

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)).

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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.

