

# Report No. 58 of the Director of Audit — Chapter 6

## TRADE SUPPORT AND FACILITATION

### Summary

1. Under its trade support and facilitation programme, the Trade and Industry Department (TID) provides: (a) licensing service for imports and exports of certain goods such as textiles; and (b) certification service by issuing Certificates of Origin to facilitate customs clearance in the importing ends and to satisfy the requirements of overseas importers. For 2011-12, the estimated expenditure and revenue for the programme are \$115.4 million and \$21.7 million respectively. The Audit Commission (Audit) has recently conducted a review of the programme.

#### Provision of licensing service

2. *Licensing control for import and export of textiles.* The quotas on import and export of textiles were eliminated globally by January 2005. However, until December 2013, the Mainland is still subject to safeguard measures on export of textiles that may be imposed by any member of the World Trade Organisation. To demonstrate to trading partners that Hong Kong has a well-established system which can effectively guard against the circumvention of such measures, and to protect the legitimate interests of Hong Kong's textiles trade, the Administration has since 2005 maintained a streamlined textiles control system. Since May 2011, the Administration has further partially liberalised the textiles licensing control. *Given that the threat of safeguard measures will end by December 2013 and on the principle that licensing controls should only be imposed when there is a genuine need, Audit has recommended that the Director-General of Trade and Industry should: (a) complete the TID's review on the textiles control system as soon as possible; and (b) continue keeping in view the development of the textiles trading environment and identify opportunities to rationalise the size of the Textiles Licensing Branch.*

3. *Administration of textiles control system.* The TID does not normally accept applications for import or export licences submitted after the textiles have been imported or exported (i.e. retrospective textiles licences). However, Audit examined 59 retrospective licences issued in a selected week and found that: (a) in 23 cases, the traders had not applied for licences before shipments and therefore applied for retrospective licences; and

(b) in another 12 cases, the traders did not apply for licences before shipments because they needed to wait for product information or shipping documents. The TID approved the applications for retrospective textiles licences without taking enforcement actions against the traders in the 23 cases in (a) above and without questioning the traders in the 12 cases in (b) above. In 28 of these 35 cases, despite the lack of licences, the carriers had already released the imported textiles to the traders or had accepted the traders' textiles for export. The TID did not take enforcement actions against any of these carriers. Audit also noted that the TID had not provided guidelines to its clerical staff for processing retrospective licence applications. *Audit has recommended that the Director-General of Trade and Industry should: (a) ensure that only applications for retrospective licences with proper justifications are approved; (b) take enforcement actions against traders who have applied for retrospective licences without proper justifications and against carriers who have released imported textiles or accepted textiles for export without licences; and (c) provide guidelines on the processing of retrospective licence applications to the TID's staff.*

### **Manifest checking**

4. The TID performs manifest checking of goods subject to licensing control. In 2004, taking into account the discrepancy rate of the manifest checking conducted in 2003, the TID revised downwards the percentage of manifests selected for checking. However, since 2004, the TID has not kept track of the discrepancy rates to ascertain whether the percentage for checking needs to be adjusted, so as to ensure that the effectiveness of manifest checking is not compromised.

5. When submitting an electronic manifest for goods subject to licensing control, a carrier is required to input an indication in the Government's computerised manifest system to show that the goods need an import or export licence. The TID will mark off the case upon receipt of the licence. For cases not marked off, reminders are sent automatically by the system. However, apart from the issue of reminders, the TID did not take any further follow-up actions to ensure that the carriers subsequently submitted the licences.

6. For discrepancies found in the checking of manifests, the TID will issue queries to carriers. If they do not reply satisfactorily, it will refer the cases to the relevant licensing sections for follow-up actions. Audit examined 159 discrepancy cases and found that in 140 cases, the TID could not show documentary evidence that it had adequately followed up the cases.

7. *Audit has recommended that the Director-General of Trade and Industry should: (a) closely monitor the discrepancy rates of manifest checking and conduct regular reviews on the extent of checking that should be adopted taking into account the discrepancy rates; (b) take follow-up actions with carriers who have failed to submit the import or export*

*licences to the TID; and (c) keep proper documentation of actions taken on the discrepancy cases, and if it is decided that no follow-up actions are necessary, the justifications for the decisions.*

## **Provision of certification service**

8. ***Role of Certification Co-ordination Committee.*** The Certification Co-ordination Committee, which has been set up as a forum for the TID and the Government Approved Certification Organisations (GACOs) to discuss and co-ordinate matters relating to the issue of Certificates of Origin (certificates), did not convene meetings frequently. For example, only five meetings were held in the period April 2006 to December 2011. Furthermore, the TID's latest full-scale review of the certification system was completed in June 1989. *Audit has recommended that the Director-General of Trade and Industry should: (a) ensure that the Committee convenes meetings more frequently to enhance communication and cooperation between the TID and GACOs; and (b) consider conducting a full-scale review of the certification system.*

9. ***Monitoring of certification work of GACOs.*** The TID conducts sample checks on certificates issued by GACOs. The TID and GACOs have agreed that each GACO should conduct consignment checks on an agreed percentage of certificate applications it received. Audit examined the TID's sample checks and noted that discrepancies were mostly found on two types of certificates issued by GACOs. Audit examination of the TID's records on consignment checks conducted by GACOs also revealed that two GACOs' consignment checking rates were less than the rate agreed between the TID and GACOs. *Audit has recommended that the Director-General of Trade and Industry should make efforts to enhance the integrity of the certification system by: (a) assisting GACOs to improve their certification work; and (b) strengthening the TID's monitoring of GACOs' certification work.*

10. ***Certificates of Origin issued by non-GACOs.*** According to the TID's records, there were non-GACOs issuing certificates. The TID did not have statistics on certificates issued by them because these certificates did not carry any legal status, and were not covered by the enforcement system of the Customs and Excise Department. Audit however notes that: (a) the Government has an international responsibility for the integrity of the certification system, but the TID does not monitor these non-GACOs; and (b) according to the TID, certification should remain as a government function and the existing number of GACOs is adequate to meet the demand. Furthermore, according to the International Convention relating to the Simplification of Customs Formalities, certificates may be issued by the official authorities of the contracting states (i.e. the TID) and also by any other organisations which possess the necessary authority (i.e. GACOs). As such, it is uncertain whether the situation of non-GACOs issuing certificates in Hong Kong is appropriate in the context of the Convention. *Audit has recommended that the Director-General of Trade and*

*Industry should: (a) keep in view the need to reassess the impact of non-GACOs on the integrity of certificates issued by the TID and GACOs and take appropriate actions to improve the certification system, where necessary; and (b) ascertain whether the existing arrangement of allowing non-GACOs to issue certificates is appropriate in the context of the Convention.*

### **Review of fees and charges**

11. The TID provides a free licensing service for import and export of strategic commodities. The TID needs to revisit the provision of such a free service because: (a) the free service has been provided since the 1950s; (b) the TID deploys 22 staff with an annual staff cost of \$12.2 million for providing the service; and (c) resources have been used in processing a large number of applications for “stand-by” licences irrespective of whether there are strategic commodities to be shipped. *Audit has recommended that the Director-General of Trade and Industry should: (a) revisit the existing arrangement of providing the licensing service free of charge; and (b) seek policy approval for a fee proposal or continuing to provide the free licensing service.*

### **Performance management**

12. Audit examined the TID’s quarterly reports on the monitoring of compliance with performance pledges, and found that some of the performance pledges had not been met. For example, some licence applications had not been processed within the target turnaround time. According to the TID, these cases were either complicated cases or cases without sufficient supporting documents. Audit however found that there was no documentation: (a) of details of these cases which indicated that longer time was needed for processing; and (b) indicating that they had been brought to the attention of the senior management. *Audit has recommended that the Director-General of Trade and Industry should strengthen the monitoring of compliance with the TID’s performance pledges.*

### **Response from the Administration**

13. The Administration agrees with the audit recommendations.

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