

Bonded International Repair Centres



Just as China over the past 25 years became the “factory of the world”, several enterprises are now seeking to establish China as the “repair centre of the world”. Enterprises are growing beyond simple “temporary importation for repair” of self-made goods. They now wish to operate repair operations that are “large scale and routine” as a fully-fledged Maintenance, Repair and Overhaul (MRO) centre.

Historically, the operation of repairing goods of non-Chinese origin was prohibited, and only limited guidelines existed for the repair of self-made goods of Chinese origin. As a result, some enterprises engaged in international repair business under the name of Processing Trade without proper approval from the in-charge authorities. The authorities audited and penalized these enterprises accordingly.

However, the regulatory and operating environment could be gradually changing. Pilot programs are under discussion to open up the possibility of establishing bonded international repair centres. The General Administration of Customs (GAC) also included bonded repair services as one of items listed in the recently announced ‘ten measures to the boost economy’ during the financial crisis.

Policy and regulatory supervision and control challenges

From the perspective of the authorities a number of policy and operational-level supervision and control challenges exist. These challenges are compounded when repair operations are conducted in parallel with manufacturing operations. Some of the key issues are listed below:

Policy-level challenges:

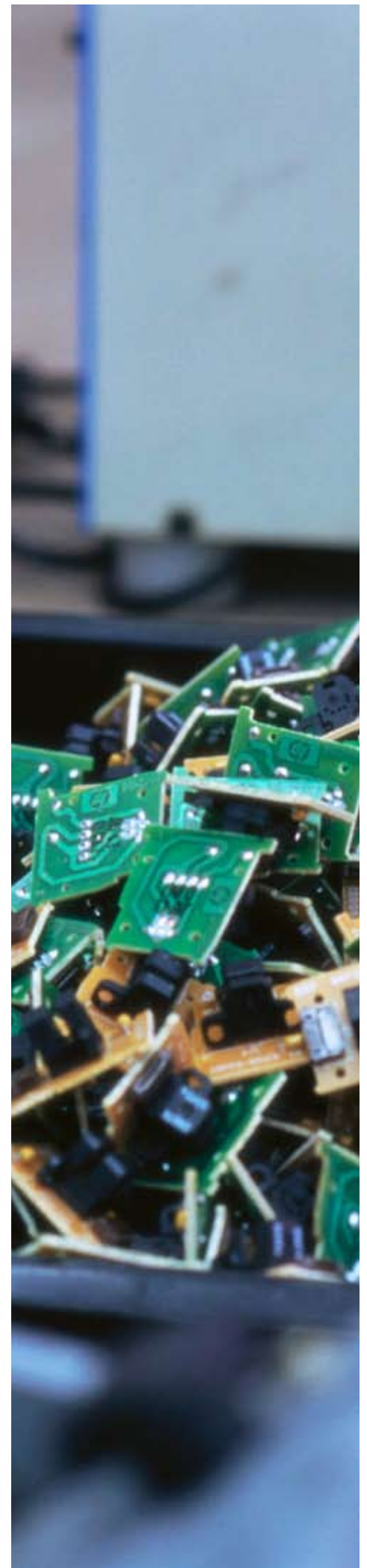
- Environment protection (particularly when hazardous electronic waste is involved)
- Commodity inspection and/or other non-tariff barrier compliance
- Foreign exchange verification and cancellation
- Endorsement of ‘fully-bonded’ or ‘semi-bonded’ repair operations
- Assessment of duties and taxes (such as on imported items that are scrapped or sold domestically)
- The approved business scope per the business license

Operational-level supervision and control challenges:

- Use of appropriate Trade Modes each of which come with different pro’s and con’s (e.g. temporary importation for repair, return shipment, free exchange, or consignment and repair bonded warehouse)
- The potential outsourcing or “sub-contracting” of part of the repair operation to service providers that are located outside of a Customs supervised zone
- Establishment by the Customs authority of an on-line supervision system to handle legitimate international repair business (modelled on that used for Processing Trade)
- Inventory storage requirements for incoming defective items and materials for repair
- Inventory storage requirements for outgoing repaired and scrap items
- Collection of cash deposits or bank guarantees and the use of provisional and advance declarations
- Repair of items that are inside and outside of warranty
- Disposal of scrap and waste

Parallel repair and manufacturing operation challenges:

- Integration of repairing activities into existing manufacturing activities
- Segregation of financial accounting requirements for repair business
- Segregation of on-line handbook supervision requirements
- Segregation of inventory (defective items, new materials, repaired goods, and scrap)



Repair of self-made goods

Enterprises that are located within special Customs supervised zones, such as a Free Trade Zones, Export Processing Zones, or the more recently created Bonded Port Areas, are permitted, subject to approval, to conduct repair of self-made goods and goods of Chinese origin. In certain areas, existing bonded repair centres were initiated under the auspices of a 'pilot program' and were established through close co-operation with the in-charge Customs authorities and related regulatory agencies. Limitations in respect of product coverage have applied e.g. mechanical and electrical products that were previously exported from China. In most instances, repair of goods of non-Chinese origin is still prohibited.

Repair of non self-made goods

The regulatory basis for the bonded repair of non self-made and non-Chinese goods is less developed when compared to self-made goods of Chinese origin. This stems from the policy and regulatory supervision and control challenges summarised above. One approach may be to establish repair operations for non self-made goods in selected bonded zones and under the auspices of a 'pilot program'.

Summary

China is taking some steps towards becoming the "repair centre of the world". Bonded MRO operations are gradually taking shape. As of now, bonded repair is more advanced for self-made goods rather than non self-made goods. In most instances, repair of goods of non-Chinese origin is still prohibited. Establishment of a bonded repair centre in a Customs supervised zone and operating under the auspices of a 'pilot program' is a potential way forward. Parallel repair and manufacturing operations outside of a bonded zone may be possible, but these bring their own unique challenges.

Overall, whilst international repair centres are complex from a supervision and control perspective, there is possibility to establish an MRO that is cost and supply-chain efficient.

Contacts

For further assistance about PwC's customs and international trade services please contact:

Colbert Lam

Partner

+852 2289 3323

colbert.ky.lam@hk.pwc.com

Susan Ju

Director

+86 (10) 6533 3323

susan.ju@cn.pwc.com

Damon Paling

Partner

+86 (21) 2323 2877

damon.ross.paling@cn.pwc.com

Michael Jiang

Director

+86 (21) 2323 2766

michael.h.jiang@cn.pwc.com

For more information, please also visit: www.pwccustoms.com

pwccn.com

© 2009 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the China firm of PricewaterhouseCoopers or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

