

Decree of the General Administration of Customs of the People's Republic of China No. 237

Measures for Enterprise Credit Management by the Customs Administration of the People's Republic of China

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On March 7, 2018, the General Administration of Customs promulgated "Measures for Enterprise Credit Management by the Customs Administration of the People's Republic of China" (Decree of the General Administration of Customs of the People's Republic of China No. 237, hereinafter, "the Measures"). The Measures serves as a revision of "Interim Measures for Enterprise Credit Management by the Customs Administration of the People's Republic of China" (Interim Decree of the General Administration of Customs of the People's Republic of China No. 225, hereinafter, "the Interim Measures"), enforced on December 1, 2014, in terms of credit management, information collection and publication, and certification process (the Interim Measures were repealed with the promulgation of the Measures). The Measures came into effect on May 1, 2018.

1. Policy Background

Along with the Interim Measures enforced in 2014, the Customs Administration classified enterprises into certified enterprises, general-credit enterprises and discredited enterprises according to their credit status, and applied different management measures to each type of enterprise. With the concept of the AEO program¹ implemented at the same time, it was announced that certified enterprises shall be operators (AEOs) certified by the Customs Administration, which shall conduct mutual certification of AEOs with customs departments of other countries or regions, and that the mutually certified AEO enterprises shall be treated preferentially.

However, as the needs for administration of customs as well as the needs of enterprises have changed, a part of the Interim Measures is no longer appropriate. The aim of the promulgation of the Measures is to make adjustments to the administration of customs.

¹ The AEO (Authorized Economic Operator) program: A program which offers eased and simplified customs procedures in the international movement of goods to enterprises approved as complying with security management and compliance standards based on guidelines of the WCO (World Customs Organization)

2. Policy Contents

The Measures contain six points to note as follows.

1	Emphasis on the difference in management measures between enterprises with different credit grades
2	Addition of contents regarding joint incentives for credit compliance and joint sanctions for credit loss
3	Expansion of contents regarding collection and publication of credit information
4	Adjustment of the criteria for certification of enterprise credit status
5	Clarification of the certification process
6	Clarification of monitoring management methods

Point 1: Emphasis on the difference in management measures between enterprises with different credit grades

The most conspicuous change in the Measures is the emphasis on the difference between management measures applicable to each credit grade. It was announced that advanced certified enterprises shall receive further preferential treatment, while discredited enterprises shall be subject to stricter supervision and management measures. Details are described below.

[Fig. 1] Key changes to credit management measures

Enterprise credit grades	Changes (excerpted)
Advanced certified enterprise	<p>The number of preferential items was increased from four to nine.</p> <ul style="list-style-type: none"> ➤ An average inspection rate for export and import cargos below 20% of the average inspection rate applicable to general-credit enterprises ➤ Application for customs deposit exemption is available. ➤ Decreased frequency of auditing and inspection ➤ Priority in resumption of customs in case of certain customs trouble ➤ Application of joint incentives conducted by relevant state departments for credit compliance
General certified enterprise	<p>Benefits regarding the amount of customs deposit were added. For the other items, the previous management measures apply.</p> <ul style="list-style-type: none"> ➤ An average inspection rate for export and import cargo below 50% of the average inspection rate applicable to general-credit enterprises ➤ The amount of customs deposit may become lower than the total amount of payable taxes or the amount prescribed by the General Administration of Customs.

Discredited enterprise	<p>The number of management measures was increased from four to eight.</p> <ul style="list-style-type: none"> ➤ 80% or higher average inspection rate for export and import cargos ➤ The lump-sum tax payment system shall not apply. ➤ Except for special circumstances, customs clearance by submission of samples or images of cargos shall not apply. ➤ For operators of processing trade businesses, payment of the full amount of customs deposit is required. ➤ Increased frequency of auditing and inspection ➤ Application of joint sanctions conducted by relevant state departments for credit loss
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Point 2: Addition of contents regarding joint incentives for credit compliance and joint sanctions for credit loss

In collaboration with relevant state departments, the Customs Administration conducts a joint incentive system for credit compliance and a joint sanction system for credit loss. Credit grades of enterprises set by the Customs Administration will affect credit grading by departments such as industry and commerce, tax affairs and foreign currency management, and each department applies incentives and sanctions in line with the credit grade. Meanwhile, credit grades set by those departments also affect certification of credit grades by the Customs Administration and applicable management measures.

Point 3: Expansion of contents regarding collection and publication of credit information

Collection of the credit information of enterprises serves as a key daily monitoring method in credit management, and relevant contents are being organized.

[Fig. 2] Key changes regarding collection and publication of credit information

Item	Changes (excerpt)
Expansion of the scope of credit information collection	<ul style="list-style-type: none"> ➤ Additions to the collection scope are basic information on personnel related to the enterprise, information on administrative and criminal penalties imposed on the enterprise and the relevant personnel, and information on the status of joint incentives/joint sanctions conducted by the Customs Administration and relevant state departments.
Required submission of Annual Credit Reports	<ul style="list-style-type: none"> ➤ Enterprises shall submit Annual Credit Reports to the Customs Administration via the credit information management system within the period from January 1 to June 30. ➤ Enterprises registered and recorded to the Customs Administration in the current year shall submit the report from the next year.
Implementation of an abnormal enterprise listing system	<ul style="list-style-type: none"> ➤ If enterprises fail to submit an Annual Credit Report to the Customs Administration, are not located at their registered address or are unable to be contacted, they shall be listed in the directory of enterprises with abnormal credit information. ➤ As long as enterprises are listed in the directory, their credit grades shall not be upgraded.

	<ul style="list-style-type: none"> ➤ If the period during which enterprises are listed as enterprises with abnormal credit information under aforementioned circumstances exceeds 90 days, they shall be certified as discredited enterprises.
Expansion of the scope of credit information publication	<ul style="list-style-type: none"> ➤ Additions to the publication scope are information on the status of joint incentives/joint sanctions conducted by the Customs Administration and relevant state departments and the directory of enterprises with abnormal credit information created by the Customs Administration.

Point 4: Adjustment of criteria for certification of enterprise credit status

In the Measures, adjustments were made to the previous certification criteria with a focus on discredited enterprises.

[Fig. 3] Key changes regarding the criteria for certification of enterprise credit status

Enterprise credit grades	Changes (excerpt)
Certified enterprise	<ul style="list-style-type: none"> ➤ Refer to Criteria of Certified Enterprises of the Customs Administration.
Discredited enterprise	<ul style="list-style-type: none"> ➤ Addition of the case of over 90 days passing after having been listed as an enterprise with abnormal credit information by the Customs Administration ➤ Addition of the case of being included in the national list of discredited enterprises subject to joint sanctions due to criminal offence. ➤ Removal of the condition of enterprises being suspended from engaging in customs clearance operations due to customs error rates and at the direction of the Customs Administration ➤ Enterprises shall be certified as discredited enterprises only if both the number of acts in violation of rules and the cumulative amount of administrative fines on a yearly basis have reached a certain level at the same time.
General-credit enterprise	<ul style="list-style-type: none"> ➤ Application of stricter conditions on which discredited enterprises may be upgraded to general-credit enterprises (The period without any acts leading to loss of credibility was extended from one year to two years.)

Point 5: Clarification of certification process

In applications for certified enterprise status, enterprises must submit an Application Form of Certified Enterprises to the Customs Administration. The Customs Administration issues the Certificate for Certified Enterprise to enterprises which have passed the certification assessment and the Decision Letter of Disapproval for Certified Enterprises Management to the enterprises which have failed.

The Measures maintains the same provisions regarding cancellation of certification as in the Interim Measures, specifying that during the period of application for certification, if an enterprise is suspected of smuggling and the case is established or under investigation by the Customs Administration, or if a case is established and investigated against an enterprise suspected of violating customs regulatory provisions, the Customs Administration may cancel the certification

assessment for the enterprise. Furthermore, another condition for cancellation of certification was added in the Measures, specifying that if an enterprise is under audit or inspection, the Customs Administration may suspend the certification assessment and cancel the assessment if the suspension period exceeds three months.

Point 6: Clarification of monitoring management methods

The Customs Administration shall re-authorize advanced certified enterprises every three years and general certified enterprises on an irregular basis. If an enterprise has waived the certification of certified enterprises during the re-certification period, the enterprise shall not be graded as certified.

[Fig. 4] Details of monitoring

Enterprise credit grades	Contents
Advanced certified enterprise	<ul style="list-style-type: none"> ➤ An advanced certified enterprise that has been downgraded to the general certified status may not apply for the advanced certified status within one year.
Certified enterprise	<ul style="list-style-type: none"> ➤ A certified enterprise that has been downgraded to the general-credit status may not apply for the certified status within one year. ➤ A certified enterprise that has been downgraded to the discredited status shall not be upgraded to the general-credit status for two years.
Discredited enterprise	<ul style="list-style-type: none"> ➤ If a discredited enterprise has not caused any situations leading to loss of credibility for the past two years, it shall be upgraded to the general-credit status. ➤ A discredited enterprise that has been upgraded to the general credit status may apply for the certified status after one full year.

3. Impact on Enterprises

With the promulgation of the Measures, the customs credit management system has been enhanced, and the difference in regards to management measures between credit grades expanded, impacting business operations of enterprises significantly as ones with high credit grades are treated preferentially while intensified management applies to discredited ones. Furthermore, it can be said that the importance of credit grades is increasing since joint incentive/sanction systems are being organized by other state departments. Enterprises need to improve their own credit grades by enhancing daily checks on operations for customs clearance in order to prevent acts that lead to the loss of credibility. In addition, existing certified enterprises and ones planning to apply for that credit grade in the future need to monitor planned changes to the Criteria of Certified Enterprise of the Customs Administration. We will continue to follow up on relevant information and share it as appropriate.

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