In 2006, under the sound leadership of the Central Committee of the Communist Party of China (CPC) and the State Council, guided by the principle of “following a scientific path towards development” in its day-to-day work, China Customs fulfilled its various tasks successfully, with raised quality of its staff and improved capacity in Customs control and facilitation by implementing the second-step development strategy to build a modern Customs system, by taking multi-faceted collection measures and by efforts to build itself into a paramilitary Customs force with discipline. The year of 2006 saw another milestone of the development of China Customs, which was marked by the visit paid by Premier Wen Jiabao and other leaders of the State Council to the headquarters of China Customs on July 6, 2006, when Premier Wen fully recognized the achievements made by China Customs and gave instructions about our future orientation in the changed context.

I. Overview of China Customs

China Customs is a government agency that supervises and manages all arrivals in and departures from the Customs territory of the mainland of the People's Republic of China. It exercises a centralized management structure. The mission of China Customs is to guard the national gateway and provide services. Its essential tasks are Customs control, revenue collection, fighting smuggling and foreign trade statistics compilation. Its specific responsibilities include revenue collection, fighting smuggling, Customs control, supervision and management of bond operations for processing trade, foreign trade statistics compilation, audit-based control and risk management, and port management.

The General Administration of Customs is the headquarters of China Customs. It is a full-ministerial-level government agency that directly reports to the State Council of the People’s Republic of China and manages all the Customs regions nationwide. The Customs regions report to the General Administration of Customs instead of to local governments. It is composed of 16 departments and 6 directly subordinated service or coordinating functions, manages 4 associations (i.e. Customs Institute of China, Customs Brokers Association of China, Port Society of China, and Association of Bonded Areas and Export Processing Zones of China), and has posted representative offices in the European Union, the United States of America, the Russian Federation and Hong Kong, which is one of the separate Customs territories of China. The CPC Central Commission for Discipline Inspection and the Ministry of Supervision stationed the Discipline Inspection Office and the Discipline Inspection Bureau respectively in the General Administration of Customs.

China Customs has a total of 46 Customs regions or organizations of the same level (i.e. Guangdong Sub-Administration of Customs that is in charge of the 7 Customs regions located in Guangdong Province, two Supervising Offices that are located in Tianjin and Shanghai respectively, 41 Customs regions and two Customs educational institutions), 568 Customs houses or offices and nearly 4000 Customs clearance control stations. Its staff is numbered at around 50,000 (including Customs anti-smuggling police).

The working guidelines upheld by China Customs are to "exercise law-based administration,
keep the national gateway, serve the national economic interests and promote social development”. Its team-building principle is to make Customs personnel “politically staunch, professional and reliable”.

China Customs adopts a Customs rank system. The Customs ranks are divided into 5 levels and 13 classes, which include:
> Customs Commissioner-General and Deputy Customs Commissioner-General;
> Customs Commissioner First Class, Second Class and Third Class;
> Customs Supervisor First Class, Second Class and Third Class;
> Customs Superintendent First Class, Second Class and Third Class;
> Customs Inspector First Class and Second Class.

II. Building a Harmonious Customs

Setting forth the objective of building a harmonious Customs, China Customs is to realize both internal and external harmony by creating friendly internal atmosphere and cooperative external environment. Moreover, it is giving full play to its role of keeping the national gateway and providing services, so as to build itself into a service-oriented, responsible and law-based Customs service.

A. Strengthening the function of providing services to the public to build a service-oriented Customs

China Customs is approaching its work from the perspective of promoting the harmonious development of the economy and society. To this end, it is discharging its 7 responsibilities in a down-to-earth manner, coping actively with challenges presented by non-traditional functions, boosting the steady growth of national revenue, fighting resolutely against smuggling and other violation activities, promoting exchanges with the outside world in the fields of economy, foreign trade, science, technology and culture, and carrying out the national strategy of regional development. Moreover, guided by the principle of “people first and enforcement for the people”, it has been enhancing the awareness of service providing and improving the service methods, means and systems to raise quality, so as to realize Customs control in services and reflect the service-orientation in Customs control activities. Furthermore, it is pushing ahead with the development of E-Customs, E-Port and E-General-Administration by making full use of modern information technologies in order to improve the effectiveness and efficiency of providing services to the public.

B. Enhancing sense of responsibility to build a responsible Customs

China Customs has, in accordance with the policies, principles, decisions and emphases set by the CPC Central Committee and the State Council, enhanced the awareness of the overall interests of the nation, ensured the execution of every directive and instruction, improved the effectiveness and efficiency of administration and strengthened its execution capacity, so as to be responsible to the Party and the nation. In light of the requirement of “use of power coupled with equivalent responsibility”, it has comprehensively carried out the administrative enforcement
responsibility system, ensured the accountability and rectification of enforcement errors, and seen to it that power is always coupled with responsibility, that use of power is supervised, that compensation is made for infringement and that violators are held accountable and punished, in order to be responsible to the people and increase the credit of Customs in their eyes. At the same time, supervision over the exertion of power by Customs has been enhanced with the improvement of the relevant supervision mechanism so that wherever there is power, there is supervision. In this way, abuse of power will be prevented and violations will be resolutely punished.

C. Pushing ahead comprehensively with law-based administration to build a law-based Customs

China Customs has been exerting its power and discharging its responsibilities in strict accordance with the scope of power and procedures prescribed by law. Beginning from unifying administrative power, it has further improved the system of legislation, enforcement and supervision over enforcement, standardized operational processes and set criteria for enforcement behavior. Focusing on having Customs personnel exert administrative power by law voluntarily, especially those in leading positions, China Customs is endeavoring to ensure that all its administrative behavior is legal and appropriate, procedurally righteous, highly efficient and beneficial to the people. According to the basic institutional requirements of governance, China Customs has made great efforts to ensure the transparency of its day-to-day work in multiple forms, standardized and expanded the content that can be accessed by the public to make sure that the exertion of Customs power is all “under the sunlight”. It has also further improved the institutions regarding prior notice of important decisions, administrative review and appeal so as to better protect the legitimate rights and interests of private parties of Customs laws, regulations and rules, safeguard the sound order of import and export and promote social justice and harmonious development.

China Customs is making multi-faceted efforts to create good environment for its work in line with the requirements of realizing both internal and external harmony. First, it always puts people first, respecting, training and caring for each and every Customs officer to foster their overall development; and it is conducting more cultural activities for officers and making integrated efforts to create a harmonious internal atmosphere featured by equality and amity. Second, to bring about a favorable external environment characterized by creditability, cooperation and development, it has enhanced coordination and cooperation with other government agencies and the local governments, established cooperative partnerships with many import and export enterprises, voluntarily put its work under the supervision of the public and expanded areas of international Customs exchanges and cooperation.

III. Customs Revenue Collection

Customs revenue collection means that Customs levies duties and taxes on goods permitted to be imported & exported and articles permitted for entry & exit in accordance with the Customs Law of the People’s Republic of China and the import & export tariff schedule. Currently, the
revenue collected by China Customs mainly includes Customs duties, import VAT, consumption tax and vessel tonnage tax. Customs revenue serves as a crucial source to the national fiscal revenue, especially the fiscal revenue of the central government, a leverage for national macro-control and an important tool to protect and promote the sound development of domestic industries. After China’s accession to the World Trade Organization (WTO), China Customs has been working earnestly to honor related commitments that the Chinese government undertook. We have adopted fair, unified and transparent tariff policies across the Customs territory in accordance with the principle of non-discrimination, fully implemented the WTO Customs Valuation Agreement, and have taken concrete measures to phase in the tariff reduction plan. The overall tariff level has been reduced from 15.6% (2000) to 9.8% (2007).

In 2006, China Customs maintained and improved the integrated revenue collection framework, and mobilized all the primary-line, post-clearance and anti-smuggling resources for revenue collection. The net annual Customs revenue submitted to the national treasury for the first time in history exceeded RMB600 billion, standing at RMB610.423 billion, a year-on-year increase of RMB82.587 billion, up 15.65% and RMB58.423 billion more than the planned RMB552 billion, which is a great contribution to the steady growth of national tax and fiscal revenue. At the same time, we have played an important role in the formulation and implementation of import and export tariff schedule and preferential tax policies, CEPA (Closer Economic Partnership Arrangements with Hong Kong SAR and Macao SAR), FTA negotiations, implementation of rules of origin, zero import tariff treatment for fruits originating from Taiwan Province and other relevant policies and measures.

IV. Cracking Down on Smuggling

Counter-smuggling means the enforcement behavior of China Customs when it makes use of both criminal and administrative law enforcement means to curb, repress and dispose of smuggling activities and crimes at Customs control areas and prescribed coastal or border areas which are near the place with Customs office’s presence. Its essential purpose is to safeguard national economic interests and import & export trade order. China Customs is the competent anti-smuggling authority of the Chinese government, which takes up most, if not all, of the responsibilities for combating smuggling. Since 1998, China has established a Customs anti-smuggling police force, which is under dual-leadership of the General Administration of Customs and the Ministry of Public Security, with Customs taking the major leading role. China has adopted a counter-smuggling mechanism, whereby smuggling activities are combated through joint efforts by all the relevant authorities, all smuggling cases are disposed of by China Customs following a unified procedure, and smuggling problems are dealt with in an integrated manner.

In 2006, China Customs conducted special operations targeted against high-risk industries, focusing its anti-smuggling efforts on price frauds, smuggling in processing trade and frauds capitalizing on tax reduction and exemption policies. It blazed the new trails of “Internet anti-smuggling” and “obtaining evidence through electronic means”, which were rolled out in a lot of places. The system of top-down supervision over the investigation of important criminal cases was improved, the capacity of anti-smuggling prior warning and monitoring as well as the success
rates were bettered, and the administrative enforcement power was given full play. A total of 7,240 smuggling cases were ferreted out in 2006, involving a value of RMB13.7 billion. Among those cases, 1,139 were suspect smuggling crime cases, involving a value of RMB13.585 billion, and mandatory measures were imposed on 2,859 smuggling criminal suspects according to law. Moreover, a total of 28,000 violation cases were ferreted out and the number of infringement cases stood at 2,475. All together, 788.97 kilograms of drugs and 3,530,500 reactionary and evil cult publications were seized. All these have contributed a lot to safeguarding economic order and social stability.

V. Customs Control

Customs control means the process where Customs inspects, verifies and examines inward and outward means of transport, goods, personal articles as well as mails and parcels according to law to ensure the implementation of national laws and regulations concerning entry and exit of means of transport, goods, personal articles as well as mails and parcels through declarations registration, acceptance of declarations, documents inspection, examination and release, post-clearance management, violations disposal and other related management institutions and procedures.

In 2006, China Customs continued steadily its regional clearance reform. Showing full respect for the choices made by enterprises, it broke the limits of administrative regions, simplified and standardized cross-Customs control procedures and applied the clearance model of “declaration at place of location, examination and release at ports” for cross-Customs control. It deployed the program aimed at realizing fast clearance between Guangdong and Hong Kong as well as between Guangdong and Macao, offered equal Customs services to eastern, middle and western regions of the country and promoted the free flow of factors of production among those regions. With regard to cross-Customs control, Customs houses located at ports of the eastern region have offered support the greatest possible for the imports and exports of the mid-western region. Except for imported automobiles and imports and exports covered by the Checklist of Articles Whose Cross-Customs Clearance Is Restricted, which is promulgated in Order No.89 of the General Administration of Customs, so long as the application made by enterprises conforms to Customs control conditions, cross-Customs movement procedures should be applied. In 2006, China Customs exerted control over 2.15 billion tons of import & export goods, which were valued at 1.76 trillion U.S. dollars, and processed 328 million entries and exits of passengers and their personal articles, giving a strong impetus to exchanges with the outside world in the fields of economy, foreign trade, science, technology and culture.

VI. Customs Control over Bond Operations

Customs control over processing trade and bond operations is a new Customs management model which means that, after getting promise from enterprises that there will be no loss of national revenue, Customs does not levy duties on their import goods but exerts control over the whole process of processing until the processed goods are re-exported. Since the introduction of the reform and opening programs in China, processing trade has witnessed the development from
“three processings and one compensation” (i.e. processing with customer-supplied materials, assembling customer-supplied parts, processing in accordance with customer-supplied samples and compensation trade) to processing materials supplied by foreign businessmen and processing imported materials, from processing enterprises, bonded warehouses and bonded factories that do not operate within specifically prescribed areas to bonded areas, export processing zones and various other special Customs control areas that are set up solely for the purpose of processing trade. The emergence of this new Customs management model has greatly promoted development of processing trade, making it occupy half of the import and export value of the whole country for many years in a row. After China’s accession to the WTO, adapted to the changed situations, China Customs expanded bond operations from single bonded processing to bonded logistics, giving a further impetus to the development of China’s vibrant international logistics industry. Currently, bond operation has become an important control model for China Customs, which reflects most directly the impetus given by a Customs management regime to the development of productive forces.

In 2006, China Customs’ efforts to integrate the functions of and policies governing various special Customs control areas and bonded Customs control locations yielded desired results. Plan of reforming the bond operations is being implemented comprehensively, and 24 reform projects, such as process rerouting, integration of the above-mentioned areas and locations and networked control, have registered initial achievements. In 2006, China Customs exerted control over USD831.876 billion imports and exports under the item of processing trade, and collected RMB24.45 billion revenue from processing trade goods sold on the domestic market, up 30.8% year on year.

VII. Audit-based Customs Control

Audit-based Customs control means that, within 3 years upon release of import & export goods or within the time limit of Customs control over bonded goods or goods with import duties reduced or exempted, Customs verifies the account books, accounting documents, declaration documents, other related documents and relevant import & export goods of the legal entities under Customs control, so as to supervise the truthfulness and legitimacy of their import & export activities. The priority of audit-based control is to regulate enterprises’ import & export behavior, guide them towards compliance and self-discipline and find smuggling or violation clues through auditing duty-paid goods under the item of normal trade, goods under the item of processing trade whose handbooks have been verified and cancelled as well as goods whose duty reduction or exemption has been approved.

In 2006, China Customs improved the Categorized Management System, which is based on the creditability and level of compliance of enterprises, bettered the new model of audit-based Customs control that combines risk analysis, external audit and enterprise management, enhanced post-clearance follow-up control and fostered the voluntary compliance and self-discipline of enterprises. It audited 7,325 enterprises, identified 2,878 cases where taxes or duties should have been levied and transferred 883 clues of suspect violation cases, which involved a value of RMB 12.85 billion.
VIII. Customs Statistics

Customs statistics compilation refers to the process where Customs compiles and analyses statistics related to actual import & export goods’ variety, quantity, weight, price, country (region) of origin, legal entity, domestic destination, domestic place of origin, trade category, means of transportation and Customs house where the declaration is filed, through collecting, sorting and processing import & export declarations or other documents verified and approved by Customs, so as to comprehensively and accurately reflect the faring tendency of foreign trade, conduct prior-warning import & export monitoring and provide high-level information services for national macro-economic decision-making and development of foreign trade. Customs statistics is one of the categories of State statistics prescribed by law. The General Administration of China Customs issues basic statistical data of China's foreign trade monthly and provides statistical data and consultancy services. It reports periodically to the United Nations Statistics Bureau, the International Monetary Fund (IMF), the WTO and other relevant international organizations about the monthly and yearly statistics data of China's foreign trade. China Customs is renowned for its record in speedy data release, which is among the world-best.

In 2006, in light of the requirements of the Customs Statistics Regulation, China Customs improved its working mechanism of statistics compilation, actively participated in building the National Import & Export Prior Warning Monitoring System and promoted the overall application of the results drawn from the Enforcement Evaluation System. As an important reference for national macro-economic analysis, the statistical work of China Customs has received great attention from the State Council and local governments at all levels.

IX. Port Management and E-Port

Port management means the process where Customs, according to the State Council’s requirements of promoting the Integrated Clearance Project, gives full play to its functions of port management, enhances the overall coordination and management of ports, and formulates a sound plan for the opening of ports. Currently there are 253 first-class ports across the country, whose opening must get approval of the central government.

In 2006, the National Office of Port Management was formally set up, which has enabled port management to take on a new look. China Customs have made every effort to promote the Integrated Clearance Project, established and fully capitalized on the liaison and coordination mechanism concerning port management. As a result, most of the ports have witnessed constantly raised clearance efficiency, especially those important ones. According to the statistics of the Integrated Clearance Project (involving such nodes as Customs, quarantine, shipment, loading and unloading), ocean-going imports and exports can usually be released within 24 hours, air freight around a dozen hours and emergency goods such as fresh and living commodities several hours on average. For vehicles and passengers traveling between Guangdong and Hong Kong as well as between Guangdong and Macao, the overall normal clearance time is no more than 1 hour for vehicles and no more than 30 minutes for passengers.
In May, 2006, the General Office of the State Council issued the notice on intensifying efforts to build E-Port (the 36th formal document issued by the General Office of the State council in 2006), which further specified the basic content of E-Port as well as the guiding principles and development goals of building E-Port, and defined the current emphases, new leading system and working mechanism. In November 2006, the General Office of the State council issued the notice on the working mechanism of the National E-Port Coordinating and Steering Committee, according to which, the committee was realigned, with the Deputy Secretary-General of the General Office of the State council serving as its chairman, competent vice minister of China Customs as vice chairman, and relevant leaders of the State Development and Reform Commission, Ministry of Public Security, Ministry of Finance and 10 other government agencies as members. This is another landmark of the efforts to build E-Port.

X. Customs Modernization Drive

China Customs has been committed to its modernization drive since 1994. In 1998, the General Administration of China Customs made the decision to establish a modern Customs system and outlined a two-step approach to achieve the objective. By 2003, the goals of the 1st-step development strategy, which began with the clearance operation reform, had been substantially realized. In 2004, China Customs formulated the Outline of the Second-Step Development Strategy for the Establishment of the Modern Customs System (2004-2010).

In 2006, guided by the strategic thoughts brought forward by the CPC Central Committee of following a scientific path towards development and building a harmonious socialist society, with the purpose of implementing the “Outline of the Eleventh Five-Year Plan for National Economic and Social Development”, China Customs made amendments to the Outline of the Second-Step Development Strategy for the Establishment of the Modern Customs System (2004-2010). According to the 2nd-step development strategy, on the basis of basically realizing the goals of the 1st-step development strategy, China Customs is to, with the establishment and improvement of risk management mechanism as the core element, press ahead with various reforms and initiatives in an overall and coordinated manner, and will substantially establish a modern Customs system by 2010, which is compatible with the national mission of building a harmonious socialist society, adapted to the already developed socialist market economy and integrated with international customary practices, thus building China Customs into a “scientifically-based, service-oriented, efficiency-focused, integrity-minded, harmonious and smart” Customs service, and making greater contributions to promoting the development of foreign trade and developing China into a “prosperous, democratic, civilized and harmonious” modern socialist country.

XI. Customs Legal Framework

The legal framework of China Customs is an important component of the legal system of the State, its own working basis and the fundamental guarantee for improving its law-based administration level. Work related to the legal framework includes improving various Customs laws and regulations, conducting education for Customs officers regarding those laws and
regulations, training law enforcement personnel and conducting research on Customs legal theories. At present, China Customs legal framework has been substantially set up, enforcement procedures and the enforcement supervision and inspection system have been further improved, enforcement work has gradually been standardized, and law-based administration level has been greatly raised.

In 2006, China Customs continued to have “law-based administration” as one of its working guidelines. It cleaned up administrative approval projects and regulatory papers, and improved the internal audit and supervision system. Moreover, supervision over Customs enforcement was enhanced, efforts to ensure the transparency of the day-to-day work of China Customs were rolled out and gradually institutionalized, and the IPR border protection system was improved. In light of the requirements of the General Office of the State Council with regard to applying administrative enforcement accountability system, China Customs implemented in a multi-faceted manner its Interim Rules on Rectification of Administrative Enforcement Errors and Interim Rules on Accountability of Administrative Enforcement, and carried out in a down-to-earth manner the national “Fourth Five-Year Plan for Popularizing-Law Education Campaign”, for which 6 units and 4 officers of China Customs received national awards.

XII. Science and Technology

Work related to the application of science & technology is an important basis of Customs operations. China Customs has deeply engrained the strategy of “building a smart Customs with science & technology” in its day-to-day work, pays great attention to raising the management level by using science & technology and the effectiveness of science & technology applications, gives full play to the fundamental and vanguard role of Customs science & technology applications, and have basically established E-Customs, E-Port and E-General Administration application systems. These systems are providing strong technical support for networked Customs clearance operations, smart control, digitized management and sound administrative decisions.

Currently, E-Customs System has been upgraded, switching from H883 to H2000. For E-General-Administration System, we have developed and applied the sub-systems for import and export statistics compilation, risk management, enforcement evaluation, revenue analysis and monitoring, prior warning monitoring, office automation, anti-smuggling investigation, etc. Through the monitoring over and analysis of operational data, we bettered our risk analysis, decision making, administration efficiency and services. E-Port System has developed into a unified cross-department, cross-region and cross-sector information platform for both port clearance enforcement and management and relevant logistical services, which is important for the success of the Integrated Clearance Project. Currently, China Customs is connected with 11 agencies under the State Council as well as with the Hong Kong Trade and Industry Department, Macao Economic Services and 13 commercial banks, and 243,000 enterprises have signed up for the network. In addition, China Customs developed 17 application projects, such as payment and receipt of foreign exchange, verification of declarations for tax rebates, and online payment of taxes and charges, and 23 local E-Port platforms have been put into operation. HB2004, the Customs e-governance office automation system, has been rolled out in Customs nationwide.
XIII. Building a Paramilitary Customs Force

The overall objective of building a paramilitary Customs force with discipline is, in light of the nature, tasks and characteristics of Customs work and the experience of the People’s Liberation Army in revolution, modernization and standardization, to forge a “politically staunch, professional and reliable” high-quality Customs force with working ethics and ability internally and uniform neat and spruce image externally, who can sustain all kinds of tests and ups and downs.

In 2006, starting from building a “uniform neat and spruce image externally”, China Customs strengthened efforts to inspect the neatness and tidiness of working places and uniforms, which took on a brand-new look as a result. The mechanism of overall planning and coordination of efforts to build a paramilitary Customs force took initial shape. The outstanding and exemplary deeds of Khunjirap Customs House and such Customs officials as Zhou Zheng and Peng Fei aroused wide echoes in both Customs and society, and education campaigns like “Striving to Be a Loyal Guard of the National Gateway” were very fruitful. Regular transfer of senior Customs officials was intensified, and the structures of the leading groups of departments of the headquarters and Customs regions were optimized. Five Customs regions (Jiangmen, Zhanjiang, Lanzhou, Xining and Yinchuan) were upgraded from Deputy-Directorate-General-level to Directorate-General-level. The registration of civil servants in China Customs and the salary reform were carried out steadily, the supervision functions of agencies posted by the headquarters were further strengthened, and work related to inspection of local Customs and internal audit was more standardized. Much more training was conducted for Customs officers and management officials, and the preparatory work for the establishment of Shanghai Customs Institute has been going smoothly. Efforts to build a system for the prevention and punishment of corruption is progressing very well, efforts to prevent enforcement corruption were intensified and the anti-corruption responsibility system was further cemented. More efforts were made to ensure the transparency of the day-to-day work of China Customs, “Six Forbids for Customs Officers” and other anti-corruption institutions were abided by in a down-to-earth manner, efforts dedicated to fighting commercial bribes have been effective, investigation of corruption and violation and relevant punishment were forceful and joint efforts by port enforcement agencies aimed at integrity have yielded initial results.

XIV. International Cooperation

With China getting more extensively and intensively integrated into economic globalization, China Customs has engaged itself in more and more international affairs and is playing an increasingly important role in world economy and trade.

Through participating in WTO negotiations and honoring commitments to the WTO, China Customs played an important part in China’s accession to the WTO and in successfully meeting the challenges to China’s foreign trade brought about by the entry into the WTO. Since China became a full member of the World Customs Organization (WCO) in 1983, China Customs has
actively participated in the activities of the WCO Permanent Technical Committee, Enforcement Committee, Harmonized System (HS) Committee, Technical Committee on Customs Valuation, Technical Committee on Place of Origin and the Sub-Committee on Automatic Data Processing, and taken an active part in the revision of the Kyoto Convention and the Nairobi Convention, the review of the Harmonized System and the formulation of rules of origin.

In 2006, the international cooperation of China Customs shifted from passive accommodation to active adaptation in terms of serving the national interests of diplomatic relations and foreign trade, from extensive participation to active coordination and promotion in the field of multi-lateral cooperation, from less participation to comprehensive cooperation in the area of regional cooperation, from simple exchanges of visits to mutually beneficial and practical cooperation with regard to bilateral cooperation, and from simple receiving of international training to providing international training to other Customs administrations in regard to technical cooperation. Up to now, China Customs has established friendly or cooperative relations with Customs administrations of 110 countries or regions and concluded 32 bilateral Customs agreements, which are applicable to 57 countries or regions.