White Paper

C4T

# Customs Warehousing

Save duty costs while storing your goods in a Customs Warehouse



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# ব In this Paper

### An introduction to Customs Warehousing

Customs Warehousing is a Customs Special Procedure that allows you to store imported goods from third countries in a warehouse operated by either customs authorities or a private entity that holds a Customs Warehouse license. These goods are exempt from duties, taxes, and other customs charges indefinitely until they leave the warehouse and are released into free circulation. If the goods are re-exported out of the EU or UK, no VAT or import duty is payable.

Special Procedures can help companies save or delay customs duty costs on imported goods as long as the requirements of the procedures are met. For companies dealing with processing, distribution, and other manufacturing industries subject to high duty rates, using Special Procedures can prove to be highly beneficial. The savings present significant value to the companies that use Special Procedures, however, the legal administration and reporting of customs authorisations, inventory, and tax warehouses that need to be provided to customs authorities can be cumbersome for customs managers.

Having insight into possible duty savings and up-to-date information that shows real-time stock become key factors in a company's decision to opt for Special Procedures.

# **Key definitions**

### What is Customs Warehousing?

Customs Warehousing (CWH) allows you to store imported goods from third countries in a warehouse operated by either customs authorities or a private entity that holds a Customs Warehouse license. These goods are exempt from duties, taxes, and other customs charges indefinitely until they leave the warehouse and are released into free circulation. If the goods are re-exported out of the EU or UK, no VAT or import duty is payable.

#### A Customs Warehouse can be used to store goods:

- that are liable to customs duties, excise duties or import VAT
- where documents such as licenses are not available when you import your goods
- were originally imported to a Special Procedure and being warehoused before being re-exported
- on which duty is not yet due, but import VAT is and have been released to free circulation (duty paid)
- in the UK, free circulation, which are the subject of a claim under the Rejected Imports Arrangements

Bonded goods are imported goods upon which duties, taxes, and other customs charges are not yet paid. These goods are typically kept in a Customs (bonded) Warehouse, an area of a warehouse controlled by customs authorities. Customs Warehouses are privately or publicly owned with a designated area used solely for imported goods. 5

CAS helps us support our rapidly expanding export operations. We are realising significant improvements in the time-critical export shipment process. CAS helps the shipping department keep pace with our growth and realise bottom-line customs duty savings.

Carmen Wallays Procurement and Logistics Director Agristo



### To make use of the Customs Warehousing procedure, requirements imposed by customs authorities need to be met:

- You need a customs authorisation for Customs Warehousing.
- You need to keep track and, if required, lodge a declaration for any movement of goods in and out of the Customs Warehouse.
- You should ensure stock management and guarantee full traceability of your goods.

Unlike with Inward Processing, where you can reclaim your customs duties retroactively, duty savings with Customs Warehousing only start as soon as you have a Customs Warehousing authorisation.

# Authorisations required

To be able to store goods in a Customs Warehouse, certain authorisations need to be obtained by the customs authorities. A Comprehensive Guarantee Authorisation must be in place before a Customs Warehouse authorisation can be issued by customs authorities. Next to that, a guarantee must be provided in the form of either a cash deposit or a guarantee account. The trader can apply for a full waiver if they are an Authorised Economic Operator (AEO).

If the trader is not AEO authorised, they may qualify for a partial waiver if they can fulfil the following conditions:

- + Have an appropriate record of compliance with customs requirements.
- Have a satisfactory system of managing commercial and, where appropriate, transport records, which allows appropriate customs controls
- + Wherever appropriate, show proven financial solvency.

An authorisation for the Customs Warehousing procedure only allows for standard entry and discharge of the procedure. Under the Union Customs Code (UCC), any simplifications (such as Entry in the Declarant's Records (EIDR) or globalised declarations) must be covered by a separate authorisation for simplified procedures.





## Advantages and benefits

Customs warehousing is beneficial to any company using distribution centres, especially for stock that may remain on the shelf for longer periods of time. Some of the key benefits of using Customs Warehousing are:

### **Deferment of duties**

Duty and VAT payment can be deferred until the goods have been either reexported or released into free circulation. This can provide businesses with time to execute additional pre-sales activities. If goods are being re-exported, duty costs can be avoided altogether. This also applies to excise goods; using an Excise Bonded Warehouse allows businesses importing alcohol and other excise goods to defer the payment of the excise duty and VAT.

### Long-term storage

Goods can be stored under the Customs Warehouse regime for an indefinite period. When goods do not move, no change of procedure takes place, so no duty or VAT needs to be paid.

### **Competitive advantage**

With the possibility of long-term storage, goods can be ordered and stored in the warehouse ahead of demand. It is possible to order goods well ahead of projected demand and hold them until they are needed. It also allows importers to develop strategic relationships with local vendors or store goods in strategic locations worldwide.



### **Proximity to ports**

Most Customs Warehouses are located near major ports. This allows companies to store goods at the port of entry until they are ready to be distributed. Utilising these warehouses can create savings across the entire supply chain by reducing lead times and transport costs.

### Supply chain optimisation

Optimise stock distribution, for example shipping EU goods to EU countries and non-EU goods to non-EU countries.

### Maintaining quality while ensuring security

Customs Warehouse facilities are equipped to store any kind of product for as long as necessary while maintaining the quality. Temperature-controlled facilities are available, as well as those housing dry containers and freezers. In addition to regular safety measures like CCTV (Closed Circuit Television), goods in a Customs Warehouse are fully documented and traceable. These warehouses are subject to detailed assessment and regular auditing by the customs authorities.



# Customs Warehousing in practice 🕜

**Scenario:** A Belgium-based company imports products from all over the world. Some of these products are used for local consumption in Belgium, thus released into free circulation, and some of these products get re-exported to the UK and other countries. To avoid paying duties for products that are being re-exported, the company makes use of Customs Warehousing in Belgium.



# To explain how Customs Warehousing works in CAS, the C4T customs management software, it is important to understand the following concepts:

#### **Storage locations**

Storage location information is extremely important as it ensures that the declarations uploaded for Customs Warehousing go to the correct Storage location/Plant/Company combination. This organisational structure information is used to identify the storage location where goods are either leaving from or going to, in order to identify the correct jurisdiction and all information linked.

(Continued overleaf)

### **Stock records**

A stock record is defined as a specific Item ID and links to the current customs status (bonded or free), the current stock status (unrestricted or blocked), a specific storage location, and, if the stock is bonded, a unique Special Procedure authorisation, in this case a Customs Warehousing authorisation. With CAS, you are able to manage your stock records and link them to the inbound and outbound declarations, which is one of the key legal requirements for Customs Warehousing. Many customers choose to do an initial upload of all free and bonded stock, which offers great visibility and is the best way to keep WMS and ERP systems in sync with CAS. Throughout the process, the CAS Special Procedures module gives you visibility into your stock administration and movements so you can track status and better manage your inventory.

### **Stock reconciliation**

CAS can maintain an accurate view of your stock at all times after the initial stock upload (baseline stock) is completed. With stock reconciliation, businesses make sure the real picture of their warehouse stock is accurately painted in CAS. A report can be extracted to allow for comparison between the stock available in CAS and that available in your warehouse, after which stock corrections can be made.

### **Movement Order**

If corrections to stock need to be made you will need to do so through a Movement Order in CAS. The working assumption for a Customs Warehouse is that the synchronisation with the physical stock balance (or the balance in the inventory management system) and the stock balance in CAS is one of the main requirements. Therefore, movements that have an impact on the overall balance of stock must be processed as soon as possible.

Movement Orders entail:

- Transfer of bonded stock between storage locations under the same authorisation.
- Transfer of free stock between storage locations
- Kitting/usual forms of handling by means of a specific movement order.
- Positive and negative adjustments of stock by means of a specific movement order, which potentially results in a customs shipment with the same reference.

Each change in the stock balance is logged through a customs movement. The customs movement can be considered as the ledger that documents the changes in the stock records. In the CAS interface, you can see all the movements a specific product has undergone.

### **Formulas and Material Lists**

A Formula is generally called a Bill of Material in customers' ERP systems and is used for discrete products with no variability or deviations, such as a bike that always contains a steering wheel, 2 wheels, a saddle, etc. The composition of the product is always identical. Material Lists are used for continuous production with the possibility of including variability in the product composition (e.g. yield and losses). Material Lists are created in CAS for a limited quantity, typically amounting to a production run.



## How Customs Warehousing works in a customs management software

**Scenario:** A Belgium-based company imports products from third countries into a Customs Warehouse.

- + When a product enters the warehouse, stock records will be created increasing the stock of that product in CAS. For every item stored in the warehouse, the stock records indicate the quantities of goods entered per customs authorisation.
- + When you start using CAS, it is recommended to do an initial stock upload to help CAS sync the stock record details with the stock in your warehouse management system. CAS differentiates between bonded and free goods. By providing all product stock information upon setup, you will not have to worry about customs logic moving forward (such as sending bonded instead of free stock to non-EU countries); it is all automated based on this initial setup.
- Once the export declaration is triggered in CAS, the applicable stock quantities will get reserved for that specific declaration, and adjustments in stock balances will happen simultaneously. This ensures that the stock cannot be used for another customs declaration that is lodged in CAS. When the declaration has been released, the stock will be then written off.

### For Customs Managers, it is recommended to define the order in which the goods will be discharged from the Customs Warehousing authorisation. This helps to optimise the business' customs and commercial position.

- For example, if you are located in the EU and have a delivery within the EU, it is beneficial to deliver free goods first, as no duties apply.
- If no free goods are available anymore, you can use the bonded goods by releasing them into free circulation and paying the applicable customs duties. This optimisation is automated in CAS, by write-off rules configuration, enabling you to save costs and maximise profits.



By housing the stock records in CAS, you will be able to show customs authorities complete visibility into administrative stock movements and their respective storage location(s). This means your administrative stock and physical stock figures will be aligned. To ensure that stock balances are in sync between CAS and your Warehouse Management System (WMS), the goal is to compare stock in your WMS with the stock in CAS for a specified period and for specific plants or storage locations. As a result of this comparison, CAS creates a report with an alert indicating the differences. No automatic processing is linked to stock reconciliation, but it allows you to make stock corrections to sync both stocks.

CAS also considers stock movements to accurately represent goods present at the warehouse, for example scrapped goods or stock deviations.

By automating processes around Special Procedures like Customs Warehousing, traders can easily provide reports required by customs authorities, saving administrative time and ensuring goods are handled in the most economically efficient way, providing the required audit trail to the respective customs authorities.

## Conclusion

Using Customs Warehousing can result in substantial cost savings for businesses participating in international trade, granting partial or even complete relief from customs duties.

Although this is a major advantage for companies, additional administrative controls need to be in place in order to be granted an authorisation by the customs authorities. Businesses must be able to prove they can provide detailed records and reports showing their stock management capabilities are in line with the requirements for Customs Warehousing, and show an audit trail to the customs authorities. While some businesses choose to use Excel to track their stock management, realistically it is difficult to meet the requirements without a digital customs management solution.

The dedicated Customs Warehousing module in CAS manages the complexities of Special Procedures. By taking advantage of the cost savings provided by various Special Procedure regimes, CAS customers have been able to realise a speedy return on investment with ongoing savings year after year.

For more information on Customs Special Procedures visit our website.

### About us

Customs4trade NV (C4T) has developed CAS, a collaborative hub, built on the Microsoft Azure platform delivered as a service (SaaS). It is designed to manage regional and worldwide customs and trade compliance quickly and accurately, with a digital-first approach, helping customers stay ahead of the digitisation of customs processes.

CAS provides customers with continual updates and feature enhancements, including the incorporation of any changes to legislation and compliance regulation—along with Azure's signature accessibility, scalability, and security.

Forward-thinking companies are turning to C4T to help them navigate customs and trade with native-cloud software and support services for their organisation's highest strategic benefit.

## 🖻 Get in touch

### We'd love to hear from you.

For more information or to contact us, visit our website or email: info@customs4trade.com

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### Expanding the UK import/export customs logic in CAS will, together with Special Procedures, increase our cash flow optimisation for future EU imports into the UK.

Shaun Hall, Customs and International Trade Manager, Honda Motor Europe