

# TradeWatch

A background image of a warehouse interior. A worker wearing a bright yellow high-visibility jacket and dark pants is standing in an aisle, looking at a tablet. The aisle is lined with tall metal shelving units filled with cardboard boxes. The lighting is warm and industrial.

## EY Global Trade – Asia Pacific Insights

Issue 3 2022



# China: Customs updates for September 2022

## Commodity classifications for 2022

On 17 August 2022, the General Administration of Customs (GAC) issued the decision on commodity classifications for 2022 through GAC Public Notice [2022] No. 78 (PN 78).<sup>1</sup> The aim is to facilitate consignees and consignors of imported and exported goods and their agents to correctly declare the classification of commodities and to ensure the unification of commodity classification for customs (see Annex 1 to PN 78). At the same time, the GAC also issued the decision on commodity classification for 2022 according to the World Customs Organization's opinion (see Annex 2 to PN 78) in line with the actual situation of China's import and export commodities and international trade.

PN 78 came into effect on 1 September 2022. Import and export enterprises and related agencies are encouraged to make reference to PN 78 for greater detail of the commodity classification for 2022. If in doubt about the appropriate classification to use for goods, businesses should consult with professional advisors, as appropriate.

## Measures for the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone

On 7 September 2022, the GAC issued the "Measures of the GAC for Supporting the Comprehensive Deepening of the Reform and Opening-up in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone" via Circular [2022] No. 137 (Circular 137).<sup>2</sup>

The measures support the construction of an experimental platform of the Guangdong-Hong Kong-Macao Greater Bay Area for comprehensively deepening the reform of and innovation in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (the Qianhai Cooperation Zone).

Key measures introduced in Circular 137 include:

### ► Support for Qianhai to build a big data service platform for cross-border trade

This involves building a pilot big data platform for cross-border trade in Qianhai and promoting the interconnection of cross-border data, mutual recognition of documents, and mutual assistance of supervision between Shenzhen and Hong Kong.

<sup>1</sup> The full text of PN 78 is available [here](#).

<sup>2</sup> The full text of Circular 137 is available [here](#).





► **Implement “soft interconnection” cooperation in rules and systems between Shenzhen and Hong Kong**

This involves promoting the linkage of regulatory rules and testing standards between Shenzhen and Hong Kong and piloting a “one-time testing, one-time certification and integrated pass.”

► **Expand health and quarantine cooperation between Shenzhen and Hong Kong**

This measure involves promoting the inclusion of customs health declaration information into the transcoding scope of health codes of Guangdong and Hong Kong, and implementing information sharing, mutual recognition of results and joint epidemic prevention.

► **Serve Hong Kong and Macao enterprises settling in Qianhai**

Hong Kong and Macao enterprises that carry out production and business activities with registration in Shenzhen as market entities can directly handle record filing under the capacity of customs declaration entities in the Shenzhen Qianhai Shekou area of China (Guangdong) Pilot Free Trade Zone (PFTZ).

► **Enhance the comprehensive hub function of Qianhai**

This measure involves supporting the establishment of ports in Qianhai according to regulations; supporting the construction of an international trade comprehensive port; and implementing land, marine and air multimodal transportations.

► **Build an upgraded comprehensive bonded zone with characteristics of Shenzhen-Hong Kong modern service industry**

This measure involves exploring and piloting rules for interconnection and system innovation between Shenzhen and Hong Kong and exploring the establishment of service facilities such as catering, retail of consumer goods and charging piles in designated areas that support production and business activities in the zone and do not involve goods that are duty-free, bonded or subject to tax refund.

► **Improve quality and efficiency of tax-free consumption**

This involves facilitating the circulation between duty-free goods supervision warehouses outside the zone and bonded goods supervision warehouses inside the zone and improving the efficiency of circulation and sales.

► **Support the collaborative development of the Shenzhen Qianhai Shekou Area of China (Guangdong) PFTZ and Qianhai Cooperation Zone**

Under the requirements for the replication and promotion of innovation systems and the scope of implementation, this involves supporting the promotion and implementation of the innovation system of the Shenzhen Qianhai Shekou Area of China (Guangdong) PFTZ in the Qianhai Cooperation Zone.

### **GAC measures for promoting comprehensive cooperation among Guangdong, Hong Kong and Macau by opening up Guangzhou Nansha**

To further implement the Overall Plan for Promoting Comprehensive Cooperation Among Guangdong, Hong Kong and Macau by Further Deepening the Open-up of Guangzhou Nansha (Plan),<sup>3</sup> which was issued by the State Council on 20 September 2022, the GAC introduced certain measures for promoting comprehensive cooperation among Guangdong, Hong Kong and Macau by further increasing the opening up of Guangzhou Nansha. These measures were contained in Circular [2022] No. 143 (Circular 143).<sup>4</sup>

<sup>3</sup> The full content of the Plan is available [here](#).

<sup>4</sup> The full content of Circular 143 is available [here](#).

### Key features of Circular 143 include:

#### Facilitating mobility

##### ► Support circulation

This involves piloting the “positive list for cross-border scientific research materials” and approved list “for the import of biomedical research and development materials.”

##### ► Facilitate personnel mobility

This involves facilitating customs clearance for scientific researchers who enjoy the treatment of national high-level returnee talents, scientists and technology experts, and supporting the information-sharing of customs health declaration, “Yuekang Code” of Guangdong and “Gangkang Code” of Hong Kong, and mutual recognition of results.

##### ► Support the integrated development of international distribution centers

This involves supporting the integration of logistics of various trade modes and assisting the Nansha Comprehensive Bonded Zone (CBZ) in building commodity supply chain management platforms.

#### Promoting the development of major strategic platforms

##### ► Support the development of cross-border e-commerce

This involves enhancing the import and export goods return procedures used for cross-border e-commerce and supporting eligible enterprises in Nansha to establish retail import returns centers for cross-border e-commerce.

##### ► Support “Bonded+” business

This involves supporting the development of aircraft bonded leasing, bonded delivery of commodity futures, high-tech and high value-added global maintenance, etc.

##### ► Assist the development of automobile industry chain

This involves supporting the development of parallel imported vehicles, new energy vehicles and intelligent vehicles in the Nansha CBZ.

#### Building a global comprehensive service base

##### ► Support the development of trade in services

This involves encouraging large enterprise groups to establish regional headquarters or functional headquarters in Nansha and supporting Nansha to establish comprehensive offshore trade service platforms.

##### ► Regional Comprehensive Economic Partnership (RCEP) Agreement

This involves the high-quality implementation of RCEP and relevant customs provisions in Nansha and helping enterprises in the area to fully enjoy RCEP benefits.

##### ► Support the construction of a comprehensive service system

This involves piloting the reform of optimizing the export supervision process at Nansha Ports and strengthening the construction of precise service capacity of technical trade measures.

#### Strengthening the linkage of rules among Guangdong, Hong Kong and Macau

##### ► Improve the business environment at ports

This measure relates to promoting the normalization of special action measures for facilitating cross-border trade, including coordinating the implementation of tax refund policies of port of departure and further expanding the scope of the policies.

##### ► Deepen the reform of smart customs

This involves strengthening international customs cooperation and implementing online handling and simplified procedures of customs administrative licensing matters.

##### ► Intellectual property rights protection

This measure relates to enhanced cooperation among Guangdong, Hong Kong and Macau in the enforcement of intellectual property rights protection. It involves fully boosting the function of the intellectual property dispute mediation centers that are jointly established by the customs and local courts. ■

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# Japan: Updates on sanction measures

In light of war in Ukraine, amendments to the Foreign Exchange and Foreign Trade Act and Temporary Tariff Measures Act are being approved successively in Japan. This article summarizes the measures that have been or will be implemented by the Japanese government.

## **Regulations on payments and specified capital transactions**

Pursuant to the Notification by the Ministry of Foreign Affairs (MOFA), the payments to and capital transactions (e.g., deposit contract, trust agreement and loan agreement) with individuals from the self-proclaimed Donetsk People's Republic and the Luhansk People's Republic, as well as certain individuals from specified banks of the Russian Federation (Russia), have become subject to an approval system. In addition, the following measures have been implemented to prohibit the Russian government from publishing and distributing new securities in Japan:

- ▶ Regulations on publication or registration of securities
- ▶ Regulations on acquisition or negotiation of securities
- ▶ Regulations on service transactions



### Import prohibitions

#### Measures regarding the duty rates imposed on imports from Russia<sup>1</sup>

As of 21 April 2022, pursuant to the amendment to the Temporary Tariff Measures Act,<sup>2</sup> imports from Russia are no longer applicable to most-favored-nations (MFN) tariff rates<sup>3</sup> and will instead be subject to the general rate or the temporary rate where applicable. This measure affects tariff rates of seafood and lumber imported from Russia in particular, with the tariff rate applicable to snow crab increasing from 4% to 6%, sockeye salmon from 3.5% to 5%, and pine (lumber) from 4.8% to 8%. On the other hand, tariff rates applicable to liquefied natural gas, nonferrous metals and coal are not affected, as their general rates are already at 0%.

#### Prohibition of imports of certain goods from Russia<sup>4</sup>

As of 19 April 2022, the importation of goods specified on the Notification by the Ministry of Economy, Trade, and Industry (METI) are subject to the approval by the Minister where the goods' country of origin or shipment is Russia.

Examples of prohibited items include alcoholic beverages, wood (chips, logs and veneer), machinery and electrical machinery. In addition, goods of precious metal specified on the Notification by MOFA have also become subject to the import prohibition measure as of 1 August 2022.<sup>5</sup>

### Export prohibitions

The first sanction measures, such as the prohibition of exports of certain items to Russia, came into effect on 18 March 2022, with the Cabinet approving the partial amendment to the Export Trade Control Order in response to their earlier announcements.<sup>6</sup> The prohibitions have then quickly extended to cover luxury goods exported to Russia<sup>7</sup> in response to the Cabinet's decisions<sup>8</sup> and to banknotes<sup>9</sup> on 5 April 2022.

Most recently, the Cabinet has approved the export prohibitions on goods related to chemical or biological weapons to Russia on 26 September 2022, which came into effect from 7 October 2022.

Details of the restrictions are summarized below:

#### Introduction of more rigorous screening procedures

- ▶ For goods exported to Russia and Belarus, Japan amended the requirements for comprehensive permits and document submission. Special general comprehensive permits, specific comprehensive permits and specified subsidiary comprehensive permits are no longer applicable to goods destined for Russia and Belarus, and individual permits and examinations of each export are required instead (however, exports are not permitted in general).
- ▶ Document submission requirements for permit applications are amended.
- ▶ Permit applications are to be submitted to the Ministry (head office) in principle.
- ▶ This implies that, with the exception of some goods (e.g., food, pharmaceutical products, goods exported for the purpose of humanitarian aid), exports to Russia and Belarus are now prohibited in general.

1 Withdrawal of MFN tax rates on imports from Russia. [Find it here.](#)

2 The amendment was approved by the plenary session of the House of Councillors on 20 April 2022 and was subsequently enforced on 21 April 2022.

3 This refers to tariff rates applicable to World Trade Organization members, as stipulated in Section 1 of the General Agreement on Tariffs and Trade Article I.

4 Prohibition of imports of certain goods from Russia. [Find it here.](#)

5 Following the Cabinet's approval on the measure to freeze the assets, funds and economic resources of the Russian Federation on 5 July 2022, the Ministry of Finance (MOF) has issued a Notification on import prohibition pertaining to goods of precious metals pursuant to the Foreign Exchange and Foreign Trade Act, which came into force on 1 August 2022.

6 On 26 February 2022 and 1, 3 and 8 March 2022, the Cabinet announced a tightening of the screening procedures and prohibited exports to Russia and Belarus of items subject to the international export control regime and of general-purpose items and services that may contribute to strengthening military capabilities.

7 Export prohibition of luxury goods to Russia. [Find it here.](#)

8 The export prohibition of luxury goods was introduced to reflect the Cabinet's decisions made on 25 and 29 March 2022.

9 The export prohibition of banknotes was introduced pursuant to the amendment to the Notification by MOF based on Article 8, Paragraph 1 of the Foreign Exchange Order.



## Prohibition of export to Russia and Belarus<sup>10</sup>

Item category	Export prohibitions to Russia and Belarus		Export prohibitions to Russia				
	Item subject to international export control regime <sup>11</sup>	General purpose goods that may contribute to strengthening military capabilities	Chemical weapon and other	Advanced goods and technology	Goods that contribute to strengthening industrial infrastructure <sup>12</sup>	Devices for oil refining, catalyst for oil refining	Luxury goods <sup>13</sup>
List of items	<ul style="list-style-type: none"> <li>Machine tools</li> <li>Carbon fiber</li> <li>High-performance semiconductors</li> <li>Other technologies related to above goods</li> </ul>	<ul style="list-style-type: none"> <li>Semiconductors</li> <li>Computers</li> <li>General purpose products, such as telecommunications equipment</li> <li>Other technologies related to above goods</li> </ul>	<ul style="list-style-type: none"> <li>Raw materials for chemical formulations as well as substances and raw materials that contain toxicity equivalent to chemical formulation for arms (73 items)</li> <li>Devices used to manufacture chemical formulations and their parts and accessories (11 items)</li> <li>Devices used to manufacture bacterial formulations and their parts (five items)</li> </ul>	<ul style="list-style-type: none"> <li>Quantum computers</li> <li>3D printers</li> <li>Other technologies related to above goods</li> </ul>	<ul style="list-style-type: none"> <li>Wood and parts of wooden items</li> <li>Steel storage tanks and other similar tanks</li> <li>Hand tools or interchangeable tools for processing machinery</li> <li>Knives and blades for machinery and/or fixtures</li> <li>Machinery and their parts and accessories (e.g., bulldozer, valve)</li> <li>Electric appliances and their parts (e.g., alternator generator, transformer)</li> <li>Railway locomotives, maintenance vehicles for railways, machinery for transport and parts (e.g., motor truck [gross vehicle weight within over 5 tons 20 tons or below], dump trucks)</li> <li>Measuring and checking instruments and their parts, etc.</li> </ul>		<p><b>Prohibition under the Export Trade Control Order</b></p> <ul style="list-style-type: none"> <li>Alcoholic beverages and tobacco products</li> <li>Perfumes and cosmetics</li> <li>Leather goods, fur clothing, footwear (exceeding JPY100,000) and hats (exceeding JPY100,000)</li> <li>Carpets</li> <li>Jewelry, ceramics and glassware</li> <li>Diving apparatus</li> <li>Passenger cars (exceeding JPY6 million) and motorcycles (exceeding JPY600,000)</li> <li>Laptop computers</li> <li>Watches (using precious metals)</li> <li>Grand pianos (exceeding JPY200,000)</li> <li>Works of art and artifacts</li> </ul> <p><b>Prohibition under Notification issued by MOF</b></p> <ul style="list-style-type: none"> <li>Banknotes</li> <li>Gold coins</li> <li>Gold bullion</li> </ul>

<sup>10</sup> Amendment of the Export Trade Control Order pursuant to the Foreign Exchange and Foreign Trade Act. [Find it here.](#)

<sup>11</sup> Arms and military-usable goods falling under items 1-15 of Appended Table 1 of the Export Trade Control Order.

<sup>12</sup> Amendment of the Export Trade Control Order pursuant to the Foreign Exchange and Foreign Trade Act (Prohibition on goods that contribute to strengthening industrial infrastructure). [Find it here.](#)

<sup>13</sup> Subject luxury goods can be judged by HS code and amount of the goods. [Find it here.](#)



### **Prohibition on exports to and imports from specific regions and organizations**

- ▶ Prohibition on exports to and imports from the self-proclaimed Donetsk People's Republic and the Luhansk People's Republic was implemented in accordance with a plenary session of the House of Councillors on 26 February 2022.
- ▶ In addition, both direct and indirect transactions pertaining to exports to Russia and Belarus with individuals or organizations specified in the Notification issued by METI are also subject to this prohibition measure.
- ▶ Specified organizations include the Russian Ministry of Defense and Russian aircraft manufacturers (in total, prohibition applies to 287 organizations in Russia and 27 organizations in Belarus).

### **Prohibition on providing services to Russia**

In addition to the prohibition on providing services pertaining to goods subject to export prohibition, provision of services for entrustment, finance auditing and management consulting in Russia have become subject to the permission system as of 5 July 2022, pursuant to the Notification issued by MOF.

### **Summary**

The war in Ukraine and the measures the international community has taken in response have continuously changed. It is possible that Japan will further tighten regulations and that other countries will as well. To minimize the potential negative impact caused by such changes, it would be prudent for companies operating in Japan that have business with Russia to establish internal procedures capable of monitoring and collecting accurate information in a timely manner and to build a resilient supply chain network based on such information. ■

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# Thailand: Five-year extension of Thai Customs' One-Stop Service voluntary disclosure process



The One-Stop Service process is a voluntary disclosure program that enables importers and exporters who wish to self-declare and correct past declaration errors to settle their outstanding duty liability with Thai Customs in compliance with customs laws.

When it was first launched in 2017, the program was available for a limited period, but it has been periodically extended to encourage and facilitate importers and exporters to correct unintentional errors or mistakes in past import and export declaration filings. From 1 October 2022, this process has been extended for five years, until 30 September 2026.

As previously, the program does not apply under any of the following circumstances:

- ▶ When goods were smuggled into Thailand or there is clear witness or evidence of fraudulent intent to avoid duty payment
- ▶ When goods were prohibited or restricted or violated intellectual property rights
- ▶ When there is an ongoing post-clearance audit, investigation or prosecution in respect of a customs offense being conducted by relevant government authorities, such as the Department of Special Investigations or the Economic Crime Suppression Division

For voluntary disclosure cases accepted and dealt with under this process, liability will generally cover duty and tax shortages, including surcharges thereon for delayed payments. In the case of a customs penalty, waiver of the customs penalty is generally forthcoming as long as there is no duty evasion intent.

With effect from 19 October 2022, where the customs penalty related to imports within the past 5-year period is waived, the VAT penalty is also waived. ■

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# Thailand: Incentives to promote the development of the battery electric vehicle sector

To steer Thailand toward a carbon-neutral economy by 2050, the National Electric Vehicle Policy Committee presented various proposals to the Thai Cabinet. This included a battery electric vehicle (BEV) incentives package aimed at promoting the adoption of BEVs and encouraging the manufacture of BEVs in Thailand under the 30@30 plan. The 30@30 plan aims for 30% of Thailand's annual vehicle production to be zero-emission vehicles by 2030.

Following the Thai Cabinet's approval in February 2022, the Ministry of Finance (MOF), Customs Department and Excise Department have released a series of Notifications. The Notifications formally announce several incentives under the BEV package, as summarized below. It should be noted that this package covers BEVs only and does not apply to hybrid electric vehicles (HEVs) or plug-in hybrid electric vehicles (PHEVs).

## BEV incentive packages

### Subsidy

With effect from 21 March 2022, importers and local manufacturers of BEVs are entitled to receive the following subsidies:

	Passenger BEVs	Transport BEVs with 10 seats or fewer	BEV pick-ups (4,000 kg or less)	BEV motorcycles
<b>Retail price (before VAT) threshold</b>	Up to THB2,000,000			Up to THB150,000
<b>Battery kWh specification</b>	10 kWh minimum		30 kWh minimum	–
<b>Subsidy amount (per unit)</b>	THB70,000 (under 30 kWh) or THB150,000 (30kWh and above)		THB150,000	THB18,000
<b>Subsidy period</b>	BEV importer: until 31 December 2023 BEV manufacturer: until 31 December 2025		BEV manufacturer: until 31 December 2025	BEV importer: until 31 December 2023 BEV manufacturer: until 31 December 2025

In principle, payment of the subsidy claim is on a first-come, first-served basis. To support the subsidy claim, the claimant must submit the end customer's BEV vehicle registration documentation to the Excise Department.



To date, the government has approved an initial budget allocation of THB3 billion to fund the subsidy plan, with an additional THB40 billion budget allocation being sought and currently under review, based on anticipated BEV volumes.

### Duty exemption or reduction on BEV imports

With effect from 4 May 2022, BEV importers are also eligible for either duty exemption or reduction, depending on the prevailing free trade agreement (FTA) vs. non-FTA duty rate applicable on the passenger BEV imports into Thailand, as summarized below:

	Passenger BEVs imported from 4 May 2022 until 31 December 2023	
Retail price and battery kWh	Up to THB2,000,000	Between THB2,000,000 and THB7,000,000
Battery kWh specification	N/A	30kWh minimum
Duty rate under BEV incentive package	<p>If the prevailing FTA duty rate is 40% or less, the applied duty rate is exempt.</p> <p>If the prevailing FTA duty rate is more than 40%, the FTA duty rate is reduced by up to 40%.</p> <p>If the prevailing non-FTA rate is 80%, the non-FTA duty rate is reduced to 40%.</p>	<p>If the prevailing FTA duty rate is less than 20%, the applied duty rate is exempt.</p> <p>If the prevailing FTA duty rate is more than 20%, the FTA duty rate is reduced by up to 20%.</p> <p>If the prevailing non-FTA rate is 80%, the non-FTA duty rate is reduced to 60%.</p>

As BEV imports originating from China are currently exempted from Thai duty under the ASEAN-China FTA, the duty exemption reduction policy under the BEV incentive package is aimed at leveling or reducing the duty gaps for BEV imports from Thailand's other FTA and non-FTA trading partners.

### Excise tax reduction

In Thailand, excise tax is levied based on the retail selling price (before value-added tax (VAT)). With effect from 9 June 2022, the BEV incentive policy provides for reduced excise tax rates for importers and local manufacturers of BEVs, as outlined in the following table:

	Passenger BEVs and transport BEVs with 10 seats or fewer	BEV pick-ups (up to 4,000 kg)
Standard rate	8%	10%
Reduced rate under the BEV package and eligible applicant	<p>2%</p> <p>BEV importer: until 31 December 2023</p> <p>BEV manufacturer: until 31 December 2030</p>	<p>0% (until 31 December 2025)</p> <p>2% (from 1 January 2026 to 31 December 2030)</p> <p>Applies only to BEV manufacturer</p>

### Conditions for BEV incentive packages

The Excise Department, in conjunction with the MOF and Customs Department, is tasked with overseeing and supervising the implementation of the BEV incentive package. Businesses that wish to use the BEV incentive package should apply to the Excise Department with a BEV business plan, a Memorandum of Understanding (MOU) agreement and enter into a bank guarantee with the Excise Department.



The key conditions applicable to BEV importers and BEV manufacturers are outlined below:

## BEV importers

	Passenger BEVs and transport BEVs with 10 seats or fewer	BEV motorcycles									
<b>Local BEV assembly and volume requirements</b>	<ul style="list-style-type: none"> <li>▶ Must produce BEVs domestically by 2024 to compensate for the same volumes of BEVs imported during 2022-23 where BEV incentives are claimed.</li> <li>▶ The 2024 deadline can be extended to 2025, but the volume of locally built BEVs will increase to 1.5 times BEV import volumes during 2022-23. <ul style="list-style-type: none"> <li>▶ For BEVs with a retail price of THB2,000,000 or less, the applicant can produce any BEV models to compensate for the BEV import volumes.</li> <li>▶ For BEVs with a retail price above THB2,000,000 but not more than THB7,000,000, applicant must produce the same BEV model as imported.</li> </ul> </li> </ul>	<p>Must locally produce any BEV motorcycle models by 2024 to compensate for the number of BEV imports during 2022-23 where BEV incentives are claimed.</p> <p>The 2024 deadline could be extended to 2025, but the volume of locally built BEVs will increase to 1.5 times BEV import volumes during 2022-23.</p>									
<b>Battery localization conditions</b>	<p>Applicant must localize the battery in accordance with the criteria and conditions specified by the Excise Department starting from 1 January 2026.</p> <p>Specifically, BEV manufacturers must comply with any one of the three localization options:</p> <table> <tr> <th colspan="3">Conditions of battery localization</th></tr> <tr> <th>Option 1</th><th>Option 2</th><th>Option 3</th></tr> <tr> <td> <ul style="list-style-type: none"> <li>▶ Localize battery cells by 1 January 2026</li> </ul> </td><td> <ul style="list-style-type: none"> <li>▶ Localize battery modules by 1 January 2026</li> <li>▶ Localize power conditioning unit (PCU) inverters by 1 January 2030</li> <li>▶ Localize any one of the following parts by 1 January 2035: <ul style="list-style-type: none"> <li>▶ Traction motors</li> <li>▶ Reduction gears</li> <li>▶ Air compressors for BEV batteries</li> <li>▶ Battery management systems (BMS)</li> <li>▶ Drive control units (DCU)</li> </ul> </li> </ul> </td><td> <ul style="list-style-type: none"> <li>▶ Localize battery pack assembly by 1 January 2026</li> <li>▶ Localize PCU Inverter by 1 January 2030, and</li> <li>▶ Localize any two of the following parts by 1 January 2035: <ul style="list-style-type: none"> <li>▶ Traction motors</li> <li>▶ Reduction gears</li> <li>▶ Air compressors for BEV batteries</li> <li>▶ BMS</li> <li>▶ DCU</li> </ul> </li> </ul> </td></tr> </table>	Conditions of battery localization			Option 1	Option 2	Option 3	<ul style="list-style-type: none"> <li>▶ Localize battery cells by 1 January 2026</li> </ul>	<ul style="list-style-type: none"> <li>▶ Localize battery modules by 1 January 2026</li> <li>▶ Localize power conditioning unit (PCU) inverters by 1 January 2030</li> <li>▶ Localize any one of the following parts by 1 January 2035: <ul style="list-style-type: none"> <li>▶ Traction motors</li> <li>▶ Reduction gears</li> <li>▶ Air compressors for BEV batteries</li> <li>▶ Battery management systems (BMS)</li> <li>▶ Drive control units (DCU)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ Localize battery pack assembly by 1 January 2026</li> <li>▶ Localize PCU Inverter by 1 January 2030, and</li> <li>▶ Localize any two of the following parts by 1 January 2035: <ul style="list-style-type: none"> <li>▶ Traction motors</li> <li>▶ Reduction gears</li> <li>▶ Air compressors for BEV batteries</li> <li>▶ BMS</li> <li>▶ DCU</li> </ul> </li> </ul>	Not applicable
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<b>BEV model changes</b>	Any minor changes to the BEV model to be produced locally are subject to approval of the BEV Subsidy Policy Committee of the Excise Department										

### BEV manufacturers in Thailand

	Passenger BEVs	Transport BEVs with 10 seats or fewer	BEV pick-ups (up to 4,000 kg)
<b>Battery localization conditions</b>	<p>Applicant must localize the battery in accordance with the criteria and conditions specified by the Excise Department starting from 1 January 2026.</p> <p>The battery localization options are the same as those applicable to BEV importers.</p>		
<b>Minor change condition</b>	<p>Any minor changes to the BEV model to be produced locally are subject to approval of the BEV Subsidy Policy Committee of the Excise Department</p>		

### Consequences for failure to meet BEV incentive conditions

BEV importers that failed to locally produce the mandated BEV volumes within the deadline are subject to the following:

- ▶ Forfeiture of the bank guarantee pledged
- ▶ Clawback of the subsidies received by BEV importers for any shortfall in the local BEV production volumes plus 7.5% annual interest (on a non-compounding basis)
- ▶ Retroactive assessment of the excise tax shortage, 100% penalty and monthly 1.5% interest for any shortfall in the local BEV production volumes

BEV importers and local manufacturers that fail to fulfill battery localization requirements on the local production of BEVs are subject to:

- ▶ 200% penalty (based on the excise tax shortage) based on the volume of BEVs produced locally that do not meet the battery localization requirements



### Additional concessional treatment granted to BEV manufacturers within Thailand's Free Zone (FZ) or Industrial Estate Authority of Thailand (I-EAT) FZ area

Under current FZ and I-EAT FZ rules, vehicles produced in FZ or I-EAT FZ areas are eligible for import duty exemption when they are removed from the FZ for sale or distribution in the Thai market. To qualify for the duty exemption, vehicles must meet these criteria:

- ▶ The vehicle production meets the essential production process criteria, as determined by the Office of Industrial Economics of the Ministry of Industry, in accordance with the predetermined annual production volume thresholds.
- ▶ The local content ratio of the vehicles produced is at least 40% of the ex-factory value.

To further complement the BEV incentive package discussed above, the MOF announced further local content concessionary treatment for BEVs produced in FZ or I-EAT FZ areas on 7 October 2022. Specifically, BEV assemblers in FZ or I-EAT FZ areas will be temporarily allowed to include the cost, insurance and freight value of imported batteries as part of their local content ratio calculation on the assembled BEV, subject to a limit of 15% of the ex-factory value of the assembled BEV.

This local content concessionary treatment is permitted from 8 October 2022 to 31 December 2025.

### Concluding remarks

While the BEV incentives package offers significant fiscal incentives for introducing BEV models in the Thai market, in the form of subsidies and lower tax costs, these benefits are subject to the ability to meet stringent local BEV assembly and battery localization requirements starting from 2024 as part of the Thai government's 30@30 plan to step up overall BEV production volumes.

Businesses with an interest in supplying BEVs to the Thai market should carefully assess the overall benefits and compliance costs of these incentives by evaluating their initial BEV import plan against a future local BEV assembly plan, BEV model mix and volumes, the Thai government's budget funding allocation for the subsidy program, and local sourcing options for key parts and the related cost impact. ■

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# Vietnam: Authorized Economic Operator regime



The Authorized Economic Operator (AEO) regime brings several benefits for businesses when working with their local and national customs authorities. These include, but are not limited to, faster customs clearance, fewer documentation requirements, fewer physical checks and faster customs duty refunds.

AEO operates under both the domestic Vietnam Customs Law and the World Customs Organization's SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE framework) that recommends how AEO programs should be conducted. Vietnam started its pilot AEO regime in 2011 with Circular 63/2011/TT-BTC, with eight businesses initially being granted AEO status. Following the pilot, the official AEO program began in 2014 under Customs Law No. 54/2014/QH13 and Circular 72/2015/TT-BTC.

As of this writing, there are approximately 70 businesses operating in different industries that have been granted AEO status. However, no logistics service company or customs broker is included in the list yet.

### Benefits

The current Vietnam customs regulations provide benefits and favorable treatments to AEO businesses, such as:

- ▶ General exemption from documentation checks (though there may be limited to random checks if there are signs of noncompliance)
- ▶ General exemption from physical checks – for export processing enterprises, random checks are applied to less than 0.5%<sup>1</sup> of the total number of import and export declarations; for other businesses, checks are performed using a scanner only rather than conducted manually
- ▶ Carrying out customs procedures for incomplete customs declarations
- ▶ Priority for customs procedures and in warehousing – in customs clearance, in customs policy guidance – not more than eight working hours
- ▶ Customs clearance carried out first, then supplementary specialized checks carried out later
- ▶ Duty/tax refunds are actioned first, with the relevant documentation checked later; the refund time should not be more than one business day
- ▶ For on-the-spot exports, import for export manufacturing and purchases from bonded warehouses for export manufacturing, the business can deliver or receive goods first and do customs procedures later

- ▶ Being prioritized to be audited post-customs clearance at the office of the customs authorities, rather than at the premises of business, where possible
- ▶ Post-customs clearance audits should not be more than once in a three-year period

### AEO status provides real commercial benefits:

- ▶ Reducing overall administrative costs
- ▶ Shortening goods' clearance times and reducing logistics compliance costs
- ▶ Ensuring that materials needed for manufacturing and goods are delivered on time
- ▶ Deferred payment of duties and tax
- ▶ Potential collaboration between AEOs across countries

### Regulatory requirements for businesses to be granted AEO status

Businesses must have a good compliance record with the Vietnam customs and tax regulations. In particular:

- ▶ Within the past two years before AEO application, the business must not have violated the customs and tax regulations to the extent of:
  - ▶ Tax evasion or tax fraud
  - ▶ Smuggling and illegal transportation of goods across the border
- ▶ Administrative customs offenses that result in a form and level of penalties beyond the authority of the Director of Sub-department of Customs (i.e., at the district level) or equivalent levels

- ▶ For a customs broker, the number of customs declarations that are subject to administrative penalties for tax/customs offense, as imposed by the Director of the Sub-department of Customs, may not exceed 0.5% of the total number of customs declarations
- ▶ Having no overdue tax or customs debts or liabilities
- ▶ The AEO applicant's turnover should meet one of the following specific thresholds:
  - ▶ An import-export turnover of USD100 million a year or more
  - ▶ Export turnover of goods produced in Vietnam of USD40 million per year or more
  - ▶ If the goods are agricultural or aquatic products produced, raised or grown in Vietnam, an export turnover of at least USD30 million per year; the turnover thresholds should be the average turnover for two or more consecutive years, up to the date of the application for AEO
- ▶ For a customs broker, the annual number of customs declarations is at least 20,000 declarations
- ▶ As an exception, high-tech enterprises as defined by the regulations on high technologies may qualify for AEO status even if they do not meet the above turnover requirements.

Customs entries should be filed electronically (i.e., by applying e-customs). The AEO business must use export/import management software programs meeting the requirements of the customs authorities.

<sup>1</sup> Article 5, Circular 72/2015/TT-BTC dated 12 May 2015 of Vietnam's Ministry of Finance.

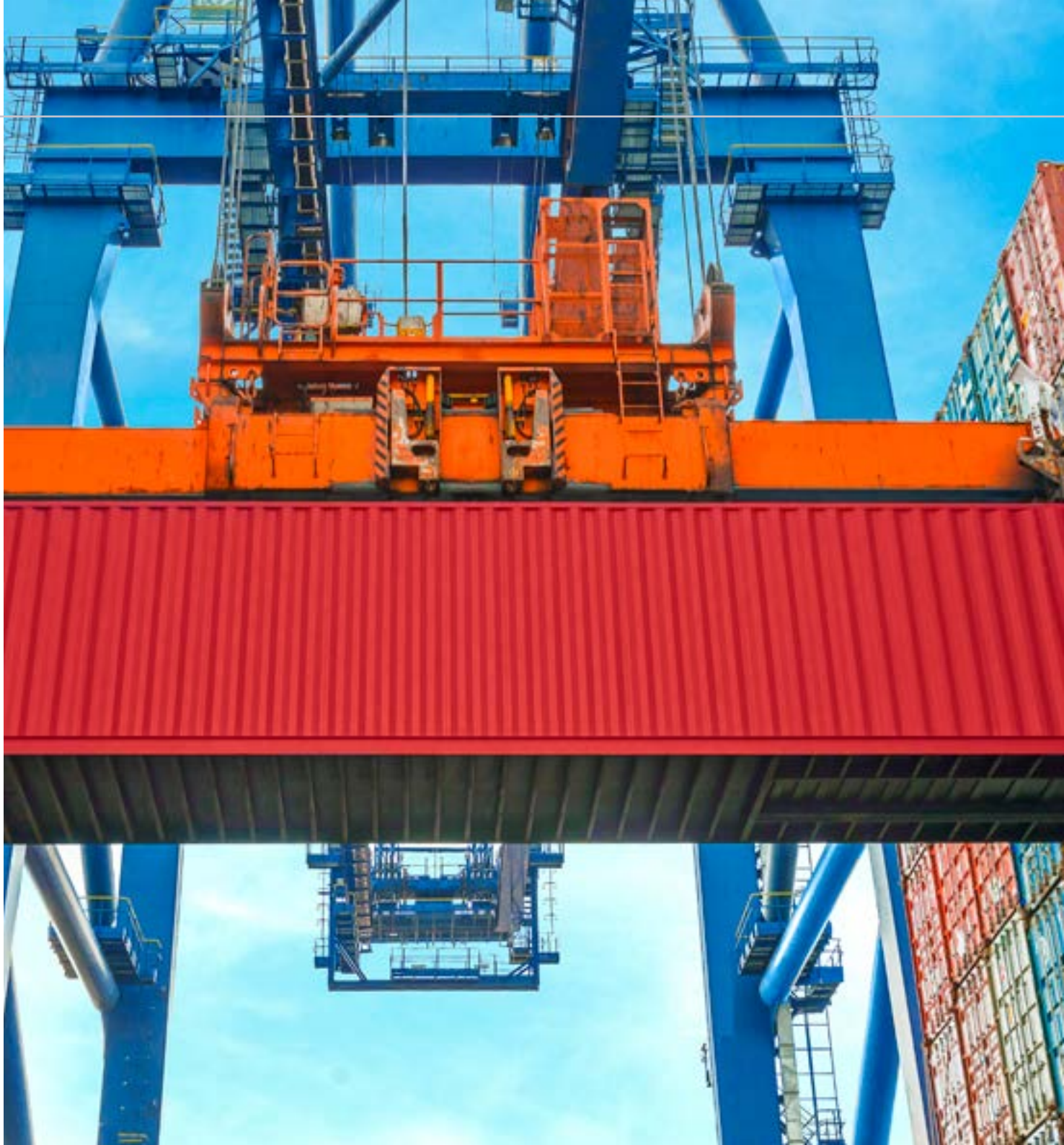


Payments for export and import shipments must be made via bank transfer (i.e., through noncash methods).

The following requirements apply for internal management systems:

- ▶ Businesses should conduct and maintain processes to manage, monitor and control its entire operation.
- ▶ Businesses should have measures, instruments and internal management processes to ensure the safety and security of the supply chain of exported and imported goods to:
  - ▶ Monitor the transport process of goods from enterprises to ports and from ports to enterprises.
  - ▶ Inspect the safety of containers before they are loaded onto vehicles.
  - ▶ Supervise at important positions, such as fences, entrances and exits, warehouses, manufacturing areas, and administrative areas.
  - ▶ Assign employees to enter and work in the areas suitable for their tasks
- ▶ Control security of information technology systems
- ▶ Ensure staff security

Businesses must meet the prescribed accounting and auditing standards as provided by the Ministry of Finance, including the statutory independent audit on yearly financial statements.





### A glance at the administrative procedures to apply for AEO and recommendations

Businesses that meet the abovementioned requirements should submit an application, including the prescribed forms and enclosed supporting documents, to the local city or province-level Customs Department where they are located.

The Customs Department will carry out checks on the submitted application, conduct a site visit (possibly a post-customs clearance audit) and forward the results to the General Department of Customs (GDC) for review.

If the checks are successful, the GDC will conduct formal meetings with the business and initiate formal procedures to recognize its AEO status.

By law, the timeline for the whole process may take 45 days, with a possible extension of 30 days for complicated cases. In practice, however, given the volume of documentation and information required, the process may take longer, quite possibly several months. There is no administration fee for the AEO recognition application.

The process will generally include a post-customs clearance audit to check the actual qualification or compliance of the business with its obligations and its suitability for being an AEO. If any customs violations are found, AEO status will not be granted, but the business may also be subject to customs duty collection and administrative penalties and late payment interests. Businesses should consider an AEO application carefully, including having advance planning and a prior internal audit so that the business satisfies the prescribed criteria before applying for AEO status.

### Possible improvements of the Vietnam regulations on AEO and current progress

The current regulations mainly focus on large-scale businesses, and hence small and medium-sized enterprises (SMEs) and customs brokerage service companies may not meet the AEO requirements. This may result in an unfair competitive condition for businesses in general and for SMEs in particular. This situation may need to be addressed, especially in a period when Vietnam is encouraging an open and “initiative” economy and startups. Furthermore, Vietnam has not signed any AEO mutual recognition agreements (MRAs), so generally an AEO in Vietnam will not be recognized in another country, making the scope of the AEO program narrow. In addition, some requirements for internal management systems differ from the suggested standards per the World Customs Organization’s SAFE Framework.

To address these issues, Vietnam is introducing possible and relevant changes in the draft regulations (Decree level) on AEO. Vietnam is also in the process of negotiating an MRA with Korea and the Association of Southeast Asian Nations (ASEAN).

Another possible improvement relates to the imposition of administrative penalties and enforcement on AEO businesses. Adopting AEO regulations that provide some exceptions and/or leniency treatments, including penalty reductions on AEO businesses, may encourage more businesses to join this program.

### Summary and recommendations

AEO brings many benefits for businesses engaged in cross-border trade, including improved regulatory procedures and commercial benefits. Businesses should review and consider applying for AEO status where possible to improve their business performance.

The application process is not straightforward, and businesses should prepare thoroughly before lodging an AEO application. Information and application forms are available on the Vietnam General Department of Customs website<sup>2</sup> and other Vietnam Government websites. Businesses may also seek advice from experienced customs advisors and can consult informally or formally in writing with the customs authorities in advance.

SMEs should observe the developments on AEO policies. Individually or through their business associations, they could put forward proposals to extend the scope of AEO for their sectors and business sizes, so that the policies can be updated to consider AEO applications for those segments of the economy. ■

<sup>2</sup> Tong cuc Hai quan (customs.gov.vn)

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- ▶ OECD/G20 Inclusive Framework holds 14th plenary meeting and publishes 6th annual progress report (24.10.2022)
- ▶ G20 Finance Ministers welcome progress made on BEPS 2.0 and call for swift implementation (21.10.2022)
- ▶ OECD releases public consultation document on administration and tax certainty aspects of Amount A of Pillar One (21.10.2022)
- ▶ OECD and UN: Tax Inspectors Without Borders publish Annual Report 2022 (20.10.2022)

### Japan

- ▶ Japan's consumption tax reform will be effective from 1 October 2023 | Implementation considerations (31.10.2022)

### Malaysia

- ▶ Malaysia imposes excise duty on premix preparations (24.10.2022)

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EYG no. 010795-22Gbl  
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