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ICC Policy Statement

ICC recommendations for trade facilitation through effective customs duty relief programmes

Prepared by the Commission on Customs and Trade Regulations

ICC is actively addressing a wide range of international issues with the aim of improving processes associated with cross border trade. ICC believes that effective and accessible customs duty relief mechanisms are essential to the smooth operation of international trade.

Customs duty relief programmes in the context of trade facilitation

ICC's preferred definition of "trade facilitation" involves improving the efficiency of processes associated with trading in goods across national borders. This requires a comprehensive and integrated simplification effort, aimed at reducing the cost of international trade transactions. It is important to ensure that only necessary activities are required, and take place in an efficient, transparent, and predictable manner, based on internationally accepted norms, standards and best practices.

Among the required processes are customs duty relief programmes. A country will usually adopt a core suite of customs duty reliefs to permit the import of goods for duty-free storage, for processing and re-export, and for temporary admission. This core suite might commonly be enhanced by a duty relief for returning items, whether or not after processing abroad; and less commonly, one for processing for subsequent import at reduced duty. The complexity of the administrative procedures required to access these relief programmes is a major factor in determining the take up, and efficient use, of the programmes. ICC believes that even the largest organizations sometimes decline to adopt available programmes, simply because the administrative burden is too onerous. This may be because the administrative cost outweighs the benefit, or because the degree of complexity takes the risk of non-compliance to unacceptable levels.

Benefits

ICC is convinced that widespread adoption of a simplified duty relief structure such as is recommended in this statement will deliver the following significant benefits to Government authorities interested in improving customs efficiency:

reduced cost of policing a variety of complex programmes;

- more cost-effective revenue collection;
- better risk comparisons based on common procedures adopted by all users of the relief;
- the ability to move controls securely inland, and base them on targeted risk analysis;
- more efficient and correct application of simplified regulations, thereby ensuring that any differential treatment of traders is based on objective criteria;
- more predictable and faster movement of goods;
- increased trade, increased revenue, and improved economic performance, and
- faster, more efficient and predictable border procedures encouraging increased foreign direct investment.

At the same time, traders might expect the following additional benefits:

- ability to take advantage of all eligible duty relief mechanisms in a cost-effective manner;
- low-cost duty management software, used extensively and therefore relatively cheap;
- faster clearance at the port;

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- no need to maintain and administer multiple duty relief programmes;
- no need to transfer goods between duty relief programmes as they move out of the scope of one relief and into the ambit of the other; and
- transparency as to the usage of all relief programmes from a single management source.

The bottom line for governments is increased trade, increased foreign direct investment, enhanced competitiveness, overall reduction in costs, and enhanced government revenues. (For more details on benefits see the ICC statement "Trade liberalization, foreign direct investment and customs modernization: a virtuous circle" 8 October 1999).

Features of an inefficient suite of duty relief programmes

Duty relief programmes tend to grow over time, as solutions to specific needs. Once in place, they tend to be maintained as stand-alone facilities, and are very rarely reviewed as a part of a comprehensive suite of relief facilities. In consequence, numerous inefficiencies come to be seen as the inevitable norm. These include:

- the need to be authorized for multiple relief programmes;
- the need to transfer goods between one program and another;
- different customs offices controlling different reliefs - often determined by the physical location of the goods without necessarily any thought to whether the trader's personnel at that facility are in control of the process or the goods;
- variable and sometimes conflicting reporting requirements for each relief program;
- multiple guarantees to secure the potential duty within different suspensive regimes;
- complexity at the port of arrival in the territory, to define the regime to which the goods are to be assigned;
- complexity at the port of export to alert control staff to the termination of the process; and
- over-reliance on drawback processes rather than duty suspension mechanisms.

Features of an efficient suite of duty relief programmes

Wherever possible, customs duty relief should be granted by suspending the duties otherwise payable, rather than by offering an opportunity subsequently to recover duties previously paid. If security is required at the port, any potential liabilities should be covered by guarantees or other financial instruments, rather than by lodging cash.

All suspensive customs duty reliefs can be discharged in one of the following ways:

- by export;
- by import on payment of appropriate duty;
- by transfer to another suspensive relief;
- by transfer to another economic trader operating a suspensive relief.

Nearly all the identifying features of an inefficient suite of relief programmes relate to the transfer of control of the goods subject to the programme. ICC believes that simplification is best achieved by limiting the number of times that control of the relief has to be transferred. In a well-designed suite of duty relief programmes, such transfers will be rare. As long as there are numerous relief programmes available to meet different needs, it is difficult, if not impossible, to avoid transfers between them. ICC believes that the ultimate solution is the adoption of a unitary relief programme.

What is a unitary relief programme?

Under a unitary relief programme, authorized traders are permitted to enter goods into a single duty-suspensive environment. If the goods are subsequently exported from that environment in the same state, the situation is akin to customs bonded warehousing. If they are processed before being exported, the situation is akin to processing for re-export. Alternatively, the goods might be intended for the activities currently covered by temporary admission relief, in which case the situation would be akin to their location being treated as an extension of a customs warehouse. In this way, all the core reliefs are incorporated in the concept of the single unitary relief.

As customs procedures become more flexible, additional relief mechanisms can also come under the unitary relief. If the goods are processed within the unitary relief and subsequently imported by duty payment, the customs value of the normalized goods will be increased by the value added by the processing operation. However, it is possible that the tariff code of the goods will have changed, leading to a lower duty rate.

When the goods are transferred to another trader, perhaps for completion of a stage in a processing operation, if the responsibility for ultimate import or export of the goods does not rest with that trader, control responsibilities should not be transferred between offices within the customs administration. The goods remain within the unitary relief, under the responsibility of the authorized trader. If they have not been discharged from the relief, the trader's systems should be able to locate them (perhaps by reference to a 3rd party processor's factory) and show what processes they are subject to. If the authorized entity is not able to do that, the customs administration can raise a duty demand based upon the value and nature of the goods as last identified in the system.

Conclusions

Effective duty relief mechanisms are fundamental to international trade in goods on a global basis. All countries will benefit from them -- especially those burdened with the least efficient trading processes, either through infrastructure or managerial limitations. ICC is committed to assisting governments to realize the full benefits of international trade through effective trade facilitation measures that discourage both inefficient and artificially complex or burdensome border procedures. To realize these benefits for all parties, the concept of the unitary relief should be recognized as a global best practice.

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