

# Customs and International Supply-Chains

by Andrew Grainger

**Customs issues may not be the most obvious focal point in a discussion on supply-chain management. Nevertheless, thinking about customs issues is crucial to the success of any international supply-chain. This article aims to give a broad overview of the impact that these issues can have within international supply-chains.**

Inefficient management of customs control can lead to increased inventory costs, delays at frontiers and loss in supply-chain responsiveness

In its broadest definition, supply-chain management is about efficiently co-ordinating the efforts of procurement, manufacture, marketing and distribution. Each of these four facets could be located in a different country. As materials and goods are moved from one country to another borders are crossed, and any goods or materials shipped become subject to customs authorities' control.

Political initiatives in liberalising trade and finance, coupled with technological innovations in information, communication and transport technology, have stimulated the ongoing process of globalisation – see 'Globalisation – Implications for Supply-Chains', *Logistics & Transport Focus*, Volume 2, Number 2, March 2000, pp 46-47. However, national borders are not perfectly transparent as they remain instruments of national government policy. Many national governments, within the limits of economic and political realities, have

the power to define and set trade regulating tariffs. Customs authorities, by administering and supervising the movement of goods and materials across national frontiers, play a key role. Costs for business can be threefold.

**First**, there are the direct costs associated with paying duties that include:

- Customs duty
- Excise duty
- Anti-dumping duty
- Countervailing duties
- CAP levies
- Import VAT
- Compensatory interest

**Second**, costs for business include the costs of complying with any import and/or export restrictions and in meeting customs compliance requirements, such as prescribed accounting procedures, set information >>



requirements – including statistics – and compulsory document requirements.

**Third**, costs may also include opportunity costs associated by failing to take advantage of any customs regimes or trade concessions. On a similar account, the inappropriate use of any customs regime, or procedures, may give rise to future liabilities.

## Customs and Supply-Chain Management


As goods and materials move across national frontiers, managing the customs function is a key factor to success within the efforts of supply-chain management. Within each of the supply-chain functions, which include procurement, manufacture, marketing and distribution, customs considerations can have a significant impact.

In procurement, for example, it is prudent to consider preferential tariffs that may exist if goods and materials are sourced from countries for which preferential tariffs exist. For example, the duty rate in the EU on a television tube sourced in Malaysia is 14%, while a television tube procured in Thailand would be 9.8%, in South Africa 7.3% and in Poland it would be 0%, subject to meeting certain conditions.

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In manufacturing, it is prudent to consider any customs regimes that give duty rate advantages. They may suspend the duty burden, they may defer the duty burden or they may reduce the duty burden. Customs regimes available in the UK and the European Union include customs warehousing, inward processing relief, outward processing, returned goods relief and processing under customs control.

When going to market, changes in duty rates may give greater or reduced scope in terms of the market size. For example, as China enters the World Trade Organisation (WTO) it can be anticipated that Chinese tariff barriers will be significantly reduced, thus creating market opportunities as goods exported to China become more competitive. Similarly, opportunities may arise as trade agreements such as Mercosur (Southern Common Market – of Latin America), North American Free Trade Area (NAFTA) or ASEAN Free Trade Area (AFTA) further develop, expand and consolidate.

In distribution, as products are exported, compliance with export and import formalities have to be considered. These include filing import and export declarations as well as paying 

the appropriate amount of duty. Awareness and application of customs policy and procedures is crucial to the efficient movement of goods across national frontiers.

## Outline of Available Customs Regimes

When supply-chains take on an international dimension it is essential to take account of customs requirements and procedures. Failure to take account of customs law can, in extreme cases, lead to the commitment of a criminal offence. Inefficient management of customs control can lead to increased inventory costs, delays at frontiers and loss in supply-chain responsiveness.

There are a number of customs regimes available to traders in the UK that could enhance a firm's competitiveness in terms of cash flow, duty liability and customs clearance time. Trade-off considerations that need to be made are the advantages that an available regime may bring, against any compliance/accounting/reporting costs, operating costs and any commercial restrictions imposed by the regime.

### Regimes available at import include:

- Import into Free Circulation – customs duty and import VAT is paid and goods are removed from customs control; some goods may be subject to import licences and policy measures
- Customs Warehousing – enables goods to be stored without payment of import duty or VAT until released for free circulation or placed under another customs regime
- Free Zones – enable goods to be stored and processed without payment of import duty or VAT
- Inward Processing Relief (IPR) suspension/drawback – allows conditional relief from duty on imported materials and components for use in manufacture of products for export; under IPR, suspension duty is suspended while under IPR drawback duty is paid and later reclaimed
- Processing under Customs Control – allows specific dutiable components and materials to be imported without payment of duty, processed into finished products and released for free circulation at the duty rate of the finished good – this rate may be lower than the rate of the components and materials used in the production process
- Temporary Importation – gives relief from duty for goods imported for a given period of time – maximum 24 months – and re-exported in the same state
- Returned Goods Relief – allows relief on re-importation of goods previously exported
- End Use – reduced/zero duty rates for goods intended for specified end use
- Other – goods are re-exported, destroyed or otherwise disposed of without payment of duty

### Regimes available at export are:

- Export – goods leaving the EU may be subject to licensing requirements, export duties and commercial policy measures
- Outward Processing Relief – allows relief from duty on EU goods re-imported after repair or process abroad



- Community Transit – an EC customs procedure which controls and facilitates the movement of certain goods from one part of the EC to another – delaying duty and VAT payment
- ATA Carnet – may be used to simplify customs clearance of temporarily exported goods; the carnet replaces normal customs documents both at export and re-import
- TIR Carnet – subject to certain conditions, these allow goods to travel across national frontiers with the minimum of customs formalities; duty and VAT free

### Regimes available outside the European Union

Outside the EU, other customs regimes may exist that could give an international supply-chain similar competitive advantages. Examples would be free trade zones, export processing zones or tariff suspension for industries identified to be essential in developing the governing economy. Any one of these regimes could give a business considerable advantage in managing costs and duty liabilities and should be considered when planning and managing an international supply-chain.

## Further Points

Focusing on customs issues, it is apparent that it is essential for the supply-chain professional to take into account considerations that go beyond the actual physical handling of goods. There are, therefore, many customs considerations worthy of attention that could add value to the supply-chain. In many instances, customs issues can be deal breakers or makers, depending on trade policies, duty rates and feasible customs regimes.

Customs law is not static. Rules and regulation are constantly reviewed and businesses need to be aware of developments and changes and their interpretation. Opportunities may exist, or evolve, that could give business some competitive advantage and reduce the impact on the supply-chain of crossing international borders.

For example, in many countries it is possible to operate customs reporting requirements electronically. Although some form of paper trail is still normally required, electronic reporting and electronic declarations can simplify complying with customs' requirements. Electronic reporting is usually subject to customs' authorisation.



Another example is customs warehousing, which, in principle, allows the storage of goods free of duty and import VAT. Rather than using third-party public customs warehouses or private customs warehouses that need to comply with rigid specification, an alternative may be to operate type 'E' customs warehouses. This type of warehouse is truly virtual, where the company's inventory system is used to track and control inventory for customs warehousing purposes rather than a specific physical location.

Supply-chain operators reaching across the European Union may consider Single European Authorisation. This allows a company to report all its import and export activities across the EU and account for duty and VAT in one place.

Less technically complex, supply-chain operators may be wise to check whether any tariff suspensions – where duty is never paid – are available for the goods they move. Subject to specific criteria and approval, duty suspension and quotas may be granted for goods which are not produced in the EU or are insufficiently available within the EU.

## In Conclusion

Customs considerations are an integral facet in the management of any international supply-chain. Customs law can be complex, but the correct application of rules and regulation may bring some real advantages. Moreover, the international trading environment is constantly evolving with direct impact on customs control in the movement of goods. Customs law is also constantly evolving and the supply-chain professional needs to be aware of any changes.



## ABOUT THE AUTHOR

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## Helpful Resources

HM Customs & Excise: [www.hmce.gov.uk](http://www.hmce.gov.uk)

Institute of Export: [www.export.org.uk](http://www.export.org.uk)

Department of Trade and Industry: [www.dti.gov.uk](http://www.dti.gov.uk)

European Union: [www.europa.eu.int](http://www.europa.eu.int)