

China alert

Tax and regulatory developments

August 2007, Issue 19

TAX

Some restrictions on goods for processing trade loosened

In brief

- Authorities recently clarified questions regarding processing trade restrictions.
- Some goods prohibited from processing trade are no longer prohibited if they meet certain conditions.
- This issue of *China alert* introduces the clarifications.

Relevant regulations discussed in this issue:

Complementary Notification Regarding Related Issues of Circular [2007] No. 17, Shangchanzi [2007] No. 1241, issued by the General Office of Ministry of Commerce (MOFCOM), General Administration of Customs (GAC), State Environmental Protection Administration (SEPA) and Administration of Quality Supervision, Inspection and Quarantine on 4 July 2007, effective from 4 July 2007 (Complementary Notification)

The List of Prohibited Goods under Processing Trade in 2007, Circular [2007] No. 17, issued by MOFCOM, GAC and SEPA on 5 April 2007, effective from 26 April 2007 (Circular 17)

Since 1999, China has classified processing trade goods into three categories: “prohibited”, “restricted” and “allowed”. On 5 April 2007, MOFCOM, GAC and SEPA jointly issued Circular 17, publishing the 2007 edition of the list of goods prohibited from processing trade. There are a total of 1,140 types of goods on the list.

On 4 July 2007, the authorities issued the Supplementary Notification to address problems arising from the implementation of Circular 17. The notification also specified some goods which were previously prohibited from processing trade, but are now no longer prohibited if they conform to the following conditions.

- **Paper products.** Paper or paper products under headings of 4801 to 4816 are allowed to be imported under processing trade to produce paper products under headings of 4801 to 4816 (including factory transfer for further processing).
- **Finished leather products.** Semi-finished leather products under headings of 4104 to 4106 are allowed to be transferred under processing trade for “further processing” to produce finished leather products under headings of 4107 to 4115. However, these semi-finished leather products may not be exported directly.
- **Steel products.** Stainless steel and alloy steel products under headings of 7218 and 7224 may be imported under processing trade to produce downstream products other than steel.

In addition, the notification clarifies that scrap and by-products resulting from the processing of imported bonded materials, even if they are classified as “prohibited under processing trade”, will not be managed as “prohibited” under processing trade.

Contact us

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Companies should be aware that MOFCOM and other departments under the State Council will further refine the classification of processing trade goods, and will establish a system to dynamically revise the catalogue of goods and industries. At the beginning of each year, the authorities will amend the list of goods prohibited from processing trade. Therefore, companies engaged in any processing trade should pay close attention to the amendments and have suitable contingency plans in place.

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