook(s).
- Imbalance in the manual handbook should not be carried forward into the paperless handbook as this only has a 'snow ball' affect increasing the total exposure.
- Obtain quick approval from local Customs for transition to paperless handbook so as to minimize the risk and impact of interruptions to daily manufacturing operations.

2. Implementation

- Establish a best-practice procedure manual for e-handbook management.
- Train employees in import/export, logistics, warehousing for e-handbook management.
- Tailor procedures and training for local Customs regulations and environment (e.g. use of QUICKPASS software at Huangpu Customs).
- Periodic internal self-assessment of e-handbook for accuracy and compliance levels.

3. Obtaining optimum e-handbook operation

- Demonstrate compliance track record, supported by internal procedures and controls.
- Evidence the merits of the case for direct entry or upgrade to an e-account handbook.
- Leverage relationships with the local Customs authority.

Next Steps

Attaining trade compliance and operational efficiency under Processing Trade is not easy, regardless of your enterprise size. Termination of manual handbooks and introduction of e-handbooks for all processing trade enterprises should aid in addressing this issue. This is provided that processing trade enterprises implement procedures, controls and training.

The information contained within this update is for general guidance on matters of interest only. The application and impact of customs rules and procedures can vary widely, based on the specific facts involved. Before taking any action, please ensure that you obtain advice specific to your circumstances from your usual PricewaterhouseCoopers client service team.

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