

# **CHAPTER 1**

## **Commerce and Economic Development Bureau Customs and Excise Department**

**Customs and Excise Department's efforts  
in facilitating trade and  
promoting economic development**

**Audit Commission  
Hong Kong  
28 March 2024**

*This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.*

Report No. 82 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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# **CUSTOMS AND EXCISE DEPARTMENT'S EFFORTS IN FACILITATING TRADE AND PROMOTING ECONOMIC DEVELOPMENT**

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# **CUSTOMS AND EXCISE DEPARTMENT'S EFFORTS IN FACILITATING TRADE AND PROMOTING ECONOMIC DEVELOPMENT**

## **Executive Summary**

1. Hong Kong is a leading international trading and services centre as well as an important command and control centre for manufacturing activities in the region. It is recognised as one of the freest economies in the world, a model for international trade and the most strategic gateway to the vast Mainland market. The National 14th Five-Year Plan supports Hong Kong in enhancing its status as an international trade centre. With a view to upholding Hong Kong's status as an international trading and logistics hub, the Customs and Excise Department (C&ED) strives to strike a right balance between effective law enforcement and efficient trade facilitation. The Commerce and Economic Development Bureau (CEDB) formulates and coordinates a range of economic policies, including various trade facilitation initiatives, and oversees the work of C&ED in these areas. According to CEDB, the latest trade facilitation initiatives include: (a) the Hong Kong Authorized Economic Operator (AEO) Programme; (b) the Single E-lock Scheme (SELS); (c) the Free Trade Agreement Transshipment Facilitation Scheme (FTA Scheme); and (d) the Trade Single Window (TSW). The Audit Commission (Audit) has recently conducted a review to examine the efforts of C&ED in facilitating trade and promoting economic development with a view to identifying areas for improvement.

### **Hong Kong Authorized Economic Operator Programme**

2. AEO is a concept under the SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework) promulgated by the World Customs Organization. It represents a Customs-to-Business partnership to enhance international supply chain security and facilitate movement of legitimate goods. C&ED launched the Hong Kong AEO Programme in April 2012. The Programme serves as a free, open and voluntary certification scheme to enhance international supply chain security. Local companies may apply for accreditation and will be so accredited as Hong Kong AEOs, so long as they can meet the prescribed standards. Such accreditation would entitle them to enjoy cargo clearance facilitation in Hong

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Kong as well as other economies with Mutual Recognition Arrangements (MRAs) signed with Hong Kong (paras. 1.5 and 1.6). Audit examination revealed the following areas for improvement:

- (a) ***Need to make continued efforts in expanding coverage of and strengthening Hong Kong's MRA network.*** Besides facilitating seamless cross-boundary movement of goods throughout the supply chain, expanding the coverage of Hong Kong's MRA network will complement the Government's efforts of encouraging enterprises to capitalise on the new business opportunities arising from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area development. As at 31 December 2023, Hong Kong has entered into MRAs with 14 economies and signed Action Plans with 4 economies. With a view to helping local enterprises to capitalise on the new business opportunities arising from the Belt and Road Initiative and the Greater Bay Area development, C&ED needs to make continued efforts in expanding the coverage of and strengthening Hong Kong's MRA network (paras. 2.4 to 2.6);
- (b) ***Need to improve handling of rejection cases.*** According to C&ED's guidelines, an applicant company may withdraw its application for whatever reasons throughout the application process or after accreditation. If an applicant company fails to comply with the accreditation criteria, the head of the Office of Trade Relations and Public Communication may reject the application. All rejection/withdrawal cases should be reported to the AEO Accreditation Panel, which may provide objective views for the continuous improvement of the Hong Kong AEO Programme. Of the 4 withdrawal cases processed in the period from 2020 to 2023, Audit examined two samples processed in 2020 and 2021 and noted that in one case, the application was rejected by C&ED instead of being withdrawn by the applicant. However, the rejection had not been approved by the designated officer, and the case had not been reported to the AEO Accreditation Panel (paras. 2.16 and 2.17); and
- (c) ***Need to enhance monitoring of AEOs' operations.*** The accreditation of a Hong Kong AEO is subject to renewal every three years. There were 52 renewal application cases processed by C&ED in the period from 2021 to 2023. Audit examined the records of 10 cases and found room for improvement, as follows:



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- (i) ***Some changes of AEOs' operations only reported in renewal applications.*** According to C&ED's guidelines, any changes to AEOs' business that may affect their AEO status should be reported to C&ED in a timely manner. However, in 7 cases in which there were changes in AEOs' operations reported to C&ED, AEOs of 4 (57%) cases had not reported all the changes to C&ED in a timely manner. Some changes were only reported to C&ED in the renewal applications, and the average time lapse between the effective date of changes and date of renewal applications was 8 months, ranging from 3 to 19 months;
- (ii) ***Random check not conducted.*** According to C&ED's guidelines, with a view to ensuring the continuous compliance with the accreditation criteria by AEOs, Account Managers shall visit the premises of AEOs on a random basis to inspect their daily operations and security controls. However, in all the 10 cases, no random check had been conducted in the period from 2022 to 2023; and
- (iii) ***Database of AEO information not updated/accurate.*** For the 7 cases in which there were changes in AEOs' operations reported to C&ED, the latest names and addresses provided by AEOs were different from those kept in the database of the electronic platform of C&ED as of December 2023 (paras. 2.13, 2.14 and 2.19).

## Transshipment facilitation initiatives

3. SELS was launched in March 2016 by interconnecting the Intermodal Transshipment Facilitation Scheme with the Speedy Customs Clearance System of Mainland Customs with a view to building a “green lane” to facilitate logistics flow through seamless clearance services. Under SELS, one single electronic lock (e-lock) with global positioning system functions accredited by both Customs authorities is applied on the principle of “across the boundary with one single e-lock under separate monitoring” and hence, duplicate inspection on the same shipment by both Customs authorities at the boundary would be reduced. Participation in SELS is voluntary. As regards FTA Scheme launched in December 2015, it is a voluntary scheme aiming to facilitate related transshipment cargoes in Hong Kong to enjoy preferential tariffs of concerned importing countries and regions through the provision of Customs

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supervision and issuance of Certificates of Non-manipulation (paras. 1.10 and 1.14). Audit examination revealed the following areas for improvement:

- (a) ***Need to step up efforts in promoting SELS to small and medium cargo handling agents.*** The number of cross-boundary goods vehicle trips processed under SELS had decreased significantly from 3,600 in 2019 to 204 in 2023. At the meeting of the Panel on Commerce and Industry of the Legislative Council (LegCo) held in June 2019, a Member of the Panel urged C&ED to step up its efforts in promoting SELS to operators of a smaller scale and even the individual owner-drivers in the logistics industry. The Member further suggested C&ED to help operators overcome any technical problems which might have hindered their participation in SELS so that more industry players could enjoy the benefits brought by the Scheme. With a view to enhancing the usage of SELS and benefiting the logistics industry with such business needs to a larger extent, C&ED needs to step up efforts in promoting SELS to small and medium cargo handling agents (paras. 3.4, 3.6 and 3.8);
- (b) ***Need to closely monitor implementation of developing new e-lock system.*** According to C&ED, since the launch of SELS in March 2016, there has been only one supplier of e-lock and GPS equipment in the market. After completing the feasibility study in December 2021, C&ED took forward the enhancement of SELS with about \$10 million by the procurement of a new e-lock system and equipment, including a monitoring platform, e-lock fixed readers and handheld devices. The benefits brought by the new e-lock system include enhancing the data security level and compatibility of the e-lock to meet the required standard of both Hong Kong and Mainland Customs. C&ED needs to closely monitor the implementation of developing the new e-lock system (paras. 3.9, 3.13 and 3.15);
- (c) ***Need to continuously assess risk of transshipment cargoes to minimise the risk of manipulation.*** It is stipulated in the trade agreements between the Mainland and different countries and regions that consignments routed through a third place can also be regarded as direct consignments/transport and are qualified to apply for tariff reduction under certain circumstances, in particular if they remain under the control of Customs or designated authorities in the third place. According to C&ED, for consignments involving vanning/devanning or repacking in Hong Kong, Customs supervision is required before issuing the Certificates of Non-manipulation, which serve to certify that the transshipment cargoes have not undergone

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any further processing during their stay in Hong Kong. Details of Customs supervision are as follows:

- (i) since late 2016, instead of supervising the vanning/devanning or repacking of consignments in Hong Kong throughout the entire process, upon arrival of transshipment cargoes in Hong Kong, C&ED will require cargo handling agents to send it pictures of the pertinent containers showing the container numbers and their seal numbers, which should be the same as those shown on the related through bills of lading; and
- (ii) upon C&ED's approval, the agents would be allowed to break the seals of the containers and remove the cargoes loaded on the same container that were not covered under FTA Scheme before the arrival of C&ED staff for conducting Customs supervision.

C&ED needs to continuously assess the risk of transshipment cargoes to minimise the risk of manipulation and adjust the mode of Customs supervision under FTA Scheme where appropriate (paras. 3.22, 3.24, 3.25 and 3.27); and

- (d) ***Need to take measures to ensure that costing basis is in line with actual deployment for conducting Customs supervision.*** FTA Scheme adopts user-pays principle for different services provided, in line with the Government's full-cost recovery policy. For the fee review conducted by C&ED in 2023, the corresponding cost statement prepared by C&ED did not accurately reflect the actual situation of conducting Customs supervision. In calculating the staff costs, while it was stated in C&ED's work manual that the performance of all Customs supervision should be supervised by a Chief Customs Officer/Senior Customs Officer, it was stated in the costing review that 1 in every 10 Customs supervision would be supervised by a Senior Customs Officer. According to C&ED, a Senior Customs Officer was deployed to attend the Customs supervision together with the staff engaged under the Post-retirement Service Contract Scheme on security and safety considerations (paras. 3.28, 3.31 and 3.32(b)).

### Trade Single Window

4. In February 2016, the Government announced that it would establish a TSW for one-stop lodging of all the 50-plus trade documents with the Government for trade declaration and customs clearance purposes. TSW has been implementing in three phases since 2018. As at 29 February 2024, Phases 1 and 2 were fully implemented and Phase 3 was targeted to be rolled out by batches from 2026 onwards (paras. 4.3 and 4.4). Audit examination revealed the following areas for improvement:

- (a) ***Need to continue to promote the use of TSW.*** As at 31 December 2023, there were over 3,700 registered TSW users in about 2,100 companies/organisations. From 28 December 2018 (first roll-out of Phase 1) to 31 December 2023, over 66,000 trade documents (including those covered in Phases 1 and 2) were processed through TSW. Audit analysis revealed that the overall usage rate of TSW Phase 1 increased significantly from 16% in 2019 to 90% in 2023. However, while most trade documents recorded a usage rate of over 90%, 3 types of trade documents only recorded a usage rate of 7%, 32% and 46% respectively (paras. 4.5 and 4.6);
- (b) ***Need to consider including an electronic feedback form in TSW platform.*** To gauge feedback and opinion on TSW, from 1 October 2019 to 31 December 2023, the Office of Trade Single Window Operation conducted 2,064 interviews with traders, recorded and analysed their responses manually. With full implementation of Phase 2 in December 2023 and Phase 3 in coming years, there will be significant increase in the number of TSW users and it may require much time and effort to manually conduct interviews one by one. To collect feedback from more users and facilitate C&ED to perform analysis in an efficient manner, there is merit for C&ED to consider including an electronic feedback form in TSW platform (paras. 4.8 and 4.9); and
- (c) ***Need to endeavour to ensure the timely completion of Phase 3 of TSW.*** According to CEDB, Phase 3 is the final and most complex phase of TSW which involves a huge volume of document submissions from a wide range of stakeholders and would replace the Government Electronic Trading Services, several existing cargo clearance systems of C&ED, as well as relevant back-end processing systems. Timely implementation of Phase 3 of TSW is important in view of the international development of

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TSW in which some economies have implemented single window in recent decades (e.g. Singapore in 1989) and insufficient capacity of some existing systems to meet the prevailing business needs of the trade. Some LegCo Members also considered the implementation progress of TSW slow and that Hong Kong had lagged behind other economies. While noting that CEDB and C&ED have been making strenuous efforts in taking forward the final phase of TSW under a compressed timeframe, Audit considers that CEDB needs to make sustained efforts to ensure that Phase 3 of TSW will be rolled out from 2026 onwards (paras. 4.13 to 4.16).

### Way forward

5. *Need to continue efforts in formulating trade facilitation initiatives.* The total external merchandise trade of Hong Kong decreased by 6.7% from \$9,459.1 billion in 2022 to \$8,822.4 billion in 2023. Comparing 2023 with 2022, the volume of Hong Kong's total exports of goods and imports of goods decreased by 11.6% and 9.2% respectively. Furthermore, the volume of total exports of goods and imports of goods with main destinations and main suppliers decreased respectively over the same period of comparison. With a view to further supporting the trading industry and thereby strengthening Hong Kong's competitive advantage as a major international trade centre and regional logistics hub, CEDB should continue its efforts in formulating trade facilitation initiatives in response to the challenging external environment (paras. 5.2, 5.3 and 5.5).

6. *Need to make continuous improvement to the four trade facilitation initiatives.* Economic development has its cycles of ups and downs. From 2021 to 2023, there was a decrease in Hong Kong's external merchandise trade (see para. 5). Of the four trade facilitation initiatives, namely Hong Kong AEO Programme, SELS, FTA Scheme and TSW, Audit has identified areas for improvement. In order to seize opportunities when the global economic situation improves, C&ED should make continuous improvement to the four trade facilitation initiatives, taking into account the findings of this Audit Report (paras. 5.6 and 5.7).

### Audit recommendations

7. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary.**

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**Audit has *recommended* that the Secretary for Commerce and Economic Development should:**

- (a) **make sustained efforts to ensure that Phase 3 of TSW will be rolled out from 2026 onwards, taking into account the experience gained in implementing Phases 1 and 2 of TSW (para. 4.18(a)); and**
- (b) **continue the efforts in formulating trade facilitation initiatives in response to the challenging external environment (para. 5.8).**

**8. Audit has also *recommended* that the Commissioner of Customs and Excise should:**

### ***Hong Kong AEO Programme***

- (a) **make continued efforts in expanding the coverage of and strengthening Hong Kong's MRA network (para. 2.11(a));**
- (b) **remind the staff of C&ED that all rejection cases should be approved by the head of the Office of Trade Relations and Public Communication and reported to the AEO Accreditation Panel (para. 2.22(a));**
- (c) **continue to remind AEOs that any changes to their business that may affect their AEO status should be reported to C&ED in a timely and complete manner (para. 2.22(b));**
- (d) **take measures to ensure that random checks to inspect daily operations and security controls of AEOs are conducted in accordance with the guidelines, and that the database of AEO information is properly updated (para. 2.22(c) and (d));**

### ***Transshipment facilitation initiatives***

- (e) **step up efforts in promoting SELS to small and medium cargo handling agents (para. 3.16(a));**

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- (f) **closely monitor the implementation of developing the new e-lock system with a view to expediting the commissioning of the system (para. 3.16(b));**
- (g) **continuously assess the risk of transshipment cargoes to minimise the risk of manipulation and adjust the mode of Customs supervision under FTA Scheme where appropriate (para. 3.34(b));**
- (h) **take measures to ensure that the costing basis as stated in the costing review is in line with the actual deployment for conducting Customs supervision and the procedures for conducting Customs supervision in the work manual (para. 3.34(c));**

### ***TSW***

- (i) **continue to promote the use of TSW for those trade documents with a relatively low usage rate (para. 4.11(a));**
- (j) **consider including an electronic feedback form in TSW platform (para. 4.11(c)); and**

### ***Way forward***

- (k) **make continuous improvement to the four trade facilitation initiatives, taking into account the findings of this Audit Report (para. 5.9).**

## **Response from the Government**

9. The Secretary for Commerce and Economic Development and the Commissioner of Customs and Excise generally agree with the audit recommendations.





## **PART 1: INTRODUCTION**

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

### ***Background***

1.2 Hong Kong is a leading international trading and services centre as well as an important command and control centre for manufacturing activities in the region. It is recognised as one of the freest economies in the world, a model for international trade and the most strategic gateway to the vast Mainland market. The National 14th Five-Year Plan supports Hong Kong in enhancing its status as an international trade centre. As a separate customs territory, the Hong Kong Special Administrative Region does not impose any tariffs, and aims to enhance customs clearance efficiency while maintaining effective control. In 2023, the total external merchandise trade was \$8,822.4 billion.

1.3 According to the Customs and Excise Department (C&ED), with a view to upholding Hong Kong's status as an international trading and logistics hub, C&ED strives to strike a right balance between effective law enforcement and efficient trade facilitation. With a growing expectation from the trade community, C&ED has fostered its "trade facilitator" role and even gone further to take up the role of "economic development promotor". These include introducing information technology (IT) systems to harmonise and streamline domestic customs processes, accreditation schemes for enhancing the competitiveness of local traders, joint facilitation measures with the Mainland, and regional and international cooperation schemes.

1.4 The Commerce and Economic Development Bureau (CEDB) formulates and coordinates a range of economic policies, including various trade facilitation initiatives, and oversees the work of C&ED in these areas. According to the website of CEDB, the latest trade facilitation initiatives include the following:

- (a) the Hong Kong Authorized Economic Operator (AEO) Programme;
- (b) the Single E-lock Scheme (SELS);

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- (c) the Free Trade Agreement Transshipment Facilitation Scheme (FTA Scheme); and
- (d) the Trade Single Window (TSW).

Figures 1(a) to (d) show the logos of the four latest initiatives.

**Figures 1(a) to (d)**

### Logos of trade facilitation initiatives

**(a) Hong Kong AEO Programme**



**(b) SELS**



**(c) FTA Scheme**



**(d) TSW**



*Source: CEDB records*

### ***Hong Kong AEO Programme***

1.5 AEO is a concept under the SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework) promulgated by the World Customs

Organization (WCO — Note 1). It represents a Customs-to-Business partnership to enhance international supply chain security and facilitate movement of legitimate goods. As of December 2023, more than 80 customs administrations had implemented their respective AEO programmes. They covered many of Hong Kong's major trading partners (e.g. the Mainland).

1.6 C&ED launched the Hong Kong AEO Programme in April 2012. The Programme serves as a free, open and voluntary certification scheme to enhance international supply chain security. Local companies (Note 2) may apply for accreditation and will be so accredited as Hong Kong AEOs, so long as they can meet the prescribed standards. Such accreditation would entitle them to enjoy cargo clearance facilitation (such as reduced customs inspection and prioritised customs clearance) in Hong Kong as well as other economies with Mutual Recognition Arrangements (MRAs) signed with Hong Kong.

1.7 The accreditation standards for Hong Kong AEOs are drawn up with reference to the requirements under the SAFE Framework. There are 12 accreditation criteria (Note 3) and accreditation is free of charge.

1.8 According to C&ED, in the period from 2019 to 2023, the Hong Kong AEO Programme provided facilitation to an average of 3.7 million consignments of cargo annually. The average value of consignments involved amounted to

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**Note 1:** *WCO is an inter-governmental organisation dedicated to the simplification and harmonisation of Customs systems and procedures, advancement of Customs techniques, improvement of Customs operations and promotion of cooperation between governments to facilitate international trade.*

**Note 2:** *According to C&ED, the Programme is open to all stakeholders such as manufacturers, importers, exporters, freight forwarders, warehouse operators, carriers, etc. involved in the international supply chain.*

**Note 3:** *The 12 criteria are: (a) customs compliance; (b) maintenance of commercial records; (c) financial soundness; (d) premises security and access control; (e) personnel security; (f) cargo security; (g) conveyance security; (h) business partner security; (i) security education and training; (j) information exchange, access and confidentiality; (k) crisis management and incident recovery; and (l) measurement, analysis and improvement. According to C&ED, there are two tiers of Hong Kong AEO status. Companies which fulfil the first 10 criteria will be accredited as Tier I AEO whereas companies which fulfil all the 12 criteria will be accredited as Tier II AEO.*

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\$813 billion annually during the period. As of December 2023, 84 enterprises had been accredited as Hong Kong AEOs, comprising enterprises of different scales (Note 4).

### ***SELS***

1.9 In November 2010, C&ED launched the Intermodal Transshipment Facilitation Scheme (ITFS) to provide facilitation to air-land and sea-land transshipment cargoes (Note 5) by simplified clearance process. With the electronic advance cargo information and application of electronic lock (e-lock) and global positioning system (GPS) technology, C&ED monitors the transshipment cargoes conveyed by the vehicles registered under ITFS within the territory. The transshipment cargoes, if being selected for inspection, will normally be inspected once either at the point of entry or exit (Note 6). Time is saved by reducing repeated inspection which will expedite the flow of transshipment cargoes.

1.10 In March 2016, SELS was launched by interconnecting ITFS with the Speedy Customs Clearance System of Mainland Customs with a view to building a “green lane” to facilitate logistics flow through seamless clearance services. Under SELS, one single e-lock with GPS functions accredited by both Customs authorities is applied on the principle of “across the boundary with one single e-lock under separate monitoring” and hence, duplicate inspection on the same shipment by both Customs authorities at the boundary would be reduced. Participation in SELS is

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**Note 4:** *According to CEDB, the cost and benefits of securing accreditation would vary from one enterprise to another, and the benefit case would depend much on the width and depth of the global supply chain of the enterprise involved. Generally speaking, enterprises with global supply chain network should stand to benefit more from AEO accreditation.*

**Note 5:** *According to C&ED, the following items can be transhipped under ITFS and SELS: (a) general goods that are not controlled by any licence or permit; (b) dutiable commodities with permits; (c) controlled chemicals with permits; and (d) cargoes under the Transshipment Cargo Exemption Scheme.*

**Note 6:** *According to C&ED, under the prevailing customs clearance practice, a risk-based approach is adopted in selecting cargo consignment for examination, and the same applies to transshipment cargoes conveyed by SELS.*

voluntary (Note 7). According to C&ED, no charge is imposed for participating in SELS and SELS participants have to pay the supplier of e-lock and GPS equipment a monthly service charge for the use of such equipment.

1.11 As of December 2023, SELS had been extended to cover 65 clearance points in Guangdong and Hunan provinces of the Mainland. Together with the 13 clearance points in Hong Kong, SELS provides the trade with 845 routes for conveying transshipment cargoes across the boundaries via 6 land boundary control points in Hong Kong (Note 8).

1.12 According to C&ED, in the period from 2019 to 2023, the annual average numbers of goods vehicle trips and consignments under SELS were 2,098 and 265,997 respectively. As of December 2023, there were 11 cargo handling agents with 204 vehicles (Note 9) registered under SELS.

### ***FTA Scheme***

1.13 The Mainland has been proactive in establishing free trade agreements and preferential trade agreements with different countries and regions in recent years. It is stipulated in those trade agreements that consignments routed through a third place can also be regarded as direct consignments/transport and are qualified to apply for tariff reduction under certain circumstances, in particular if they remain under the control of Customs or designated authorities in the third place.

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**Note 7:** *According to C&ED, subject to the satisfaction of SELS's criteria for enrolment and registration (e.g. participants and their vehicles conveying northbound air-land transshipment cargoes are required to register with the Air Cargo Clearance System and the Road Cargo System), all cargo handling agents including shippers and forwarders running intermodal transshipment cargo business are eligible to join the Scheme.*

**Note 8:** *According to C&ED, operation of Sha Tau Kok Control Point has been suspended since March 2022.*

**Note 9:** *According to C&ED, the number of vehicles registered under SELS is on an application basis (i.e. a vehicle can be registered by more than one participant simultaneously).*

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1.14 Launched by C&ED in December 2015, FTA Scheme is a voluntary scheme aiming to facilitate related transshipment cargoes (Note 10) in Hong Kong to enjoy preferential tariffs of concerned importing countries and regions through the provision of Customs supervision and issuance of Certificates of Non-manipulation (Note 11). FTA Scheme adopts user-pays principle for different services provided. Applicants are required to pay \$170 for the documentary processing upon submission of each application. An additional fee ranging from \$675 to \$1,600 will be applied for consignments involving vanning/devanning or repacking in Hong Kong.

1.15 As of December 2023, 19 trade agreements covering 67 economies had been included in FTA Scheme (Note 12). Of the 67 economies, 60 are Belt and Road related countries and regions. According to C&ED, in the period from 2019 to 2023, an average of 5,109 Certificates of Non-manipulation were issued annually. In the same period, the annual average value of consignments involved amounted to US\$338.1 million, and the annual average estimated amount of tariff savings was US\$21.3 million.

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**Note 10:** *According to C&ED, the requirements concerning whether transshipment cargoes could be regarded as direct consignments might vary across different free trade agreements and preferential trade agreements. For example, maximum period of stay in third party and cargo storage.*

**Note 11:** *According to C&ED, a Certificate of Non-manipulation is issued to certify that the transshipment cargo has not undergone any further processing during its stay in Hong Kong.*

**Note 12:** *According to C&ED, for northbound and southbound transshipment cargoes, FTA Scheme covered 67 and 3 (i.e. Australia, Korea and Taiwan) economies respectively.*

### **TSW**

1.16 In Hong Kong, there are more than 50 types of trade documents (Note 13) required by the government agencies (e.g. C&ED and the Agriculture, Fisheries and Conservation Department) for the trading of goods into, out of and through Hong Kong. These trade documents are required for public policy reasons, such as statistics, levies and duties, anti-smuggling, public safety and health, and security purposes.

1.17 “Single Window” is an essential trade facilitation measure enshrined in the World Trade Organization’s Agreement on Trade Facilitation to enable businesses involved in cross-border trade and logistics to submit documentation through a single entry point to participating authorities. Following mainstream international development and to maintain Hong Kong’s competitiveness in trade in goods and position as a logistics hub, the Government announced in the 2016-17 Budget Speech to establish TSW in Hong Kong as a single IT platform for “one-stop” lodging of all the 50-plus trade documents with the Government for trade declaration and customs clearance purposes.

1.18 TSW has been implementing in three phases since 2018. Phases 1 and 2, which provide a voluntary electronic option for the submission of 14 and 28 types of trade documents (mainly import and export licences/permits for specific controlled goods), were fully implemented in June 2020 and December 2023 respectively. In Phase 3, an IT system will be developed to replace the Government Electronic Trading

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**Note 13:** *According to CEDB, these trade documents fall under three broad categories:*

- (a) Import and Export Declaration and Statement Two Cargo Manifests generally required after the arrival or departure of goods;*
- (b) advance cargo information and Statement One Cargo Manifests generally required on or before the arrival or departure of goods; and*
- (c) licences, permits and other documents on a per-shipment or consignment basis required for goods that are subject to specific controls or schemes, on or before the arrival or departure of goods.*

## Introduction

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Services (Note 14) and existing cargo clearance systems of C&ED. It will also cover the Import and Export Declaration (TDEC), cargo information (including advance cargo information, Cargo Manifest and Cargo Report in respect of different transport modes), and applications for the Certificate of Origin and the Permit for Dutiable Commodities. According to CEDB, Phase 3 is planned to be rolled out by batches from 2026 onwards.

1.19 In April 2016, a dedicated Single Window Project Management Office was set up under CEDB for the development and implementation of TSW, including preparing legislative proposals underpinning TSW, securing funding proposals for development of IT systems and overseeing technical design and operation of TSW systems to meet industry needs. As of December 2023, there were 39 staff in the Office. An extract of the organisation chart of CEDB as at 31 December 2023 is at Appendix A.

### *Delineation of responsibilities within C&ED*

1.20 C&ED is headed by the Commissioner of Customs and Excise. The Department comprises five branches. Regarding the four trade facilitation initiatives, the delineation of responsibilities (see Appendix B for an extract of the organisation chart of C&ED as at 31 December 2023) is as follows:

- (a) ***Hong Kong AEO Programme.*** Under the Excise and Strategic Support Branch, the Trade Relations and Accreditation Division under the Office of Trade Relations and Public Communication is responsible for the administration of the Hong Kong AEO Programme. As of December 2023, the number of staff involved was 12;
- (b) ***SELS.*** Under the Land Boundary Command of the Boundary and Ports Branch, the ITFS/SELS Unit of the Road Cargo Research Division is responsible for the administration of SELS. As of December 2023, the number of staff involved was 3;

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**Note 14:** *The Government Electronic Trading Services allows the trading community to submit key trade documents to the government electronically to fulfil statutory obligations in a cost-effective and environment-friendly manner. Three government-appointed operators were selected by open tender to provide the services.*



- (c) **FTA Scheme.** Under the Ports and Maritime Command of the Boundary and Ports Branch, the Free Trade Agreement Transhipment Facilitation Unit of the Containerized Cargo Operation and Support Division is responsible for the administration of FTA Scheme. As of December 2023, the number of staff involved was 40; and
- (d) **TSW.** In June 2018, the Office of Trade Single Window Operation (OSWO) was set up under the Excise and Strategic Support Branch as TSW operator. It is responsible for overseeing the system operation of TSW and providing support to TSW users. As of December 2023, the number of staff involved was 56.

According to C&ED, the related expenditure of the four trade facilitation initiatives is subsumed under the establishment of and provision for C&ED and it is difficult to quantify such expenditure separately.

## Audit review

1.21 In November 2023, the Audit Commission (Audit) commenced a review of C&ED's efforts in facilitating trade and promoting economic development. The audit review has focused on the following areas:

- (a) Hong Kong AEO Programme (PART 2);
- (b) transhipment facilitation initiatives (PART 3);
- (c) TSW (PART 4); and
- (d) way forward (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

### **General response from the Government**

1.22 The Secretary for Commerce and Economic Development generally agrees with the audit recommendations and would like to thank Audit for the professionalism exuded throughout the audit review which has helped CEDB and C&ED to review and enhance their operations on various fronts. He has said that CEDB will:

- (a) continue to support Hong Kong's trade sector through formulating and implementing suitable trade facilitation policies and measures, reinforcing Hong Kong's role as an international trade centre as supported by the National 14th Five-Year Plan; and
- (b) follow up the recommendations and oversee C&ED's efforts in following up the recommendations regarding their operations.

1.23 The Commissioner of Customs and Excise generally agrees with the audit recommendations.

### **Acknowledgement**

1.24 Audit would like to acknowledge with gratitude the full cooperation of the staff of CEDB and C&ED during the course of the audit review.

## **PART 2: HONG KONG AUTHORIZED ECONOMIC OPERATOR PROGRAMME**

2.1 This PART examines the work of C&ED in implementing the Hong Kong AEO Programme, focusing on:

- (a) MRAs (paras. 2.2 to 2.12);
- (b) processing of applications, accreditation and post accreditation management (paras. 2.13 to 2.23); and
- (c) other related issues (paras. 2.24 to 2.29).

### **Mutual Recognition Arrangements**

2.2 ***Mutual recognition.*** According to WCO, mutual recognition is a broad concept embodied within the SAFE Framework (see para. 1.5), whereby two countries close an agreement or arrangement to mutually recognise AEO authorisations that have been properly granted by one customs administration. It implies that the security requirements or standards of a partner country's AEO Programme based on the SAFE Framework, as well as its verification procedures, are the same as or similar to those of the other country's AEO Programme.

2.3 ***MRAs.*** MRAs refer to the signing of formal documents between two or more customs administrations outlining the circumstances and conditions in which AEOs are recognised and accepted between the signing parties. According to C&ED, four major steps are involved for signing MRAs with other economies:

- (a) studying the AEO Programmes of potential MRA partners;
- (b) conducting side-by-side comparison and joint validation visits;
- (c) assessment of the AEO Programmes of potential MRA partners; and
- (d) concluding MRAs with potential MRA partners.

2.4 ***Benefits of MRAs.*** According to C&ED, the benefits of MRAs are as follows:

- (a) ***Customs facilitation.*** Through MRAs, AEOs of one economy may enjoy customs facilitation (e.g. reduced examination and prioritised clearance) provided by its MRA partners. MRAs are therefore instrumental in facilitating seamless cross-boundary movement of goods throughout the supply chain; and
- (b) ***Capitalising new business opportunities.*** Expanding the coverage of Hong Kong's MRA network will complement the Government's efforts of encouraging enterprises to capitalise on the new business opportunities arising from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area development.

### ***Need to make continued efforts in expanding coverage of and strengthening Hong Kong's MRA network***

2.5 As at 31 December 2023, Hong Kong has entered into MRAs with 14 economies (Note 15), and signed Action Plans with 4 economies (Note 16). According to C&ED:

- (a) it has been taking active steps to expand the coverage of and strengthen Hong Kong's MRA network. For example:
  - (i) in November 2023, C&ED held the "AEO Expert Mission and Symposium for ASEAN and Hong Kong, China". During the symposium, customs administrations of ASEAN (i.e. the Association of Southeast Asian Nations) Member States and Hong Kong reached consensus that they would further enhance cooperation on matters regarding AEO programmes and pressing ahead with MRA; and

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**Note 15:** *The economies were the Mainland, India, Korea, Singapore, Thailand, Malaysia, Japan, Australia, New Zealand, Israel, Canada, Mexico, Indonesia and Macao, China.*

**Note 16:** *The economies were Türkiye, the Philippines, Cambodia and Saudi Arabia.*

- (ii) during the same event, the Memorandum of Understanding on Enhancing AEO Co-operation in the Greater Bay Area among Mainland, Hong Kong and Macao Customs was signed to further strengthen the cooperation of the three administrations in implementing the AEO Programme in the Greater Bay Area, and thereby bringing more benefits to AEOs and fostering further development in the region; and
- (b) it has planned to press ahead with entering into MRAs with a number of economies, including Belt and Road related countries and regions, in coming years.

2.6 Audit notes C&ED's efforts in entering into MRAs with other economies, including Belt and Road related countries and regions, with a view to helping local enterprises to capitalise on the new business opportunities arising from the Belt and Road Initiative and the Greater Bay Area development (see para. 2.4(b)). In Audit's view, C&ED needs to make continued efforts in expanding the coverage of and strengthening Hong Kong's MRA network.

### *Need to keep in view development of IT platforms by MRA partners*

2.7 According to WCO's guidelines, in terms of the channel of data exchange, it is highly recommended that an automated data-exchange system (Note 17) be deployed in order to minimise the risk of human error.

2.8 Audit noted that with a view to safeguarding the exchange of AEO information with other customs administrations, an electronic platform (Note 18) for data exchange with a development cost of \$7.3 million had been launched by C&ED in December 2021. While it was C&ED's plan to extend the automated exchange of AEO information to other MRA partners, up to December 2023, only the exchange

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**Note 17:** *According to C&ED, although the agenda has been frequently discussed in various WCO's meetings, up to February 2024, there was no common IT platform under WCO for automated data exchange.*

**Note 18:** *According to C&ED, AEO information kept in the database of the electronic platform can also be synchronised to C&ED's customs clearance systems for identification of AEO status by frontline officers.*

of AEO information with Mainland Customs had been conducted in an automated manner since April 2022.

2.9 According to C&ED:

- (a) ***Automated exchange of AEO information.*** With automated exchange of AEO information with Mainland Customs, any updated information (e.g. newly accredited and suspended AEOs) in the database of one side would be synchronised automatically to the database of the other side on a daily basis;
- (b) ***Manual update of database.*** For MRA partners other than Mainland Customs, any updated AEO information would be exchanged by sending password-protected files via emails to the individual customs administrations on a monthly or ad hoc basis, and manual update of databases (Note 19) would be required subsequently;
- (c) ***Follow-up actions taken by C&ED.*** After implementing automated exchange of AEO information with Mainland Customs in April 2022, C&ED had invited various MRA partners to explore the feasibility of automated exchange of AEO information. However, positive feedback was still pending and not all MRA partners had an IT platform, which was the prerequisite for automated exchange of AEO information; and
- (d) ***Challenges in adopting automated data exchange with MRA partners.*** Up to February 2024, C&ED was aware that, apart from the Mainland, only one other existing MRA partner had the prerequisite IT platform. Moreover, whether a customs administration decides to invest the money and further resources to develop the prerequisite IT platform and conduct data exchange with another administration may hinge on various factors and considerations. In reality, despite the good objectives and ongoing appeals by WCO to its members to explore the use of automated data exchange, positive actions were limited.

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**Note 19:** *According to C&ED, as at 31 December 2023, its database contained 8,620 items of information in relation to the accredited AEOs of MRA partners not adopting automated exchange of information.*

2.10 In Audit's view, the practice of exchanging emails containing AEO information with MRA partners can neither allow real-time exchange of information nor minimise the risk of human error (see para. 2.7). In this connection, C&ED needs to keep in view the development of IT platforms by its MRA partners and where appropriate, continue to explore the feasibility of adopting automated exchange of AEO information with more MRA partners.

### Audit recommendations

2.11 **Audit has *recommended* that the Commissioner of Customs and Excise should:**

- (a) **make continued efforts in expanding the coverage of and strengthening Hong Kong's MRA network; and**
- (b) **keep in view the development of IT platforms by MRA partners and where appropriate, continue to explore the feasibility of adopting automated exchange of AEO information with more MRA partners.**

### Response from the Government

2.12 The Commissioner of Customs and Excise generally agrees with the audit recommendations. She has said that:

- (a) C&ED will continue the efforts in expanding the MRA network, with particular focus on economies with which C&ED has already signed Action Plans, with a view to concluding MRAs in due course; and
- (b) C&ED's electronic platform for AEO data exchange was launched in late 2021. C&ED will keep in view the development of similar/compatible IT platforms by MRA partners and continue to explore the feasibility of adopting automated exchange of AEO information with more MRA partners.

## Processing of applications, accreditation and post accreditation management

### *Processing of applications and accreditation*

2.13 According to C&ED, the processing of applications and accreditation is as follows:

- (a) ***Preliminary assessment.*** Once a potential company expresses interest in joining the Hong Kong AEO Programme, the Trade Publicity Unit will start the preliminary assessment on the company, which usually consists of three stages:
  - (i) ***Initial contact (stage 1).*** C&ED will make initial contact with the company by providing more detailed information on the Programme and inviting the applicant company to submit a number of documents (e.g. annual return, auditor's report, etc.) for commencing preliminary assessment. At this stage, C&ED will assess if the company shows genuine interest and readiness to proceed with the application;
  - (ii) ***Preliminary assessment against customs compliance and financial soundness (stage 2).*** The documents submitted by the company at stage 1 are mainly for the purpose of conducting preliminary assessment against two critical accreditation criteria, namely customs compliance and financial soundness (see Note 3 to para. 1.7). If the applicant company passes the preliminary assessment on the two critical accreditation criteria, C&ED will require the applicant company to further submit a number of documents (e.g. organisation chart, cargo flow, etc.) for preliminary assessment against the remaining criteria; and
  - (iii) ***Preliminary assessment against other criteria (stage 3).*** Upon receipt of most of the documents required at stage 2, C&ED will conduct preliminary assessment against the remaining accreditation criteria. At this stage, C&ED will actively assist the company to fulfil the accreditation criteria by providing consultation and sharing of good practices as necessary. If the preliminary assessment indicates that the company has good prospect to fulfil the required



accreditation standards, the head of the Trade Relations and Accreditation Division (see para. 1.20(a)) will assign a designated Account Manager to take over the case and continue with more detailed assessment;

- (b) ***Detailed assessment by Account Manager.*** Upon receipt of an assigned application, the Account Manager will arrange a pre-validation meeting with the applicant company to understand its business operation and agree on a validation schedule (Note 20), which will include site visits to all listed premises. The Account Manager will conduct detailed assessment against all the relevant accreditation criteria. At this stage, C&ED will continue to assist the company to fulfil the required standards as necessary. Upon a satisfactory result after the detailed assessment and submission of all the required documents by the applicant company, C&ED will advise the applicant company to submit a formal application; and
- (c) ***Approval by AEO Accreditation Panel.*** Upon completion of the detailed assessment, the application will be submitted to the AEO Accreditation Panel (Note 21) for consideration and approval. The accreditation of a Hong Kong AEO is subject to renewal every three years.

### ***Post accreditation management***

2.14 ***Continuous monitoring of AEOs' operations.*** According to C&ED, with a view to ensuring that AEOs continue to meet the accreditation criteria (see Note 3 to para. 1.7), upon awarding the AEO status, C&ED will inform AEOs that their operations will be monitored. C&ED will remind AEOs that any changes to their business that may affect their AEO status should be reported to C&ED in a timely

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**Note 20:** *According to C&ED, depending on the completeness of information submitted, the complexity of the applicant company's business operation and the number of sites where validation is required, the agreed validation schedule may be revised and therefore, the duration of validation and accreditation process may vary from one to another.*

**Note 21:** *According to C&ED, the AEO Accreditation Panel is set up under the chairmanship of an Assistant Commissioner, with three members from different divisions/groups of C&ED appointed by the Chairman on each occasion having regard to the dominant business nature of the applicant.*

manner. To enhance the monitoring measures, in January 2022, C&ED devised internal guidelines on post accreditation management. According to the guidelines:

- (a) ***Change of AEOs' operations.*** Any changes to AEOs' business that may affect their AEO status should be reported to C&ED in a timely manner, and Account Managers shall review the implications for AEO status arising from such changes on a case-by-case basis;
- (b) ***Annual update.*** Account Managers shall update AEOs' operations (e.g. business nature) by sending emails to them on an annual basis. In case an AEO company reports any change in operations, the responsible Account Manager shall request the company to submit relevant documents and perform a site visit to its premises to ensure compliance with the AEO criteria; and
- (c) ***Random check.*** With a view to ensuring the continuous compliance with the accreditation criteria by AEOs, Account Managers shall visit the premises of AEOs on a random basis to inspect their daily operations and security controls.

2.15 ***Processing of renewal applications.*** The accreditation is subject to renewal every three years. According to C&ED's guidelines, for processing a renewal application, among the 12 accreditation criteria, at least 3 will be reviewed, as follows:

- (a) reviews on the criteria "customs compliance" and "financial soundness" are mandatory; and
- (b) subject to the changes of operations since the last accreditation as declared by the applicant, a minimum of 1 of the remaining 10 criteria will be

selected for review (Note 22). The review will be in the form of documentary inspection, on-site validation or a combination of both.

Upon the advice of the designated Account Manager, the head of the Trade Relations and Accreditation Division (see para. 1.20(a)) will determine the selection of criteria for (b) and the scope of review in each renewal application.

### *Need to improve handling of rejection cases*

2.16 According to C&ED's guidelines, an applicant company may withdraw its application for whatever reasons throughout the application process or after accreditation. If an applicant company fails to comply with the accreditation criteria, the head of the Office of Trade Relations and Public Communication (see para. 1.20(a)) may reject the application. All rejection/withdrawal cases should be reported to the AEO Accreditation Panel, which may provide objective views for the continuous improvement of the Hong Kong AEO Programme.

2.17 Of the 4 withdrawal cases processed in the period from 2020 to 2023, Audit examined two samples processed in 2020 and 2021 and noted that in one case, the application was rejected by C&ED instead of being withdrawn by the applicant. However, the rejection had not been approved by the designated officer (see para. 2.16), and the case had not been reported to the AEO Accreditation Panel.

2.18 Audit considers that C&ED needs to remind its staff that all rejection cases should be approved by the head of the Office of Trade Relations and Public Communication and reported to the AEO Accreditation Panel.

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**Note 22:** *According to C&ED, if there is no change of operations since the last accreditation as declared by the applicant, the criteria "premises security and access control" will be prioritised for assessment. This is because premises security contributes a major part in cargo handling and storage. If there is more than one change of operations, all the changes will be assessed.*

***Need to enhance monitoring of AEOs' operations***

2.19 There were 52 renewal application cases (involving 66 companies) processed by C&ED in the period from 2021 to 2023. Audit examined the records of 10 cases and found room for improvement, as follows:

- (a) ***Some changes of AEOs' operations only reported in renewal applications.*** In 7 cases in which there were changes in AEOs' operations reported to C&ED, AEOs of 4 (57%) cases had not reported all the changes affecting their AEO status to C&ED in a timely manner (see para. 2.14(a)). Some changes were only reported to C&ED in the renewal applications, and the average time lapse between the effective date of changes and date of renewal applications was 8 months, ranging from 3 to 19 months. In particular, Audit noted that in 2 cases, AEOs concerned had not reported all the changes in their replies in response to C&ED's annual updates (Note 23);
- (b) ***Random check not conducted.*** In all the 10 cases, in the period from 2022 to 2023, no random check (see Note 23 to (a) above) had been conducted to inspect the daily operations and security controls of those AEOs for ensuring their continuous compliance with the AEO criteria; and
- (c) ***Database of AEO information not updated/accurate.*** For the 7 cases in which there were changes in AEOs' operations reported to C&ED, Audit noted that the latest names and addresses provided by AEOs were different from those kept in the database of the electronic platform (see para. 2.8) as of December 2023, as follows:
  - (i) in 1 (14%) case, the new company name had not been updated in the database; and
  - (ii) in 4 (57%) cases, the addresses kept in the database were incomplete or inaccurate.

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**Note 23:** *According to C&ED, the requirement for conducting annual updates and random checks had been in place since the implementation of the new guidelines in January 2022.*

2.20 In February 2024, C&ED informed Audit that:

- (a) the current reminders provided to AEOs were considered sufficient. Currently, at least 4 written reminders would be given to AEOs during their 3-year tenure (i.e. upon first successful accreditation, during each annual update and before renewal application). Besides, Account Managers would periodically give verbal reminders to AEOs when they contacted AEOs on other matters;
- (b) C&ED had been actively monitoring the most essential criteria (i.e. customs compliance) on AEOs by checking C&ED's own database. C&ED would also conduct random checks on AEOs as an extra measure to ensure their continued compliance;
- (c) the Hong Kong AEO Programme was a trade facilitation measure. The initial accreditation assessments were strict and of very high standards. The continued monitoring of the Programme ran primarily on a trust basis. After all, C&ED might consider not renewing the AEO status if the overall compliance of AEOs was not up to standard;
- (d) regarding the reasons for not conducting random checks after 2022, it was mainly because of the impact of the coronavirus disease (COVID-19) epidemic and other engagements with higher priorities after the COVID-19 epidemic; and
- (e) regarding the 4 cases mentioned in paragraph 2.19(c)(ii), the warehouse address of 1 case was slightly incomplete with a missing flat and the new warehouse addresses of the remaining 3 cases had not been updated in the database in a timely manner.

2.21 In Audit's view, with a view to ensuring the continuous compliance with the AEO criteria by AEOs, C&ED needs to:

- (a) continue to remind AEOs that any changes to their business that may affect their AEO status should be reported to C&ED in a timely and complete manner;

- (b) take measures to ensure that random checks to inspect daily operations and security controls of AEOs are conducted in accordance with the guidelines; and
- (c) take measures to ensure that the database of AEO information is properly updated.

### **Audit recommendations**

**2.22**      **Audit has *recommended* that the Commissioner of Customs and Excise should:**

- (a) **remind the staff of C&ED that all rejection cases should be approved by the head of the Office of Trade Relations and Public Communication and reported to the AEO Accreditation Panel;**
- (b) **continue to remind AEOs that any changes to their business that may affect their AEO status should be reported to C&ED in a timely and complete manner;**
- (c) **take measures to ensure that random checks to inspect daily operations and security controls of AEOs are conducted in accordance with the guidelines; and**
- (d) **take measures to ensure that the database of AEO information is properly updated.**

### **Response from the Government**

**2.23**      The Commissioner of Customs and Excise generally agrees with the audit recommendations. She has said that:

- (a) the Hong Kong AEO Programme has been in operation since 2012 in accordance with WCO's SAFE Framework and is welcomed by the trade and MRA partners. C&ED will work continuously to step up monitoring of AEOs to ensure compliance with accreditation criteria;

- (b) C&ED will ensure that the processing of rejection cases would be properly handled and reported;
- (c) C&ED will continue to remind AEOs to report any changes to their business that may affect their AEO status in a timely manner; and
- (d) C&ED will take measures to ensure that random checks are conducted in accordance with C&ED's guidelines and the database of AEO information is properly updated.

## **Other related issues**

### ***Need to continue to arrange training workshops and courses for frontline officers on a regular basis***

2.24 As mentioned in paragraph 1.6, AEOs are entitled to enjoy cargo clearance facilitation in Hong Kong, including reduced customs inspection and prioritised customs clearance. Such cargo clearance facilitation is mainly delivered by frontline officers at various cross-boundary control points.

2.25 Audit noted that:

- (a) in the period from 2019 to 2021, 10 training workshops were arranged for frontline officers to get them familiarised with the Hong Kong AEO Programme;
- (b) the training materials of the training workshops included introduction of the Programme, introduction of the prioritised clearance facilities with video demonstration and answers to frequently asked questions; and
- (c) since the last training workshop held in August 2021, C&ED had not arranged any training workshops for frontline officers.

2.26 In February 2024, C&ED informed Audit that:

- (a) apart from conducting training workshops, C&ED officers also regularly gave lectures to trainees, who were frontline officers, of training courses organised by the Hong Kong Customs College. Since August 2021, 15 lectures had been arranged; and
- (b) C&ED would resume conducting regular training workshops to frontline officers.

2.27 As cargo clearance facilitation is mainly delivered by frontline officers at various cross-boundary control points and there may be staff movement from time to time, Audit considers that C&ED needs to continue to arrange training workshops and courses for frontline officers on a regular basis.

### Audit recommendation

2.28 Audit has *recommended* that the Commissioner of Customs and Excise should continue to arrange training workshops and courses on the Hong Kong AEO Programme for frontline officers on a regular basis.

### Response from the Government

2.29 The Commissioner of Customs and Excise generally agrees with the audit recommendation. She has said that C&ED will continue to arrange training workshops and courses on the Hong Kong AEO Programme for all relevant officers on a regular basis to facilitate smooth implementation of the Hong Kong AEO Programme.



## **PART 3: TRANSHIPMENT FACILITATION INITIATIVES**

3.1 This PART examines the work of C&ED in implementing transshipment facilitation initiatives, focusing on SELS and FTA Scheme:

- (a) SELS (paras. 3.2 to 3.17); and
- (b) FTA Scheme (paras. 3.18 to 3.35).

### **Single E-lock Scheme**

3.2 *Intermodal transshipment cargoes.* As mentioned in paragraphs 1.9 and 1.10, SELS provides facilitation to intermodal transshipment cargoes. Such cargoes comprise:

- (a) *Northbound transshipment cargoes.* Goods arriving in Hong Kong by air or sea from abroad and, upon arrival, sent to the Mainland by land transport; and
- (b) *Southbound transshipment cargoes.* Goods arriving in Hong Kong by land transport from the Mainland and, upon arrival, sent abroad by air or sea.

Under SELS, the transshipment cargoes should be consigned on a through bill of lading or a through air waybill, and warehousing is not allowed after importation into Hong Kong.

3.3 *Criteria for enrolment and registration.* According to C&ED, cargo handling agents wishing to join SELS shall fulfil the following criteria:

- (a) participants and their vehicles conveying cargoes under SELS shall be registered under the Road Cargo System (ROCARS) of C&ED. Depending on the mode of transshipment, they shall also be registered under the Air

## Transshipment facilitation initiatives

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Cargo Clearance System (ACCS) and/or E-Sea Customs Clearance Scheme of C&ED (Note 24);

- (b) participants shall approach Mainland Customs for registration of the Speedy Customs Clearance System; and
- (c) participants shall install accredited e-locks and GPS equipment on their registered vehicles.

### *Usage of SELS*

3.4 ***Decreasing number of goods vehicle trips processed under SELS.*** According to C&ED, in 2023, the number of all cross-boundary goods vehicle trips amounted to some 3.99 million. The figure included all types of import, export and transshipment consignments (Note 25). For intermodal transshipment cargoes with no warehousing after importation into Hong Kong, C&ED provides facilitation to them by simplified clearance process under SELS (see paras. 1.9 and 1.10). Table 1 shows the number of cross-boundary goods vehicle trips processed under SELS in the period from 2019 to 2023. Audit noted that the number of cross-boundary goods vehicle trips processed under SELS had decreased significantly from 3,600 in 2019 to 204 in 2023. According to C&ED, the decrease was attributable to various business and economic factors. For example, the throughput of goods vehicles had decreased significantly amid the COVID-19 epidemic.

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**Note 24:** *According to C&ED, ROCARS and ACCS are electronic cargo clearance platforms to facilitate the cargo industries to submit electronic cargo information for the purpose of customs clearance. As regards the E-Sea Customs Clearance Scheme, it catered for the forwarding agents and logistics companies to submit house-level electronic cargo information for the purpose of sea cargo clearance.*

**Note 25:** *According to C&ED, the number of all cross-boundary goods vehicle trips was not comparable with the number of cross-boundary goods vehicle trips processed under SELS. It was because the former figure included: (a) import consignments; (b) export consignments; (c) transshipment consignments that were not limited to the four types of items (see Note 5 to para. 1.9); and (d) transshipment consignments that involved warehousing after importation into Hong Kong (see para. 3.2).*

**Table 1**

**Number of cross-boundary goods vehicle trips processed under SELS  
(2019 to 2023)**

Year	Number of goods vehicle trips		
	Northbound	Southbound	Total
2019	1,410	2,190	3,600
2020	2,030	1,459	3,489
2021	2,212	689	2,901
2022	291	6	297
2023	202	2	204

*Source:* Audit analysis of C&ED records

*Remarks:* According to C&ED, it has not set any target regarding the usage of SELS as it is a trade facilitation scheme of which the participation is voluntary, and most of the usage of SELS was for air-land transshipment cargoes.

**3.5 No usage for SELS in some land boundary control points.** As mentioned in paragraph 1.11, transshipment cargoes under SELS can be conveyed across the boundaries via 6 land boundary control points in Hong Kong. Audit analysis revealed that of the 6 land boundary control points, most of the goods vehicle trips processed under SELS in recent years were made via the Lok Ma Chau Control Point and the Shenzhen Bay Control Point (see Table 2). According to C&ED:

- (a) the usage of land boundary control points depends on the business needs of the logistics industry (e.g. location of supporting warehouse facilities and service coverage in the Mainland); and
- (b) the usage of land boundary control points has tied in generally with the rationalisation of the Hong Kong-Shenzhen land boundary control points by adjusting the functions and the implementation of the “East in East out, West in West out” planning strategy for cross-boundary goods traffic (as mentioned in the 2020 Policy Address) with a view to enhancing the efficiency of transportation and logistics in various parts of the Greater Bay Area.

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**Table 2**

**Number of cross-boundary goods vehicle trips processed under SELS  
via 6 land boundary control points  
(2019 to 2023)**

	Land boundary control point		Number of goods vehicle trips				
	Name	Commencement date under SELS	2019	2020	2021	2022	2023
1	Lok Ma Chau	March 2016	3,579	3,413	2,517	161	1
2	Man Kam To (Note 1)	March 2016	—	—	—	—	—
3	Sha Tau Kok (Note 2)	March 2016	—	—	—	—	N/A
4	Shenzhen Bay	March 2016	16	7	304	136	203
5	Hong Kong-Zhuhai-Macao Bridge Hong Kong Port (Note 3)	October 2018	5	69	80	—	—
6	Heung Yuen Wai	August 2020	N/A	—	—	—	—

*Source: Audit analysis of C&ED records*

*Note 1: According to C&ED, the Office of Port of Entry and Exit of Shenzhen Municipal's Government has designated the Wenjindu Port (i.e. Man Kam To Control Point in Hong Kong) solely for use by goods vehicles carrying food and vegetables since 14 February 2022 and diverted other goods vehicles to other control points. As the food and vegetables are generally imported for consumption in Hong Kong and not transshipment in nature, SELS is not applicable.*

*Note 2: According to C&ED, operation of Sha Tau Kok Control Point has been suspended since March 2022.*

*Note 3: According to C&ED, it would collaborate with Mainland Customs and Macao Customs to extend SELS to Macao to facilitate the logistics flow in the Greater Bay Area. Therefore, the usage of SELS in Hong Kong-Zhuhai-Macao Bridge Hong Kong Port is expected to increase.*

### ***Need to step up efforts in promoting SELS to small and medium cargo handling agents***

3.6 At the meeting of the Panel on Commerce and Industry of the Legislative Council (LegCo) held in June 2019:

- (a) C&ED informed the Panel that the participation in SELS was voluntary. Eligible shippers/carriers might, according to their own situation, decide whether to join SELS. It was therefore difficult to estimate the total number of local shippers/carriers that were eligible for SELS and thus the participation rate of SELS; and
- (b) a Member of the Panel urged C&ED to step up its efforts in promoting SELS to operators of a smaller scale and even the individual owner-drivers in the logistics industry. The Member further suggested C&ED to help operators overcome any technical problems which might have hindered their participation in SELS so that more industry players could enjoy the benefits brought by the Scheme.

3.7 In February and March 2024, C&ED informed Audit that:

- (a) the system workflow of SELS was smooth and in order, and small and medium cargo handling agents could freely participate in SELS;
- (b) it was understood from the logistics associations that the downtown temporary storage and challenges of maximising the cargo loading had been the main concerns of the industry which might affect the business needs for the participation in SELS; and
- (c) C&ED had put tremendous efforts in promoting SELS. For example, it conducted 3 large-scale briefing sessions covering all cargo handling agents and 15 outreach activities on SELS in 2023. C&ED would continue its efforts in promoting SELS to the industry, particularly those small and medium cargo handling agents.

3.8 In Audit's view, with a view to enhancing the usage of SELS and benefiting the logistics industry with such business needs to a larger extent, C&ED needs to step up efforts in promoting SELS to small and medium cargo handling agents.

### *Need to closely monitor implementation of developing new e-lock system*

3.9 According to C&ED, since the launch of ITFS in November 2010, there were 3 suppliers of e-lock and GPS equipment, but 2 of them had been phased-out by the market. Since the launch of SELS in March 2016, there has been only one supplier of e-lock and GPS equipment (see Photograph 1) in the market.

**Photograph 1**

#### **E-lock and GPS equipment of SELS**



*Source: C&ED records*

3.10 According to C&ED, for ITFS, it entered into memoranda of understanding with the 3 suppliers for developing a framework to take forward the Scheme (Note 26). As it transpired, only 1 supplier continued to supply e-locks and GPS equipment under ITFS. In March 2016, C&ED launched SELS, with ITFS running at the same time. Instead of relying on the existing supplier, C&ED adopted an independent platform (Note 27) to monitor the movement of transshipment cargoes. While the existing supplier provides e-locks and GPS equipment to traders and renders installation, maintenance, repair and subsequent system service to C&ED free of charge, SELS participants have to pay the supplier a monthly service charge (Note 28) for the use of e-locks and GPS equipment.

3.11 According to C&ED, since the memorandum of understanding signed with the existing supplier in September 2010, no further agreement had been signed

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**Note 26:** *The salient terms of the memorandum of understanding signed with the existing supplier in September 2010 were as follows:*

- (a) *the memorandum of understanding aimed to set out the cooperation framework between C&ED and the supplier on monitoring the movement and security of transshipment cargoes within Hong Kong under ITFS;*
- (b) *C&ED and the supplier would use their best endeavours to meet the terms of the memorandum of understanding;*
- (c) *the supplier would provide:*
  - (i) *industry participants under ITFS with the approved model of e-lock cum GPS equipment; and*
  - (ii) *C&ED with a web-based or client-based information platform to monitor the status of e-locks and movement of the vehicles registered under ITFS; and*
- (d) *the memorandum of understanding would remain in force for a period of five years (i.e. up to September 2015).*

**Note 27:** *According to C&ED, the existing ITFS/SELS system consists of four major components, namely the e-lock, fixed reader, handheld device and monitoring platform. Since the fixed reader is not owned by C&ED, C&ED has to rely on the supplier to manage the activation/de-activation process at the entry/exit points of Hong Kong. The data from the e-lock would first enter the supplier's system and subsequently be sent to the monitoring platform.*

**Note 28:** *According to C&ED, since the launch of ITFS in November 2010, there has been no rise in the monthly service charge.*

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between C&ED and the supplier. Drawing on the experience of the implementation of the memorandum of understanding from 2010 to 2015, C&ED considered that further extension of the memorandum of understanding upon expiry in September 2015 for ITFS and the drawing up of a new memorandum of understanding for SELS were not necessary.

3.12 ***Feasibility study.*** In January 2020, C&ED commissioned a consultant, at a cost of \$8.1 million, to conduct a feasibility study on single e-lock enhancement with a view to:

- (a) taking the ownership of the entire e-lock monitoring platform (see para. 3.10);
- (b) enhancing the security of data carried by the e-lock and its compatibility with the national standard adopted by the Mainland counterpart, and plugging the gap between Hong Kong and Mainland Customs checkpoints at the land boundary control points;
- (c) improving the capability in storing and sharing of inspection details in the e-lock for mutual reference between Hong Kong and Mainland Customs; and
- (d) producing e-lock prototypes for pilot trial.

The feasibility study was completed in December 2021.

3.13 ***Development of new e-lock system.*** After completing the feasibility study in December 2021, C&ED took forward the enhancement of SELS with about \$10 million under the Subhead 661 Minor plant, vehicles and equipment (block vote) by the procurement of a new e-lock system and equipment, including a monitoring platform, e-lock fixed readers and handheld devices. According to C&ED, the procurement of the new e-lock system and equipment could achieve the following purposes:

- (a) taking the ownership of the entire system to secure the data transfer and communication between the endpoints of the e-lock and the monitoring system;



- (b) upgrading communication module and protocol among the e-lock, fixed reader and handheld device; and
- (c) enhancing the data security level and compatibility of the e-lock to meet the required standard of both Hong Kong and Mainland Customs.

According to the implementation plan stated in C&ED's funding bid, the tendering procedures of the new e-lock system and equipment would commence in June 2022 and be completed in September 2023, and the commissioning of the new e-lock system would be in June 2024.

3.14 According to C&ED:

- (a) due to the new initiative of the Guangdong-Hong Kong-Macao Three-Places-One-Lock Scheme, which was proposed during a meeting among Mainland, Hong Kong and Macao Customs in March 2023, further technical study was required and that led to revision of the implementation plan; and
- (b) the tender invitation of the new e-lock system and equipment was issued in November 2023, with tender closing date in December 2023.

3.15 Audit notes the benefits brought by the new e-lock system, in particular enhancing the data security level and compatibility of the e-lock to meet the required standard of both Hong Kong and Mainland Customs. With a view to expediting the commissioning of the new e-lock system, Audit considers that C&ED needs to closely monitor the implementation of developing the new e-lock system.

## Audit recommendations

3.16 **Audit has *recommended* that the Commissioner of Customs and Excise should:**

- (a) **step up efforts in promoting SELS to small and medium cargo handling agents with a view to enhancing the usage of SELS and benefiting the logistics industry with such business needs to a larger extent; and**

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- (b) closely monitor the implementation of developing the new e-lock system with a view to expediting the commissioning of the system.

## Response from the Government

3.17 The Commissioner of Customs and Excise generally agrees with the audit recommendations. She has said that:

- (a) C&ED has been actively reaching out to local traders through trade briefings and webinars. C&ED will step up efforts in promoting SELS to small and medium cargo handling agents with a view to enhancing the usage of SELS; and
- (b) C&ED will closely monitor the implementation of the new e-lock system to ensure the timely commissioning of the new system.

## Free Trade Agreement Transshipment Facilitation Scheme

3.18 As mentioned in paragraphs 1.13 and 1.14, FTA Scheme allows consignments passing through Hong Kong to enjoy preferential tariffs under trade agreements signed between the Mainland and the trading partners. C&ED supervises such consignments and issues Certificates of Non-manipulation, enabling traders to claim preferential tariffs from the authorities at the importing end. According to C&ED, as of December 2023, the scope of service of FTA Scheme was as follows:

- (a) ***Northbound transshipment cargoes.*** FTA Scheme covered transshipment cargoes in Hong Kong heading for the Mainland from 67 economies under 19 trade agreements; and
- (b) ***Southbound transshipment cargoes.*** FTA Scheme covered transshipment cargoes in Hong Kong heading for 3 economies (i.e. Australia, Korea and Taiwan) under 5 trade agreements.

Traders have the responsibility to provide the importing signatory countries/region with the Certificates of Non-manipulation or documents supporting their eligibility (Note 29) to apply for preferential tariffs.

### ***Need to make continued efforts in extending coverage for southbound transshipment cargoes***

3.19 According to C&ED, it had been collaborating with the Mainland and overseas counterparts in a bid to extend the coverage of FTA Scheme. Audit noted that while it had been eight years since the launch of FTA Scheme, as of December 2023, southbound transshipment cargoes in Hong Kong heading for 3 economies were covered, representing only 11% of the 28 potential economies that could be covered by FTA Scheme (Note 30).

3.20 In February and March 2024, C&ED informed Audit that:

- (a) in order to enhance the service scope for southbound transshipment cargoes, C&ED had been consistently making efforts to expand its reach. Since the launch of FTA Scheme, C&ED had been in contact with 17 economies (13 of which were members of Regional Comprehensive Economic Partnership (RCEP — Note 31) with 10 were also ASEAN countries). However, establishing new partnerships in the southbound direction was challenging, as it depended on the needs, desires, and concerns of the importing economies, which were beyond C&ED's control;

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**Note 29:** *According to C&ED, there are circumstances in which traders can apply for preferential tariffs from the importing signatory countries/region without the Certificates of Non-manipulation. For example, a single through bill of lading, issued by international liner transportation operators and their trusted agents, can be provided for the transshipment cargoes heading for the Mainland.*

**Note 30:** *According to C&ED, of the 67 economies, preferential tariff for southbound transshipment cargoes of 39 economies was not provided for in the 19 trade agreements. Therefore, the number of potential economies that could be covered by FTA Scheme for southbound transshipment cargoes was 28.*

**Note 31:** *According to C&ED, RCEP entered into force on 1 January 2022 for 10 original parties. It had progressively entered into force for the remaining five participating countries, with the last one on 2 June 2023.*

## **Transshipment facilitation initiatives**

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- (b) since 2023, C&ED had taken a proactive approach to engage potential southbound partners, as follows:
  - (i) firstly, by analysing trading figures, economies with high transshipment cargo value were identified for assessing potential benefits to traders; and
  - (ii) secondly, key trading partners of Hong Kong, particularly those within RCEP and ASEAN member states, were prioritised for engagement. This aligned with the Chief Executive's recent Policy Address, emphasising business cooperation within RCEP and ASEAN markets;
- (c) as of February 2024, C&ED had initiated another round of discussion with four signatories of RCEP as mentioned above, as well as with another economy, in order to explore possibilities of cooperation;
- (d) to further expand southbound partnerships, C&ED also utilised its liaison office's connections with customs counterparts to obtain contact details for matters relating to FTA Scheme. So far, responses had been received from seven administrations and discussions were underway;
- (e) in parallel, C&ED had consistently dedicated efforts to actively promote FTA Scheme to local and overseas traders, freight companies and trade associations. In the period from 2019 to 2023, C&ED reached out to thousands of companies through 43 briefing sessions from in-house briefings to large-scale trade fairs/forums/seminars, 8 workshops, 11 webinars and 6 outreach visits. During the period, C&ED also marketed FTA Scheme by distributing leaflets to around 18,400 local companies and sending electronic leaflets to 7,550 exhibitors of the China Import and Export Fair. With C&ED's continuous effort, the number of registered users of FTA Scheme increased by 25% from 845 in 2019 to 1,060 in 2023; and
- (f) C&ED would remain committed to making continuous efforts to expand the client base of FTA Scheme as well as its southbound business.

3.21 With the facilitation provided by FTA Scheme, related transshipment cargoes in Hong Kong can enjoy preferential tariffs of concerned importing countries and regions. Therefore, it would be beneficial to the trade if more economies are covered by the Scheme. In this connection, Audit considers that C&ED needs to make continued efforts in extending the coverage of FTA Scheme for southbound transshipment cargoes.

### ***Need to continuously assess risk of transshipment cargoes to minimise the risk of manipulation***

3.22 ***Consignments involving vanning/devanning or repacking in Hong Kong.*** As mentioned in paragraph 1.13, it is stipulated in the trade agreements between the Mainland and different countries and regions that consignments routed through a third place can also be regarded as direct consignments/transport and are qualified to apply for tariff reduction under certain circumstances, in particular if they remain under the control of Customs or designated authorities in the third place. According to C&ED, for consignments involving vanning/devanning or repacking in Hong Kong, Customs supervision is required before issuing the Certificates of Non-manipulation, which serve to certify that the transshipment cargoes have not undergone any further processing during their stay in Hong Kong.

3.23 ***Provision of Customs supervision.*** According to C&ED's work manual, a supervisor (i.e. a Chief Customs Officer/Senior Customs Officer) will lead a staff engaged under the Post-retirement Service Contract Scheme to conduct on-site Customs supervision. They will check if the consignment concerned matches with the application details. If the integrity of the consignment is in order, a Customs seal on the subject container or consignment will be affixed after the consolidation process. In the period from 2019 to 2023, the annual average number of Customs supervision conducted was 571, representing 11% of the average number of Certificates of Non-manipulation issued annually (see para. 1.15).

3.24 ***Customs supervision on the process of vanning/devanning or repacking in Hong Kong.*** In December 2015, FTA Scheme was launched. At the inception of the Scheme, for consignments involving vanning/devanning or repacking in Hong Kong, the entire process, including breaking the seals of importing containers, would be subject to Customs supervision.

## Transshipment facilitation initiatives

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3.25 *Current practice of conducting Customs supervision.* According to C&ED, in 2016, it gathered feedback from 150 corporations regarding FTA Scheme. Among other things, the trade expressed a preference to unload consolidated containerised cargoes themselves upon arrival of transshipment cargoes at the port without Customs supervision so as to meet their operational needs. In order to expedite logistics flow, minimise the delay of cargo delivery, and reduce additional storage costs incurred by the trade (especially for cargoes loaded on the same container that were not covered under FTA Scheme to be released promptly), C&ED had adopted the following practice of conducting Customs supervision since late 2016:

- (a) when filing applications for Certificate of Non-manipulation under FTA Scheme, cargo handling agents would indicate the locations and expected dates/time of vanning/devanning or repacking; and
- (b) upon arrival of transshipment cargoes in Hong Kong, cargo handling agents would be required to send C&ED pictures of the pertinent containers showing the container numbers and their seal numbers, which should be the same as those shown on the related through bills of lading. Upon C&ED's approval, they would be allowed to break the seals of the containers and remove the cargoes loaded on the same container that were not covered under FTA Scheme before the arrival of C&ED staff for conducting Customs supervision.

3.26 In January and February 2024, C&ED informed Audit that:

- (a) after assessing the risk levels and increased service demand, coupled with traders' expectations, C&ED found the suggestion of the trade (see para. 3.25) acceptable, aiming to facilitate trade and maintain Hong Kong's competitiveness as a logistics hub while balancing effective control and trade facilitation;
- (b) while allowing cargo handling agents to unload consolidated containerised cargoes on C&ED's approval prior to Customs' on-site supervision, C&ED would meticulously inspect the packing of goods and the integrity of the packing, and verify the packing against the markings and information stipulated in the shipping documents so as to minimise the risk of transshipment cargoes being manipulated;

- (c) C&ED adopted risk management on cargo selection for examination without exempting cargoes under FTA Scheme. Based on the holistic intelligence-based and risk management enforcement strategies, cargoes under FTA Scheme would be subject to Customs inspections or examinations at ports or control points upon entry or exit from Hong Kong; and
- (d) for FTA Scheme, C&ED would stay vigilant in risk management and adjust the supervision mode when necessary.

3.27 Audit notes C&ED's efforts in striving to strike a right balance between effective control and efficient trade facilitation, having regard to the risk levels and service demand under FTA Scheme. In Audit's view, C&ED needs to continuously assess the risk of transshipment cargoes to minimise the risk of manipulation and adjust the mode of Customs supervision under FTA Scheme where appropriate.

### ***Need to take measures to ensure that costing basis is in line with actual deployment for conducting Customs supervision***

3.28 As mentioned in paragraph 1.14, FTA Scheme adopts user-pays principle for different services provided. In line with the user-pays principle, it is the Government's policy that fees charged by the Government should in general be set at levels adequate to recover the full cost of the public services provided.

3.29 Under FTA Scheme, there are two types of fees, namely:

- (a) ***Processing fee.*** Applicants are required to pay a processing fee for the documentary processing upon their submission of applications; and
- (b) ***Customs supervision fee.*** Applicants are required to pay an additional fee for consignments involving vanning/devanning or repacking in Hong Kong.

## Transshipment facilitation initiatives

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3.30 According to C&ED:

- (a) ***Waiver arrangement.*** In the period from 1 October 2020 to 30 September 2023, with a view to aiding businesses due to the COVID-19 epidemic, C&ED waived the service fees under FTA Scheme; and
- (b) ***Service fee adjustment.*** After conducting a fee review (see para. 3.31) in 2023, C&ED revised the service fees for the first time since the launch of FTA Scheme in December 2015. The revised fees, which have taken effect since 1 September 2023, are as follows:
  - (i) the processing fee increases from \$155 to \$170; and
  - (ii) the Customs supervision fees increase from the range of \$625 to \$1,470 to the range of \$675 to \$1,600.

3.31 According to Financial Circular No. 6/2016, fees should generally be reviewed and, where necessary, revised on an annual basis. The review of full-cost fees should be supported by cost statements duly prepared and vetted. For the fee review conducted by C&ED in 2023, Audit examined the corresponding cost statement (Note 32) prepared by C&ED and submitted to the Financial Services and the Treasury Bureau in June 2023, and noted that it did not accurately reflect the actual situation of conducting Customs supervision. In calculating the staff costs, the deployment of staff was not the same as that stated in C&ED's work manual, as follows:

- (a) while it was stated in the work manual that Customs supervision should be conducted by a staff engaged under the Post-retirement Service Contract Scheme, the staff cost of Customs Officer was used in the costing review; and
- (b) while it was stated in the work manual that the performance of all Customs supervision should be supervised by a Chief Customs Officer/Senior Customs Officer, it was stated in the costing review that 1 in every 10 Customs supervision would be supervised by a Senior Customs Officer.

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**Note 32:** *In the cost statement, the cost of conducting Customs supervision included the staff cost incurred for travelling and conducting on-site Customs supervision.*



3.32 In February and March 2024, C&ED informed Audit that:

- (a) the salary of a Customs Officer was on par with that of the staff engaged under the Post-retirement Service Contract Scheme; and
- (b) having considered the security and safety of staff working alone and limitation in transport arrangements, C&ED had been deploying a Senior Customs Officer to attend the Customs supervision together with the staff engaged under the Post-retirement Service Contract Scheme.

3.33 In Audit's view, the basis of costing for Customs supervision as adopted in the costing review did not reflect the actual deployment and deployment stated in the work manual (see para. 3.31). Audit considers that in future, C&ED needs to take measures to ensure that the costing basis as stated in the costing review is in line with the actual deployment for conducting Customs supervision and the procedures for conducting Customs supervision in the work manual.

### Audit recommendations

3.34 **Audit has *recommended* that the Commissioner of Customs and Excise should:**

- (a) **make continued efforts in extending the coverage of FTA Scheme for southbound transshipment cargoes;**
- (b) **continuously assess the risk of transshipment cargoes to minimise the risk of manipulation and adjust the mode of Customs supervision under FTA Scheme where appropriate; and**
- (c) **take measures to ensure that the costing basis as stated in the costing review is in line with the actual deployment for conducting Customs supervision and the procedures for conducting Customs supervision in the work manual.**

### Response from the Government

3.35 The Commissioner of Customs and Excise generally agrees with the audit recommendations. She has said that:

- (a) C&ED has been collaborating closely with the Mainland and overseas counterparts to ensure that FTA Scheme is meticulously implemented and all consignments undergoing transshipment in Hong Kong are securely stored and handled in accordance with the relevant free trade agreements;
- (b) C&ED will make continued efforts to promote FTA Scheme by organising trade briefings and sending out promotional materials to potential users of FTA Scheme;
- (c) C&ED will make continued efforts in extending the coverage of FTA Scheme for southbound transshipment cargoes by engaging key trading partners of Hong Kong, particularly those within RCEP and ASEAN with higher potential to establish southbound transshipment arrangement; and
- (d) C&ED will continue to rigorously implement FTA Scheme by:
  - (i) minimising the risk of manipulation on transshipment cargoes;
  - (ii) adjusting the mode of Customs supervision where appropriate; and
  - (iii) maintaining consistency between the deployment of staff as set out in the work manual and the costing basis.

## PART 4: TRADE SINGLE WINDOW

4.1 This PART examines the development and implementation of TSW, focusing on:

- (a) Phases 1 and 2 of TSW (paras. 4.5 to 4.12); and
- (b) Phase 3 of TSW (paras. 4.13 to 4.19).

### ***Background***

4.2 In Hong Kong, there are more than 50 types of trade documents (see Note 13 to para. 1.16) required by the government agencies (e.g. C&ED and the Agriculture, Fisheries and Conservation Department) for the trading of goods into, out of and through Hong Kong. Stakeholders have to deal with each and every government agency separately as may be required at different points of time. According to CEDB, the fragmented approach was not conducive to the efficient processing of incoming and outgoing goods.

4.3 In February 2016, the Government announced that it would establish a TSW for one-stop lodging of all the 50-plus trade documents with the Government for trade declaration and customs clearance purposes. From April to July 2016, a three-month public consultation exercise was conducted. According to CEDB, there was overwhelming support for the development of TSW in Hong Kong with anticipation that it would:

- (a) bring about savings in manpower as well as operational cost for the trade (Note 33); and

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**Note 33:** *Upon full implementation of TSW, the trade can lodge import and export trade documents electronically round the clock through a centralised platform, and will no longer need to approach different government agencies individually. Under TSW system, data can be reused more conveniently, thus minimising data input efforts and errors. The trade can also check the status of their applications and the submitted information through the centralised TSW platform anytime.*

- (b) facilitate future connection with single windows of other economies and commercial systems.

4.4 TSW has been implementing in three phases since 2018. As at 29 February 2024, the implementation progress of the three phases was as follow:

- (a) **Phase 1.** With the funding of \$19.9 million provided under the block allocation under Subhead A007GX New administrative computer systems of Head 710 Computerisation for implementing Phase 1 of TSW, Phase 1 was first rolled out in December 2018 and fully implemented in June 2020. It covers 14 types of trade documents, mainly import and export licences/permits for specific controlled goods. Being a pilot phase, Phase 1 provides basic functions for user registration, submission of licence/permit applications, and online payment of the relevant fees by the traders. It also enables online processing of applications by the participating government agencies (PGAs) and verification of issued licences/permits by C&ED frontline officers and carriers etc.;
- (b) **Phase 2.** In July 2020, the Finance Committee of LegCo approved a commitment of \$133.8 million under Head 710 Computerisation for the development of the IT system of Phase 2. In addition to covering another 28 types of trade documents, Phase 2 provides enhancement functions such as more advanced user account administration and management, supporting interface with PGAs' IT systems and iAM Smart (see Appendix C). Phase 2 was rolled out by batches since May 2023 and fully implemented in December 2023; and
- (c) **Phase 3.** In June 2022, the Finance Committee of LegCo approved a commitment of \$1.4 billion under Head 710 Computerisation for the development of the IT system of Phase 3. Phase 3 would cover the submission of TDEC and cargo information, and applications for the Certificate of Origin and the Permit for Dutiable Commodities, adding up to 13 types of trade documents in total. According to CEDB, Phase 3 was targeted to be rolled out by batches from 2026 onwards. The contract for developing the IT system of Phase 3 was awarded. System analysis and design is currently underway.

Table 3 shows the implementation details of each phase as at 29 February 2024.

Table 3

**Implementation details of TSW  
(29 February 2024)**

Particulars	Phase 1	Phase 2	Phase 3
Number of types of trade documents	14	28	13
Actual/planned roll-out period	December 2018 to June 2020	May to December 2023	From 2026 onwards
Budgeted expenditure (\$ million)	19.9	133.8	1,404.6
Actual expenditure (up to 31 December 2023) (\$ million)	16.5	90.4	2.6

*Source: Audit analysis of CEDB records*

## Phases 1 and 2 of Trade Single Window

### *Need to continue to promote the use of TSW*

4.5 According to C&ED, with a view to promoting TSW, OSWO had organised over 1,800 outreach sessions from 2019 to 2023 to potential users in the form of company visits, zoom meetings and teleconferences. During these outreach sessions, the background of TSW and information related to specific licences and permits were introduced. On-site registration service was also provided. In addition, OSWO had produced 5 promotional videos at different stages of TSW implementation to enhance the public awareness of TSW. As at 31 December 2023, there were over 3,700 registered TSW users in about 2,100 companies/organisations (Note 34). From 28 December 2018 (first roll-out of Phase 1) to 31 December 2023, over 66,000 trade documents (including those covered in Phases 1 and 2) were processed through TSW.

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**Note 34:** *Individuals or company/organisation representatives should first register as TSW users before submitting trade documents to the relevant PGAs. Companies/organisations can designate more than one TSW user for administrative purpose.*

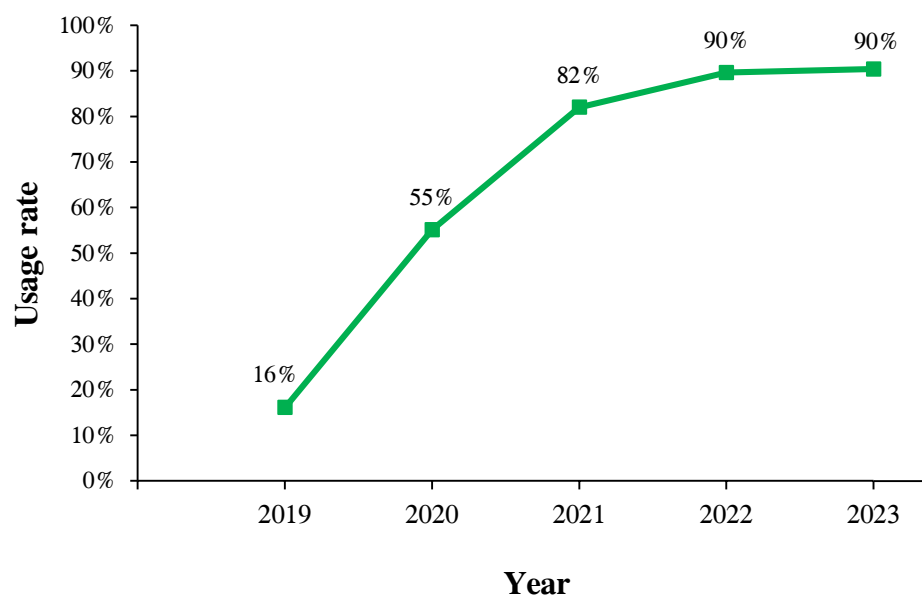
4.6 *Some trade documents with relatively low usage rate.* Audit analysis revealed that the overall usage rate of TSW Phase 1 increased significantly from 16% in 2019 to 90% in 2023 (see Figure 2). Audit further analysed the usage rate of TSW Phase 1 by trade document type in 2023 and found that, while most trade documents under TSW Phase 1 recorded a usage rate of over 90%, 3 types of trade documents (namely the Transshipment Notification for Radiocommunications Transmitting Apparatus and Import and Export Permit for Radiocommunications Transmitting Apparatus issued by the Office of the Communications Authority, and the Licence for Ozone Depleting Substances issued by the Environmental Protection Department) only recorded a usage rate of 7%, 32% and 46% respectively (see Table 4). Upon enquiry, C&ED informed Audit in February 2024 that:

- (a) as the transactions for these 3 types of documents were not frequent, some traders preferred conventional application procedures to TSW; and
- (b) upon OSWO's outreach in 2023, 2 applicants for the Licence for Ozone Depleting Substances had registered as TSW users.

Audit acknowledged OSWO's efforts and considers that C&ED needs to continue to promote the use of TSW for those trade documents with a relatively low usage rate.

Figure 2

**Overall usage rate of TSW Phase 1  
(2019 to 2023)**



Source: Audit analysis of C&ED records

Table 4

**Usage rate of TSW Phase 1 by types of trade documents  
(2023)**

Type of trade documents	PGA	Number of documents processed		Usage rate (c) = (b)/(a) × 100%
		Total (a)	Through TSW (b)	
Import/Export Licence for Pesticides	Agriculture, Fisheries and Conservation Department	5,569	5,230	94 %
Toothfish Import/Export/ Re-export Licence		97	90	93 %

**Table 4 (cont'd)**

Type of trade documents	PGA	Number of documents processed		Usage rate (c) = (b)/(a) × 100%
		Total (a)	Through TSW (b)	
Hong Kong Natural Sand Final User Certificate	Civil Engineering and Development Department	155	155	100 %
Sand Removal Permit		274	274	100 %
Authorisation to Import/Export Controlled Chemicals	C&ED	254	246	97 %
Certificate of Non-manipulation under FTA Scheme		3,977	3,948	99 %
Certification of non-U.S. Frozen Chicken Products Transhipped to the Mainland through Hong Kong		0	0	N/A
Licence for Optical Disc Mastering and Replication Equipment		1	1	100 %
Permit to Remove Controlled Chemicals in Transhipment		15	15	100 %
Transshipment Notification for Optical Disc Mastering and Replication Equipment		0	0	N/A
Licence for Ozone Depleting Substances		Environmental Protection Department	117	54
Licence for Scheduled Chemicals	160		146	91 %
Import and Export Permit for Radiocommunications Transmitting Apparatus	Office of the Communications Authority	490	155	32 %
Transshipment Notification for Radiocommunications Transmitting Apparatus		315	22	7 %
Overall		11,424	10,336	90 %

Source: Audit analysis of C&ED records



***Need to ensure that prominent indication of submission of trade documents through TSW is provided on all PGAs' websites***

4.7 There are 42 types of trade documents involving 8 PGAs in Phases 1 and 2 of TSW. In late January 2024, Audit visited PGAs' websites of the relevant trade documents covered in Phases 1 and 2 and noted that:

- (a) for 32 (76%) types of trade documents, there was prominent indication of submission through TSW (e.g. a link directed to TSW was provided as a voluntary electronic option to users), in addition to the link(s) directed to download application forms (for hardcopy submission) and/or PGAs' own IT systems (for online submission); and
- (b) for the remaining 10 (24%) types of trade documents, the option of submission through TSW was not clearly indicated on PGAs' websites (e.g. only a TSW icon was shown in the banner at the bottom of the website without any description).

With a view to making TSW more widely and easily accessible, Audit considers that C&ED needs to take measures to ensure that prominent indication of submission of trade documents through TSW is provided on all PGAs' websites.

***Room for improvement in enhancing functionalities of TSW***

4.8 To gauge feedback and opinion on TSW, since October 2019, OSWO has interviewed TSW users and non-users during company visits or by virtual interviews and phone calls, and recorded their responses in OSWO's database. Audit identified room for improvement in enhancing functionalities of TSW as mentioned in paragraphs 4.9 and 4.10.

4.9 ***Need to consider including an electronic feedback form in TSW platform.*** Audit noted that OSWO staff conducted interviews with traders, recorded and analysed their responses manually. From 1 October 2019 to 31 December 2023, a total of 2,064 interviews (1,562 TSW users and 502 non-users) were completed. In Audit's view, with full implementation of Phase 2 in December 2023 and Phase 3 in coming years, there will be significant increase in the number of TSW users and it may require much time and effort to manually conduct interviews one by one. In order to collect feedback from more users and facilitate C&ED to perform analysis in

an efficient manner, Audit is of the view that there is merit for C&ED to consider including an electronic feedback form in TSW platform.

4.10 *Need to keep in view the need of providing more electronic payment methods.* Of the 2,064 interviewees, 154 (7%) provided comments on their experience in using TSW, including limited payment methods, insufficient data field length and lack of electronic user manual. Upon enquiry, C&ED informed Audit in January and February 2024 that:

- (a) it had made enhancements in TSW to address the problem of data field length and added the electronic user manuals on TSW website; and
- (b) TSW allowed online credit card payment method for all trade documents and another electronic payment method for two trade documents of C&ED (Note 35). In July 2020, OSWO consulted PGAs and received no objection to adopt the Faster Payment System (FPS) service as an additional payment method in TSW. Accordingly, FPS would be introduced into TSW as an option for payment in the third quarter of 2024.

In Audit's view, C&ED needs to closely monitor the introduction of FPS service into TSW, and keep in view the need of providing more electronic payment methods in TSW to address the problem of limited payment methods, if practicable, taking into account the views of PGAs as appropriate.

## Audit recommendations

4.11 **Audit has recommended that the Commissioner of Customs and Excise should:**

- (a) **continue to promote the use of TSW for those trade documents with a relatively low usage rate;**

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**Note 35:** *According to C&ED, it had encouraged PGAs to adopt the electronic payment method for the trade documents under their purview. However, PGAs opted not to adopt this method due to their own operational concerns.*

- (b) **take measures to ensure that prominent indication of submission of trade documents through TSW is provided on all PGAs' websites;**
- (c) **consider including an electronic feedback form in TSW platform;**
- (d) **closely monitor the introduction of FPS service into TSW; and**
- (e) **keep in view the need of providing more electronic payment methods in TSW to address the problem of limited payment methods, if practicable, taking into account the views of PGAs as appropriate.**

### **Response from the Government**

4.12 The Commissioner of Customs and Excise generally agrees with the audit recommendations. She has said that C&ED will:

- (a) make continued efforts to promote the use of TSW by the trade, particularly for those trade documents with a relatively low usage rate;
- (b) follow up with PGAs to ensure that information on TSW would feature more prominently on PGAs' websites;
- (c) consider including an electronic feedback form on TSW website to facilitate the collection of views from users;
- (d) closely monitor the introduction of FPS service into TSW, with target completion in the third quarter of 2024; and
- (e) work closely with PGAs to review the need of providing more electronic payment methods in TSW as and when appropriate, taking into consideration users' needs and cost-effectiveness.

### Phase 3 of Trade Single Window

#### *Need to endeavour to ensure the timely completion of Phase 3 of TSW*

4.13 According to CEDB, Phase 3 is the final and most complex phase of TSW which:

- (a) involves a huge volume of document submissions from a wide range of stakeholders, covering TDEC, cargo information (including advance cargo information, cargo manifest and cargo report in respect of different transport modes), applications for the Certificate of Origin and the Permit for Dutiable Commodities; and
- (b) would replace the Government Electronic Trading Services (see Note 14 to para. 1.18), several existing cargo clearance systems of C&ED, including ACCS, ROCARS and the Sea Cargo Support System, as well as relevant back-end processing systems.

4.14 Audit considers that timely implementation of Phase 3 of TSW is important in view of the following:

- (a) ***International development of TSW.*** The establishment of TSW for trade facilitation is championed by the United Nations, WCO, the World Trade Organization and the Asia-Pacific Economic Cooperation. The World Trade Organization's Agreement on Trade Facilitation stated that, "members shall endeavour to establish or maintain a single window enabling traders to submit documentation and/or data requirements for importation, exportation, or transit of goods through a single entry point to the participating authorities or agencies". While Hong Kong rolled out the Government Electronic Trading Services in 1997 for the trading community to submit key trade documents to the Government electronically through a single entry point, according to a research conducted by CEDB, some economies have implemented single window in recent decades (e.g. Singapore in 1989, Thailand and Japan in 2008 and Korea in 2009); and
- (b) ***Insufficient capacity of some existing systems.*** According to the business process review studies on cargo information submission and processing in

different transportation modes (comprising air, road, rail and ferry, and sea modes) conducted by CEDB in 2020 and 2021:

- (i) ACCS was considered as an obsolete system which could no longer meet the prevailing business needs of the trade to cope with the increasing cargo volume in terms of its functionalities and handling capabilities in processing cargo information. In terms of data volume, its current system capacity was mainly used for processing import cargo information. ACCS did not have sufficient capacity for processing both import and export cargo information; and
- (ii) the system capacity of ROCARS was unable to cater for the trade's submission of all cargo information with house-level details for each and every consignment items. According to statistics of ROCARS collected from April to September 2019, despite that 87% of consignments were submitted by companies which had established system-to-system interface, some big logistics companies could not establish the interface and had concern on the limited capacity of ROCARS in handling "bundling" (Note 36) and the submission of daily consignments information.

4.15 As mentioned in paragraph 4.4(c), Phase 3 of TSW was targeted to be rolled out by batches from 2026 onwards according to the latest implementation schedule. Some LegCo Members considered the implementation progress of TSW slow and that Hong Kong had lagged behind other economies. Upon enquiry, CEDB informed Audit in January and February 2024 that:

- (a) over the years of implementation of TSW, more concrete roll-out schedules of each phase had been formulated taking into account the need to fine-tune policy proposals to suitably reflect and address views of various stakeholders (e.g. the trade's concerns on the proposal of requiring mandatory submission of pre-shipment TDEC and proposed unified cargo

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**Note 36:** *Under the Import and Export (Electronic Cargo Information) Regulation (Cap. 60L), a vehicle must not carry any cargo into or out of Hong Kong unless the person in charge of the vehicle has lodged the customs cargo reference number of the cargo and the registration mark of the prescribed vehicle to ROCARS. "Bundling" refers to ROCARS' operation in bundling of the customs cargo reference number of the cargo and the registration mark of the vehicle carrying the cargo.*

report in earlier years of the development of TSW), lead time required to secure funding from LegCo for the development of IT systems of TSW, readiness of preparatory works, etc.;

- (b) it had adopted a phased approach to implement TSW and was working on a compressed timetable to roll out Phase 3 services as early as possible. The contract for developing the IT system of Phase 3 was awarded. System analysis and design is currently underway; and
- (c) in view of the importance to ensure that the system could be rolled out and operated smoothly, it was obliged to implement adequate measures to ensure the quality of the system and minimise the risk of hiccups upon roll-out, and critically review the implication on the implementation timetable from time to time.

4.16 Audit notes that the development of Phase 3 of TSW is a challenging task taking into account the significant volume of trade submission involved under the purview of different PGAs and the replacement of the Government Electronic Trading Services and several existing cargo clearance systems of C&ED (see para. 4.13). In this connection, CEDB and C&ED have been making strenuous efforts in taking forward the final phase of TSW under a compressed timeframe. In Audit's view, CEDB needs to make sustained efforts to ensure that Phase 3 of TSW will be rolled out from 2026 onwards, taking into account the experience gained in implementing Phases 1 and 2 of TSW.

### ***Need to keep in view the future connection/interface with other economies' single windows and commercial systems***

4.17 As mentioned in paragraph 4.3(b), TSW is expected to facilitate future connection with single windows of other economies and commercial systems. Audit noted that there was discussion between Mainland Customs and Singapore Customs to cooperate under the context of TSW. Upon enquiry, CEDB informed Audit in January and February 2024 that:

- (a) a TSW Expert Group had been set up since 2010 with the Mainland authorities to exchange views and share experience of single window development, and explore possible collaboration to facilitate efficient cross-boundary cargo movement; and

- (b) Phase 3 of TSW, upon implementation, would have the technical capability to connect with single windows of other economies or commercial systems should the needs arise.

Audit considers that CEDB needs to keep in view the technological development and plan for future connection/interface with other economies' single windows and commercial systems.

### Audit recommendations

4.18 **Audit has *recommended* that the Secretary for Commerce and Economic Development should:**

- (a) **make sustained efforts to ensure that Phase 3 of TSW will be rolled out from 2026 onwards, taking into account the experience gained in implementing Phases 1 and 2 of TSW; and**
- (b) **keep in view the technological development and plan for future connection/interface with other economies' single windows and commercial systems.**

### Response from the Government

4.19 The Secretary for Commerce and Economic Development generally agrees with the audit recommendations. He has said that CEDB will continue to:

- (a) press ahead with the implementation of Phase 3 of TSW, taking into account the experience gained in the implementation of Phases 1 and 2. System analysis and design is currently underway, and CEDB will continue to coordinate with C&ED and other PGAs in its concerted efforts to roll out the Phase 3 services by batches from 2026 onwards; and
- (b) exchange views on and share experience of single window development with the Mainland authorities and keep in view the development of single windows of other economies. Upon full implementation of Phase 3, TSW will have the technical capability to connect with the single windows of other economies or commercial systems should the needs arise.

## PART 5 WAY FORWARD

5.1 This PART explores the way forward for enhancing trade facilitation initiatives.

### Trade facilitation initiatives

5.2 As shown in Table 5, the total external merchandise trade of Hong Kong decreased by 6.7% from \$9,459.1 billion in 2022 to \$8,822.4 billion in 2023.

**Table 5**

**Total external merchandise trade of Hong Kong  
(2019 to 2023)**

Year	Total external merchandise trade (\$ billion)
2019	8,404.1
2020	8,197.3
2021	10,268.4
2022	9,459.1
2023	8,822.4

*Source: Website of the Census and Statistics Department*

Tackling the challenges encountered in the slowdown of the global economy due to the COVID-19 epidemic and the escalating geopolitical tensions, the Government has been taking forward various measures to enhance the competitiveness of Hong Kong (Note 37).

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**Note 37:** *For example, in October 2023, the Government promulgated the Action Plan on Modern Logistics Development.*



***Need to continue efforts in formulating trade facilitation initiatives***

5.3 As mentioned in paragraph 5.2, the total external merchandise trade was decreasing in recent years. Audit noted that, comparing 2023 with 2022, the volume of Hong Kong's total exports of goods and imports of goods decreased by 11.6% and 9.2% respectively. Furthermore, the volume of total exports of goods and imports of goods with main destinations (e.g. the Mainland and the United States) and main suppliers (e.g. the Mainland) decreased respectively over the same period of comparison.

5.4 In February 2024, CEDB informed Audit that:

- (a) CEDB had implemented various strategies and policies aiming at promoting trade and investment, and supporting businesses; and
- (b) despite the challenges posed by the global economic downturn, CEDB would continue to strive to support Hong Kong's trade sector through formulating and implementing suitable policies and measures.

5.5 According to the 2024-25 Budget Speech, the challenging external environment continued to affect Hong Kong's export performance and the heightened geopolitical tensions severely undermined economic confidence around the world. Audit notes that CEDB and C&ED have made strenuous efforts in upholding Hong Kong's status as an international trading centre amid the complicated external environment, which may cause disruption to global supply chains. With a view to further supporting the trading industry and thereby strengthening Hong Kong's competitive advantage as a major international trade centre and regional logistics hub, CEDB should continue its efforts in formulating trade facilitation initiatives in response to the challenging external environment.

***Need to make continuous improvement to the four trade facilitation initiatives***

5.6 The total external merchandise trade of Hong Kong increased from \$2,776.7 billion in 1998 to \$8,404.1 billion in 2019 before the outbreak of the COVID-19 epidemic in 2020. Riding on the economic prosperity during the period, CEDB and C&ED have made untiring efforts in promoting trade on all fronts and in

## Way forward

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ensuring an efficient customs administration. As mentioned in the 2024-25 Budget Speech, economic development has its cycles of ups and downs. From 2021 to 2023, there was a decrease in Hong Kong's external merchandise trade (see para. 5.2), which in C&ED's view could be caused by more macro and diverse factors and might have no direct correlation with the effectiveness of C&ED's trade facilitation measures.

5.7 Of the four trade facilitation initiatives, namely Hong Kong AEO Programme, SELS, FTA Scheme and TSW mentioned in paragraph 1.4, Audit has identified areas for improvement as reported in PARTs 2 to 4 of this Audit Report. In order to seize opportunities when the global economic situation improves, Audit considers that C&ED should make continuous improvement to the four trade facilitation initiatives, taking into account the findings of this Audit Report.

## Audit recommendations

5.8 **Audit has *recommended* that the Secretary for Commerce and Economic Development should continue the efforts in formulating trade facilitation initiatives in response to the challenging external environment.**

5.9 **Audit has *recommended* that the Commissioner of Customs and Excise should make continuous improvement to the four trade facilitation initiatives, taking into account the findings of this Audit Report.**

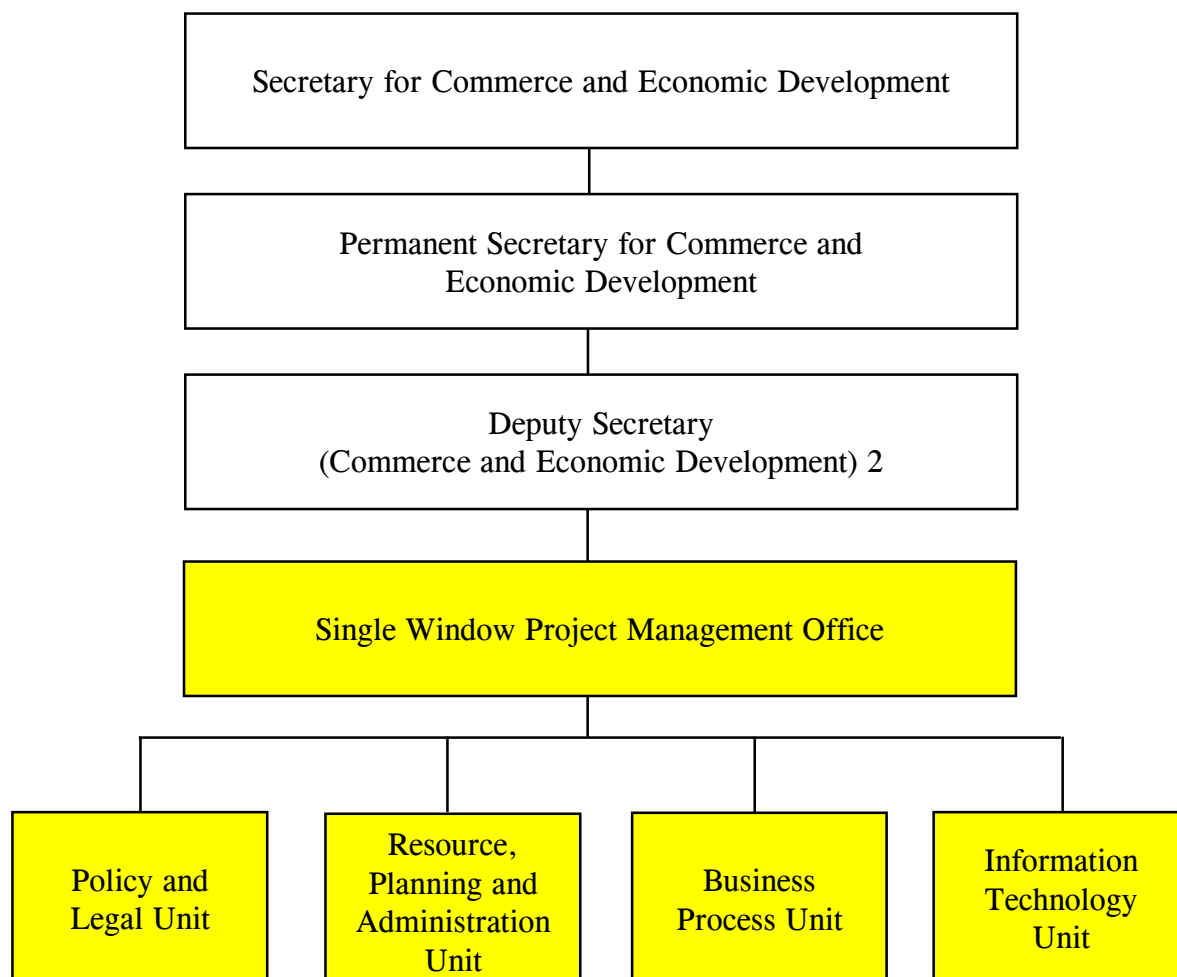
## Response from the Government

5.10 The Secretary for Commerce and Economic Development generally agrees with the audit recommendation. He has said that CEDB will continue to support Hong Kong's trade sector through formulating and implementing suitable trade facilitation policies and measures as mentioned in paragraph 1.22.

5.11 The Commissioner of Customs and Excise generally agrees with the audit recommendation. She has said that C&ED will:

- (a) continue its effort to implement the trade facilitation initiatives to enhance customs clearance efficiency and expedite cargo flow; and
- (b) follow up the audit recommendations for further improving the four trade facilitation initiatives.

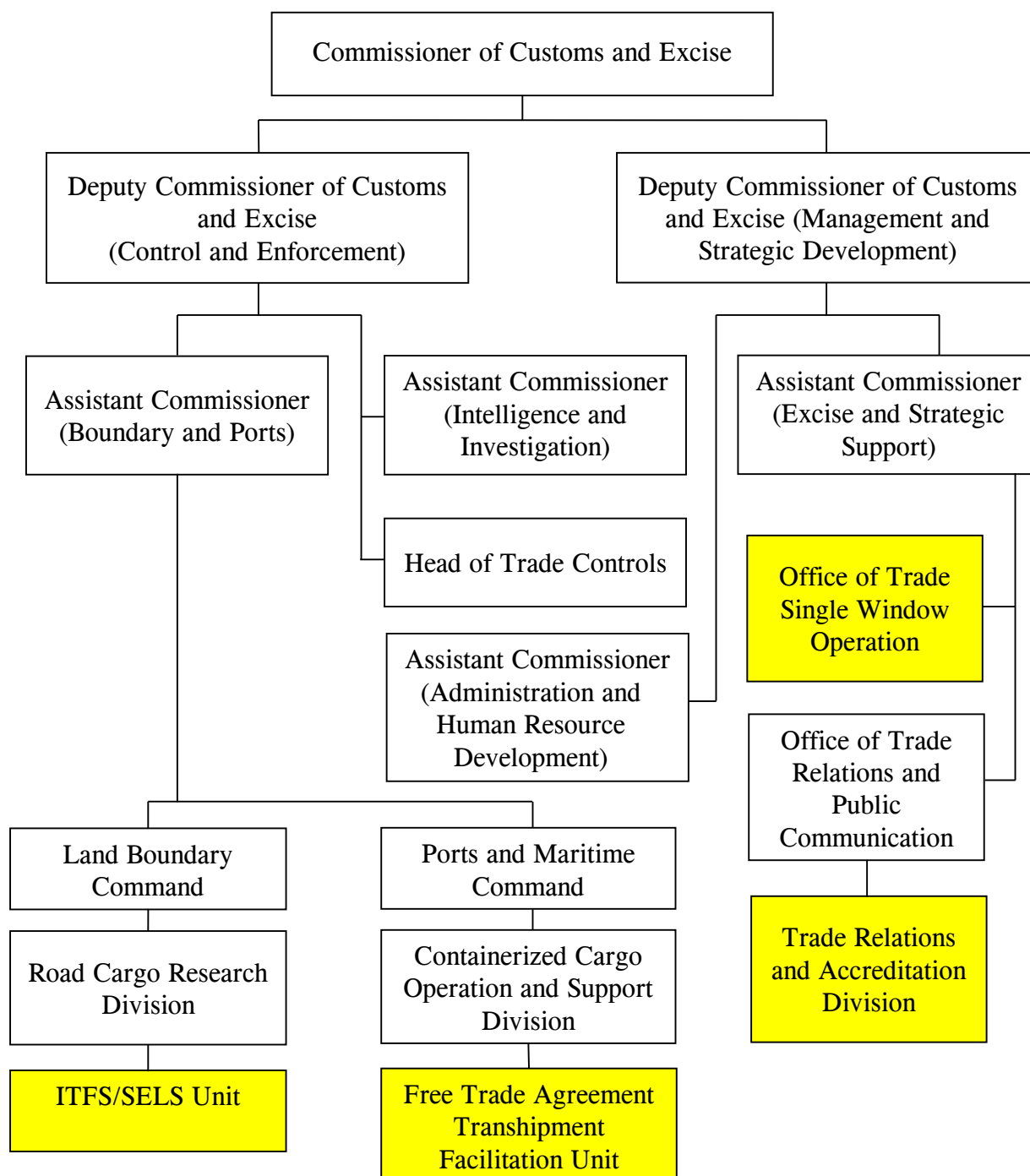
**Commerce and Economic Development Bureau:  
Organisation chart (extract)  
(31 December 2023)**



Legend:  The Office covered in this Audit Report

Source: CEDB records

**Customs and Excise Department:  
Organisation chart (extract)  
(31 December 2023)**



Legend:  Office/Division/Units covered in this Audit Report

Source: C&ED records

### **List of enhancement functions provided in Phase 2 of Trade Single Window**

1. ***User account administration.*** More advanced management functions are in place to allow company users to manage the accounts of their staff, e.g. to view applications of their staff, transfer applications to other staff, etc.;
2. ***Support interface with iAM Smart.*** TSW users who are individuals holding iAM Smart may log into TSW services with iAM Smart and perform digital signature where necessary;
3. ***Support interfaces with PGAs' IT systems.*** Some PGAs have existing systems to handle submissions of trade documents and/or other regulatory matters. Phase 2 of TSW interfaces with these systems to provide smooth and seamless services to users, e.g. to provide single sign-on services to TSW and PGAs' systems, and efficient flow of information among systems;
4. ***System capacity.*** Phase 2 of TSW enhances the capacity of IT system to cater for the increase in transaction volume as well as the processing workload for system interface and integration with PGAs' systems;
5. ***Service availability.*** Phase 2 of TSW adopts the Government Cloud Infrastructure Services which supports higher system availability, to make TSW service more accessible to users;
6. ***Usage status of trade documents.*** Where a trade document covers multiple consignments (which may be shipped separately), Phase 2 of TSW facilitates both TSW users and PGAs in keeping track of whether the trade document has been used for all the consignments covered; and
7. ***Mass submissions.*** Phase 2 of TSW provides functions for traders to conveniently upload a large number of submissions of trade documents to save time and better meet the business needs.

Source: CEDB records

**Acronyms and abbreviations**

ACCS	Air Cargo Clearance System
AEO	Authorized Economic Operator
Audit	Audit Commission
C&ED	Customs and Excise Department
CEDB	Commerce and Economic Development Bureau
FTA Scheme	Free Trade Agreement Transhipment Facilitation Scheme
FPS	Faster Payment System
GPS	Global positioning system
IT	Information technology
ITFS	Intermodal Transhipment Facilitation Scheme
LegCo	Legislative Council
MRA	Mutual Recognition Arrangement
OSWO	Office of Trade Single Window Operation
RCEP	Regional Comprehensive Economic Partnership
PGAs	Participating government agencies
ROCARS	Road Cargo System
SELS	Single E-lock Scheme
TDEC	Import and Export Declaration
TSW	Trade Single Window
WCO	World Customs Organization