



## Announcement on Regulatory Issues Related to Bonded Repair and Maintenance Business in Special Customs Supervision Zones

### Regulations discussed in this issue:

Announcement on Regulatory Issues Related to Bonded Repair and Maintenance Business in the Special Customs Supervision Zones Announcement No. 59 [2015] of the General Administration of Customs 2015-12-11

### Overview

The General Administration of Customs released the Announcement on Regulatory Issues Related to Bonded Repair and Maintenance Business in the Special Customs Supervision Zones (Announcement No. 59 [2015]) to standardise the regulation of the bonded repair and maintenance business in the special customs supervision zones. According to the announcement, approved enterprises in the special customs supervision zones are allowed to conduct the repair and maintenance business permitted by laws, regulations and rules with approval from the State Council and relevant government departments, as well as provide repair and maintenance services for domestic goods (including those produced by the enterprises in the zones or by other domestic enterprises of the group for sale outside the zones in China) returned to the zones. Processing, trading and manufacturing enterprises, bonded logistics related enterprises and other investors interested in the bonded repair and maintenance business should assess the specific impact of this announcement and consult the relevant competent customs and professional bodies.

### Background

The bonded repair and maintenance business is crucial to maintain China's status as the world's factory given its importance in improving post-sale service, enhancing the efficiency of reverse logistics, building brand image and strengthening overall competitiveness. For a long period of time, the bonded repair and maintenance business has remained at a pilot exploratory stage. It was not until the issuance of the Interim Measures of the Customs of the People's Republic of China for the Administration of Bonded Port Areas in 2007 that testing and post-sale repair and maintenance services are

included in the scope of permitted businesses. Even so, specific operational guidance is lacking. The release of this announcement serves to fill the void in the policy, laying the regulatory groundwork for this business in the zones and thus is significant to the development of the repair and maintenance business in China.

### **Main contents and KPMG's interpretation**

- 1.** Further improve customs clearance supervisions services. This announcement is applicable to the following bonded repair and maintenance business conducted in the bonded zones, export processing zones, bonded logistics parks, bonded ports, integrated bonded zones, Zhuhai Park of the Zhuhai Macau Cross-border Industrial Zone, Chinese part of the Khorgos International Centre of Boundary Cooperation:
  - (1) Importing bonded foreign goods (with damaged components, functional failure and quality defects)("to be repaired goods") for testing, repair and maintenance in the zones, and exporting the goods afterwards
  - (2) Transporting domestic goods (from other areas in China) into the zones for testing and re-transporting the goods to other areas in China afterwards
- 2.** Enterprises conducting the bonded repair and maintenance business should create an H account book to keep e-records of to-be-repaired goods, repaired goods (including those examined but cannot be repaired), and maintenance materials and parts. The creation of a bonded H account book should comply with the following conditions:
  - (1) Establishing a management mechanism and a computer management system that meet Customs regulatory requirements, enabling the whole-process tracing of consumption in repair and maintenance
  - (2) Realising computer networking with the Customs, enabling data exchange as required by the Customs
  - (3) Imposing effective management of to-be-repaired goods, repaired goods, maintenance materials and parts, damaged components and parts being replaced in the repair process, and leftover of maintenance materials and parts created in the repair process
- 3.** For foreign goods imported and transported into the zones for testing, repair and maintenance, they (including those examined but cannot be repaired) should be exported afterwards.
- 4.** For repaired goods transported from the zones to other areas in China, enterprises should submit repair contracts (or contracts for domestic sales containing guarantee clauses), repair invoices, etc. to the Customs. The dutiable value of bonded repair service is determined based on the costs of bonded components and parts, and repair expenses.

## KPMG recommendations

1. Although this announcement standardise the provision of bonded repair and maintenance service inside the special customs supervision zones, it remains unclear as to which types of businesses can be conducted given the absence of “negative list management”. Enterprises preparing to develop the business should communicate with the competent customs to ensure approval can be obtained.
2. To conduct the repair and maintenance business, enterprises need to establish a management mechanism and a computer management system that meet the requirements of the Customs to trace the consumption in repair and maintenance during the entire process; realise computer networking with the Customs to enable data exchange, and have effective management of all materials (goods). These involve ERP system, customs management system, IT solutions, internal control policy, and processing and trading management expertise. We suggest enterprises assess their fulfilment of the conditions and make improvements where necessary. Inexperienced enterprises are advised to consult professionals in this regard.
3. Besides customs authority, conducting the bonded repair and maintenance business involves inspection and quarantine, and quality control of imports and exports. The requirements for products of different industries vary. Enterprises intending to carry out this business should conduct preliminary study and consult the authorities in charge of inspection and quarantine, and quality control of imports and exports or professional bodies in this aspect.
4. The issuance of this announcement is only a start for the development of the bonded repair and maintenance business. Looking forward, similar regulations for conducting this business outside the special customs supervision zones are even more worth expecting. At present, the development of this bonded business is limited and only at a pilot stage. It is unknown when the business will be expanded to other regions in China. KPMG will closely track the development and promptly release related information.

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