

**MEMÒRIA DEL TREBALL DE FI DE GRAU DEL GRAU EN NEGOCIS
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The role of customs in international operations

Customs warehousing in Spain

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INTRODUCTION & OBJECTIVES

Free trade among nations has been an anomaly throughout history. Usually governments have intervened markets in some way or another for either economic or political reasons. This intervention always tries to protect local producers (usually at the expense of local consumers) or harm foreign enemies at the same time the state's treasury takes profit. Like any other state intervention it is always carried out in name of the common good.

Regardless of the motivation or suitability of tariffs, these exist and must be taken in consideration by exporters and multinational companies. By using adequate customs procedures and instruments, fiscal costs can be reduced (or even eluded) and operations can be simplified in order to create a sustainable competitive advantage.

My intention throughout this project has been to find out about how international companies cope with customs. This topic has driven my curiosity since my 6 month internship in Quimidroga (a chemical product dealer) last year. There I saw how customs barriers can be a source of competitive advantage if they are managed wisely.

My first idea to approach this topic was to study all the legislations of all the main customs agreements and to analyse how certain good categories fitted in them. My tutor convinced me to change this approach as –besides being an infinite task- it was pointless to spend so much time studying the different customs legislations. Since the 1973 Tokyo GATT agreement (today integrated in the WTO), customs normative has been harmonized, so it is pointless to study the different legislations, because in the practice they will all be similar. Instead, he advised me to concentrate in customs establishments (CE) in Spain, and so I did.

My study has been carried out on two levels. Firstly, I have analysed customs establishments from a normative point of view, secondly I have done it with a practical approach, studying cases of companies that are interesting from the customs point of view.

CUSTOMS: BASIC CONCEPTS

The fully comprehension of customs warehousing requires further understanding of the customs legislations and the international transport industry. Following I will present a glimpse view of some of these topics which will put into context to those readers who are not experts in the matter.

What are customs?

Customs make reference to all the controls and duties people and merchandise have to undergo when entering or leaving a country. In some cases, customs will also have to be undergone within a same political territory. This is the case of the EU, where some territories like Ceuta, Melilla, the Channel Islands or French Guyenne are excluded from the union's customs territory (Cabello & Cabello, 2008). (see [Attachment 1](#))

Who establishes customs policy in the EU?

Customs procedures in the EU are regulated in the Community Customs Code that is made out of two regulations: The Council Basic regulation CEE 2913/92 ([attachment 2](#)) and the Commission Implementing Regulation CEE 2454/93 ([attachment 3](#)). The second one develops some aspects of the first one and it is periodically reviewed by the European Commission (after lobby pressures) to re-establish the different tariff rates for each good category and origin. The 75% of the funds raised through tariffs are used to finance the EU organs (Cabello & Cabello, 2008).

Who implements customs policy in the EU?

Despite customs policy is established by the EU, the member states are responsible for its implementation. This inevitably generates asymmetries that have a direct impact in logistic operations. In the case of Spain this is accentuated as the customs authority role is carried out by the “*Departamento de Aduanas e Impuestos Especiales*” of the “*Agencia Estatal de Administración Tributaria*”, which is organised in 52 semi-autonomous “*delegaciones provinciales*” that discretionally interpret and apply some aspects of the Community Customs Code (Cabello & Cabello, 2008).

Who clears customs?

Customs clearance can only be carried out by customs representatives. Traditionally, customs representation could only be carried out by customs brokers who had to take a public examination in order to become so. Currently, customs representation can also be carried out by

forwarders and companies with a customs domiciliation. This is given by the customs authorities if the company demonstrates its financial solvency and that it will carry out a considerable number of import/export operations every month, as well as meeting some security measures. These requirements make it possible only for big companies to be their own customs representatives. In most cases customs clearance is carried out by forwarders or customs brokers. The fact that forwarders can carry out customs clearances is bringing customs brokers to extinction as it is pointless for forwarders (who importers and exporters contract to take care of their logistics) to contract a service they can carry out by themselves. (Source: Pepi Martínez interview)

What are customs duties and debt?

Customs duties are those that are payable on import (as exporting is 100% tariff free). Some of these duties are exclusive for foreign goods (tariffs and quotas) while others are also applied inside the fiscal territory (VAT and excise duties). Import duties are not paid on the spot; instead they add on throughout the month to be paid off at once the 5th day of the next month by the customs representative. The quantity due to the customs administration is known as customs debt. In order guarantee they will get paid, the customs authorities request custom representatives to present a bank guarantee from which they will block a proportional part of the debt generated with every import. Once the debt is paid, the bank guarantees are liberated, so that the cycle can start up again. (Cabello & Cabello, 2008)

How are customs duties calculated?

Tariffs can be unitary or ad valorem. Unitary tariffs are calculated over the quantity of goods (FE: 40 € per kg of rice). Ad valorem tariffs are calculated over the CIF value of the goods established in the commercial invoices. If the transaction was made FOB the cost of the freight must be added to the base. If the goods or the freight have been invoiced in a foreign currency these will have to be translated into euros according to exchange rates the customs authorities establish every month.

The next step is to calculate the indirect taxes (VAT and excise duties). These are calculated over a base that includes the CIF value of the goods, the tariffs and further adjustments (everything in euros). These adjustments include all the port terminal and customs expenses. As I explained before the port terminal will charge the cosignatory for every container moved and stored. Customs expenses are those which are generated by customs inspections. For example: if a customs inspector wants a container to be emptied to make sure there are no illegal goods inside, the port terminal workers will carry such task, but the consignee of the goods will be later charged for it. (Cabello & Cabello, 2008) (Find an example in [attachment 4](#))

How is a customs clearance carried out?

Before the goods arrive at the customs site (authorised point of exit and entry of goods) the transport company will send the summary declaration to both the customs authorities and the customs representative appointed by the consignee. The Summary declaration is a list of all the goods (including its quantity and weight) to be unloaded at destination. Once the goods are available at the dock, the customs authorities will notify it to the customs representatives through its website. If the consignee does not select a customs destination (or requests for an extension) after a period of 20 days (45 if the goods entered by sea) the customs authorities will consider it as abandoned, starting the diligences for its auctioning or destruction. Once a customs destination is appointed (and the duties are paid) the *Documento Único Aduanero* (DUA) is released (see a sample in [attachment 14](#)). This acts as a “release of the goods” document, which demonstrates customs have been cleared and authorises its removal from the customs site into the customs territory.

What is a customs destination?

Customs destination is the legal term used to describe the five different possibilities contemplated by the Community Customs Code of what can be done with merchandise once introduced in a customs site. Find them below. (Urgelés, 2012)

1	Entry of goods in a free zone.
2	Re-exportation
3	Destruction
4	Abandon in benefit of the state
5	Placement under one of the nine different customs procedures included in the CCC.

The most common customs destination is number five. These nine procedures include the different ways of importing and exporting. During these last months I have studied them in depth as they represent the core of customs legislation, unfortunately the lack of space only allows me to introduce them here. (Urgelés, 2012) (find a scheme in [attachment 5](#))

1	Import into free circulation	Paying the tariffs but not the indirect taxes. Used for goods destined a member state different from the one of introduction.
2	Import for consumption	Paying off all the duties. Used for goods destined to consumption in the state of introduction.
3	The customs transit procedure	To move non-community goods through the customs territory without having to pay off the customs duties.
4	Temporary admission	For goods that will only stay in the customs territory for a limited period of time.
5	The Inward processing procedure	Duty exemption for goods that will be transformed for later exportation.
6	The Outward processing procedure	Partial duty exemption for community goods that have undergone a transformation abroad.

7	Processing under customs control procedure	Special exemptions for goods that undergo a transformation inside the customs territory.
8	Exportation	Goods leaving the customs territory (100% duty free)
9	Customs Warehousing	Suspending the payment of the goods until the moment required by the consignee.

I have included a schematic example of an import clearance procedure in [attachment 6.1](#) and of an export clearance procedure in [attachment 6.2](#).

CUSTOMS ESTABLISHMENTS (CE)

Customs establishments are warehouses with a special licence where the goods stored remain under a fiscal suspension regime. This means that while the goods are in this warehouses they will not have to pay import duties or indirect taxes; like this non-community goods can be stored inside the EU customs territory without having to pay duties until the moment the importer requires them. (Muñoz, 2013)

There are different kinds of custom establishments (CE) that grant different benefits to the bonded goods. (See [attachment 5](#)). Before explaining them one by one there are a couple things the reader must know about CEs. (Urgelés, 2012)

CEs are licences granted by the custom authorities (CA) to a warehouse. In order to obtain these licences both the holder and the warehouse must meet certain security standards. I will not enter to describe them in detail as these are complex and are quite subjective. However, the reader must know that obtaining these licences is only (like in the case of the customs domiciliation) feasible for big international companies and forwarders. (Muñoz, 2013)

The holder of the licence runs the CE under the customs authorities close surveillance. The CA have on line visibility of the inventory accountability, so they know at any moment what, when and who is depositing merchandise in a CE. This accountability is occasionally verified with surprise physical inspections at the warehouse. (Muñoz, 2013)

Communication with the custom authorities is carried out via Electronic Data Exchange (EDI) messages. Every time goods enter or leave a CE an EDI message is sent by the holder to the CAs. As we will later see, the name these EDI messages receive changes depending on the circumstances. Instantly the customs authorities respond. There are 3 possible answers: (Cabello & Cabello, 2008)

<u>Green channel</u>	The holder can proceed, the CAs agrees.
<u>Orange Channel:</u>	Customs authorities want to supervise the commercial and transport documents of the goods before they are removed from the authorised customs site. The documents can be sent in a digitalised form (scanned) by email. Once this inspection is carried out (and if everything is in order) the customs authorities will contact the holder to communicate that the channel is now green.
<u>Red Channel:</u>	Customs authorities want to supervise the commercial and transport documents and carry out a physical inspection of the goods before they are removed. Once the inspections have been carried out (and if everything is in order) the customs authorities will contact the holder to communicate that the channel is now green.

Temporary Storage Warehouses (TSW)

These customs establishments are thought to become a prolongation of the customs site in a private warehouse. The fiscal suspension regime the goods bonded to a TSW benefit from is the same one they would get if they remained at the customs site until a customs destination was appointed. In a TSW goods with a non-community origin can be stored while they are appointed a customs destination. While deposited, goods are under a suspension regime; by this, import duties, commercial measures and indirect taxes do not have to be paid until they are assigned a customs destination. The deposit cannot be indefinite; a destination has to be assigned before 20 days (45 if entered by sea). During this period goods cannot be processed or manipulated in any way. (Muñoz, 2013)

The benefits of using a TSW are basically two: (Muñoz, 2013)

1. The goods will remain less time in the dock, so the terminal expenses will be reduced.
2. Having the container in a private warehouse allows the customs representative to clear customs of the goods it contains sequentially; this means that there is no need to clear customs of the whole container all at once. ([see attachment 7](#))

Bonding and detachment of merchandise from a TSW

Goods can be introduced to a TSW will always come from a customs site (as they are non-community goods pendent of destination). There are two ways of introducing them.

The first one is through a transit document. This is the less desirable of the two options as it entails more paperwork and time. (Muñoz, 2013)

The other option is a procedure known as the CUB (*cambio de ubicación*). The CUB is a not standardized document. This means that each TSW holder can have its own printed format, so there is no need to buy the official templates or to present them with the official stamp of the

administration. Also, when the CUB is issued the original summary declaration is not cancelled like it happens with the transit; it remains the same but with a different location. For these reasons the CUB is preferable to the transit, unfortunately the CUB procedure can only be used by companies with the simplified customs domiciliation license. In order to have this license companies need to meet some extra requirements than for the standard customs domiciliation (Muñoz, 2013)

In [attachments 8.1](#) and [8.2](#) I have included a schematic example of how the TSW operates.

Warehouse Authorised for Merchandise to Exportation (WAME)

Like the TSW, the WAME is thought to become a prolongation of the customs site in a private warehouse, but in this case it is thought for exporters; so the goods bonded to the WAME will always have community origin (or at least have been naturalised as such). (Muñoz, 2013)

As I have mentioned before exports are duty free so the fiscal suspension is pointless in the case of the WAME. Its benefits are mainly operational. The WAME makes the exportation process more agile by avoiding the exporter from having to present the merchandises at the authorized customs site and allowing him to carry out the export declaration from his own warehouse; this means a reduction in terminal costs plus a reduction in the transport waste times. (Muñoz, 2013)

Once the goods are physically in the exporter's warehouse (WAME), he electronically sends to the customs authorities the certificate of reception of the goods together with the export declaration or DAE (*document aduanero a la exportación*). Just like with the CUB procedure in the case of the TSW he can get three different feedbacks. Once he gets the green channel the goods can abandon the customs territory. (Muñoz, 2013)

Customs Deposits (CD)

Differently from the TSW and the WAME, custom deposits represent a customs destination by themselves (see page 5). A customs deposit (CD) (also known as bonded warehouse) is a warehouse where the goods bonded to it can remain under fiscal suspension indefinitely. This allows companies to stock their inventories without paying the correspondent duties until the moment they require it. (see examples in [attachment 9](#)) (Muñoz, 2013)

CD only accepts goods with a non-community status that have been assigned a CD customs destination. The only exception to this, are community goods pendent of reimbursement due to

the inward processing customs regime. I have included an example of this in [attachment 10](#). (Muñoz, 2013)

There are two actors in the CD. The warehouse keeper, legal of physical actor to whom the CD authorization was granted (the tenor of the license), and the depositor, this is the actor that deposits the merchandise in the keeper's warehouse. The depositor is liable for any irregularities that might arise. Sometimes these two roles can be played by the same actor. (Muñoz, 2013)

The document used to introduce a good into a CD is known as DVD (*Documento de vinculación a depósito*). This is an EDI message sent to the customs authorities where they are informed about the depositor's identity and the nature of the goods bonded. In the case the CD physically overlaps with a TSW the document required will be known as IDA. (Urgelés, 2012)

Inside the CD, goods can undergo what is known as usual manipulations. These are slight manipulations that in any case will change the form or nature of the initial product itself. There are three kinds of usual manipulations: 1) Simple operations to maintain and preserve the goods. 2) Operations to enhance the presentation and repackaging of the goods (Picking operations or turning bulk into small packages). 3) Preparatory pre-sale operations (dissolution of chemical products or selection and cleaning of grains). These manipulations require of previous authorization for the customs deposit and must be notified to the CAs through an electronic RUN message. Any further manipulations will have to be carried out under the inward or outward processing customs regimes. (Muñoz, 2013)

All manipulations, sales and logistic and warehousing services carried out inside the CD will not pay indirect taxes (VAT) until the goods abandon the CD. (Muñoz, 2013)

CD are first classified between public and private warehouses. In a public warehouse any depositor can store goods with the warehouse keeper's consent. On the other hand, a private warehouse is only authorized for the exclusive use of the keeper. Find scheme on [attachment 5](#)

PUBLIC WAREHOUSES

These are the ones used by forwarders and customs brokers. Besides other services, they will hire space in their public customs deposits to companies or people who want to benefit from the fiscal suspension. (Muñoz, 2013)

One important aspect of public warehouses for companies is that trade can happen inside them. (Muñoz, 2013) This sale can be carried out normally (according to national mercantile law) but needs to be notified to the CA by creating a new DVD. This sale will not be taxed in any way when it happens, taxes will be paid when the merchandise is retired from the deposit. These

taxes will be paid on the base of the importation price, not the last sale price (see an example in [attachment 16](#)).

Public warehouses can be classified into the following (Urgelés, 2012):

Type A: The customs guarantees are given by the warehouse keeper.

Type B: It is the depositor who must give in the guarantee for every good he links to the deposit. This deposit is gradually becoming extinct, as deposit A is more operative (less bureaucracy).

Type F: A public deposit owned by the government. Although that from a normative point of view this is not used in Spain it has an equivalent: the Free deposit (*Depósito Franco* (Urgelés, 2012)). The free deposit is a CD owned by the state and operated by a licensee. Free deposits are a reminiscence of ancient normative; when customs warehousing was a state monopoly. Today the only benefit they present with respect to CD is limited to goods with fluctuating prices (aluminium, nickel, copper, and other commodities). A FW allows the depositor to pay duties on the base of the price of acquisition while a CD would oblige him to pay them on the spot price of the day of detachment, regardless the price at which he bought the commodities. (Pepi Martínez, interview)

PRIVATE WAREHOUSES

Private warehouses are thought for big companies with their own customs domiciliation. It allows them to keep their inventory in fiscal suspension until the moment it is required. Private warehouses can be classified into the following (Muñoz, 2013) (find scheme in [attachment 5](#)):

Type D: This is one of the most operative deposits for companies. Obtaining a Type D deposit licence has high security and import/export volume requirements such as the Economic Authorized Operator status. This constrains make it only reachable to big multinational companies.

Type E: Goods do not have to be necessarily stored in a site authorized as a customs deposit. This is thought to bond goods to a PD which cannot be introduced in the warehouse for operative or security reasons (for example an airplane fuselage or tank carrying an explosive chemical product). It is also used to finance reimbursements of goods imported through the inward processing customs regime. This regime allowed temporary tax and duty exemption for goods that were to be transformed for their further exportation. (See the example of the jam manufactureur in [attachment 10](#)).

Type C: This category is for the deposits that do not fit in neither seldom categories. Inside this category we can find ship provisioning warehouses. These establishments are not explicitly typified in the Community Customs Code as such, but still they are of great importance. Its role is to provision deep sea vessels with everything they need. This includes fuel, mechanical replacements, and provisions for the crew (cigarettes, alcohol, clothes, books, films, etc...). I have interviewed a ship provisioning company so later on we will see in depth this warehouse.

Deposit Different from Customs (DDC)

DDCs are thought to cope with fiscal borders within Spain and the EU. Spain is not an integrated fiscal territory as the Canary Islands, Ceuta and Melilla have special VAT and Special taxes regimes. So the DDC is thought for national goods to be exported to other EU member states or outside the peninsula and Balearic Islands. It is also thought for imported goods that have been cleared into a free circulation regime (import duties covered but not indirect taxes). The DDC operates in the same way as the CD does. There is just one difference, as the goods stored have community origin only VAT and excise duties are suspended (as tariffs are not due). (Muñoz, 2013)

DDC's can be classified in Private and Public and in the same subcategories than CD. DDC's accept one further classification: They can be divided into Normal DDCs that cannot contain goods which are subject to special taxes (Tabaco and Alcohol and oil derivatives) and Fiscal DDCs, which can contain goods subject to special taxes. (Muñoz, 2013)

For introducing goods into a DDC a document know as DVD (the same one than for the CD) has to be issued. This can be carried out digitally. In the case of naturalized goods (non-community goods that have been cleared to free circulation) the DUA will also be required. (Urgelés, 2012)

Industria de Turbo Propulsores (ITP)

The logistic complexity that the aerospace industry presents makes it very interesting to study (see [attachment 15](#)). Luckily the tutor of my TFG has worked in the sector for several years so he was able to introduce me to the customs responsible of ITP (a company in sector), Olimpia Fernández de Terán (ITP's Customs director) who agreed to explain me how ITP uses customs regimes and deposits in its operations. This has been an absolute privilege for me as the opacity of this industry makes it unthinkable for a student to get a glimpse from the inside in a company where NATO authorisation is required to enter certain departments. The information she gave me is to certain point sensitive so I was asked to change some points such as names of third countries and companies involved. In any case reader's discretion is requested.

ITP is an engine and turbine Spanish manufacturer. It has three plants in Spain: Zamudio (Vizcaya), Albacete and Ajalvir (Madrid). The activities of ITP can be divided into 1) engine reparations, which take place in Albacete and Ajalvir plants and 2) manufacturing which takes place in the Zamudio plant.

Manufacturing

Raw materials and components from EU and third country suppliers and partners are imported and taken to the Zamudio plant. Those components that have a non-EU origin are imported under the Inward Processing Procedure (IPP). By this all the duties and measures on the imported goods are suspended on the promise that they will be processed to new goods with an added value that will then be exported from the customs territory. One of the conditions of this regime is that the goods have to be re-exported before six months. This period can be prorogued for two quarters and with exceptional character a third proration can be authorised. The Zamudio plant counts with a global authorisation of the Ministry of Commerce to import under the IPP regime. By this ITP does not have to request an individual authorisation for every operation, which makes their supply chain more agile and helps them synchronize with their partners.

Once the imported raw materials and components have been processed into a finished or semi-finished engine, this is sent to the next partner who will finish it or assemble it into an aircraft. The procedure will differ depending on the location of this partner. For non-EU destinations the engine will be sent off under the re-exportation procedure.

The case of EU partners is different as the raw materials and components were imported under the Inward processing regime and the goods are not leaving the customs territory, they are not

being re-exported. In order to maintain the payment of duties until the engine is actually assembled and re-exported outside the customs territory a transference document is presented at the customs authorities of the importing partner's member state. Through this procedure the suspension of duty payments will still be valid in the country of destination, allowing ITP's partner to carry out its task within the authorised period.

Engine reparation

Engine reparation takes place in the Ajalvir and Albacete plants. The Albacete plant specialises in helicopter engines while the Ajalvir does for airplanes. The operational scheme is the same for both plants.

The operational scheme is like follows: ITPs clients (aircraft owners such as airlines, governments or private jet owners) send their engines to Spain for reparation. When the engine is coming from an EU country it will be introduced to through a transit procedure. If it comes from a third country it will imported under the Inward Processing Procedure. Like in the Zamudio plant case, the engines can be repaired without having to pay any duties.

These reparations can include the use of pieces and components which have to be supplied by other companies. These pieces and components have big lead-times (some can take even two years to be supplied). In order to offer a quick service to its clients ITP has to have in stock hundreds of different components that can be required in reparations. This cannot be imported under the Inward Processing Procedure as the company has no certainty that the components will be used before the limit period of twelve months. Furthermore they cannot import them under this regime because they have no certainty that the engine that will require that component will be finally re-exported or it will stay in the EU. In order to avoid these problems, ITP has a simplified domiciliation procedure with a Temporary Storage Warehouse and a Private Customs Deposit. ITP imports components from third countries like USA, Canada or Israel this are introduced in their TSW from the customs site with a CUB document. Before 20 days (all Transportation carried by air or land) a customs destination has to be assigned. Within this period the goods are linked to ITP's customs deposit, where they can remain without paying liable duties indefinitely until they are required for reparation and withdrawn from the deposit. When this time comes, for the engines destined to the EU, components are withdrawn from deposit under a Release into Free Consumption Procedure (for Spanish clients) or Release into Free Circulation Procedure (for the rest of the EU countries). Once these components have been assembled into the engines they are sent back to the client with a transit. For the engines of third country clients the components are withdrawn under an inward Processing Procedure. Like this,

duties of both the engine and the components never get to be paid as their final destination is re-exportation.

When ITPs orders break its capacity outsourcing is necessary. This outsourcing is carried out under the Outward processing procedure. This customs procedure allows companies to temporarily export community goods outside the customs territory for its processing into a different or better good called “compensatory good” that will then be imported to EU with suspended or reduced duties and indirect taxes. Usually in these cases engines with EU origin are sent to the USA for reparation.

As a military contractor ITP sells part of its production to the Spanish Air Force (SAF). Any sub-components or pieces which have to be imported in order to manufacture or repair an engine or component which will be sold to the SAF are tariff-free. This is an exceptional measure authorised by the regulation 150/2003 of the Ministry of Commerce.

Financial benefits of using the inward and outward processing procedure and customs deposits for ITP

In 2012 ITP had sales worth € 518 million and its EBITDA was of € 105 million. It is then fair to suppose that the cost of sold goods stands somewhere around 350 million euros at least. Let's assume that only half of these goods are imported from third countries, this is 175 million euros. The mean tariff for aerospace components stands around 3% and the VAT in Spain is of 21%. As the VAT is calculated on a base that includes the tariff the total duty type stands around 24,63%. This means that using customs deposits and importing under the inward processing procedure relieves the company's liquidity by around 43,1 million euros each year. If the stock rotation index stands around 8 months then the cost of opportunity of this capital using the 2 year German bund as a reference (yield=5%) is of 1.4 million euros. 1.4 million Euros are directly saved by using adequate customs procedures. Furthermore there are plenty of operational benefits to using these, by which the supply chain becomes more agile and quick.

Import and Export of Double use and Military use materials

Some goods and technologies are classified by the European Commission as double use. This category includes those that can be used for both civil and military purposes. This category is much more extent than people usually imagine. For instance concrete or steel as well as plenty of different chemical products included here. The same steel can be used to produce spoons and tanks just like the same concrete can be used to build schools or bunkers. These double use categories sometimes require of an import licence and depending on the country of destination an export licence too. This licence is given by the Ministry of Commerce. It usually authorises

an exporter or importer to trade with a good category for a period of around one year. In other cases authorisations have to be given explicitly for each operation.

Military use materials are those that are meant to be used by armies. This category of goods always requires of import and export licences. These licences are given by the Ministry of Commerce and work just like the double use licences.

ITP needs both licences for plenty of the engines and components they trade with as they produce for both military and civil aircraft. Aircraft itself and its components always have a certificate attached that determines which use (civil, military or both) can they be destined to. This certificate will be the reference to know which kind of licence is needed to trade a specific category.

SUMINISTROS ENTREPOT

The next company I have had the opportunity to study is Suministros Entrepot. The tutor of my project put me in contact with the responsible of the customs department, Miguel Angel López, who has been kind to explain me how his company uses customs establishments and answer all my related questions.

Suministros entrepot is a ship provisioning company. Its role is to provision deep sea vessels with everything they need to operate. Customs establishments are important to this company as the commercial vessels that operate international lines do not pay taxes on the provisions and equipment they buy at port. By this the sales of Suministros Entrepot will be treated as exports.

Suministros entrepot is a company that operates in the Canary Islands. As I have explained before, the Canary Islands are one of those exceptional territories in Spain and in the EU with a specific fiscal normative. This makes it even more interesting from the customs point of view.

Ship provisioning in Spain is regulated by the normative 985 July 27th 1988 of the Ministry of Economy ([attachment 11](#)). This normative regulates when, what and how much can be sold to commercial vessels under the duty free regime.

What can be sold? Two categories of goods: provisions and equipment. Provisions are those goods used to feed and clothe the crew (this includes food, water, clothes, toothpaste, etc...). However sailors have other necessities, such as cigarettes and liquor, which despite not being strictly essential they are also contemplated as provisions.

On the other hand, equipment is that material necessary for the maintenance of the vessel, (For example: sailing instruments, engine replacements, lubricants, cleaning products, paint, ropes, fishing nets).

Fuelling of vessels is an activity known as bunkering. This activity is usually carried out directly by oil companies (like Shell, BP, Exxon or Repsol). Entrepot does not carry out bunkering activities of any kind.

When can it be sold? Only commercial vessels with a destination outside the Spanish territory can buy their provisions and equipment under a duty-free regime; recreational yachts and vessels operating within Spain cannot. (Find examples of this in [attachment 12](#))

How much can it be sold? In order to prevent fraud, the normative limits the quantity of provisions ships can buy under a duty free regime. This limitation only applies for some goods, principally alcohol and tobacco. The limitation varies according to the size of the crew, the destination, and the number of days to destination.

How does Entrepot use customs sites? Depending on the origin and the nature of the goods Entrepot will store its inventory in one of the four customs warehouses they use. Due to the Special Canary fiscal regime (Régimen económico canario or REC), the Canary Islands count with some extra customs establishments; before explaining the different CE Entrepot uses, I need to explain a bit about the REC. The AIEMIC (*Arbitrio impuesto sobre la entrega de mercancías en las Islas canarias*) is a tariff (15%) on the introduction of those goods which are also manufactured in the Islands (this includes goods manufactured in peninsular Spain). Given the natural industrial limitations of the Canary Islands, this basically affects alcoholic drinks. The VAT (here known as IGIC) and excise duties are also different from those in peninsular Spain.

Fiscal Deposit Different from Customs (DDC)	This is used to store the alcoholic drinks produced in the Islands, and therefore not subject to the AIEMIC.
Fiscal Deposit on the REC (DDC)	Used to store goods with a EU or Spanish origin (peninsula + Balearic Islands) with the only exception of tobacco products. In the practice it is like a DDC.
Type B Customs Deposit	It is used to store goods with a non-community origin.
Fiscal Deposit for Excise Duties on Tobacco (DDC)	Differently from the excise duties on petrol and alcohol, those on tobacco, are established and raised directly by the Canary government, so this fiscal deposit for all kinds of tobacco goods is authorised and controlled by the Canary authorities rather than the <i>Agencia Tributaria</i> . In the practice it is like a DDC.

When Entrepot sells inventory to a vessel, goods are cleared as if they were being exported, so they abandon the customs territory without paying any duties (see [attachment 12](#)).

Universal Global Logistics - Noatum

After having studied the case of two companies that use private CEs, I wanted to see the case of a logistics operator.

My tutor suggested me to interview Pepi Martínez, the director of the customs department in Universal Global Logistics (UGL). UGL is the customs broker of the Noatum group. Noatum is conglomerate of logistics companies integrated by ship consignees, forwarders, port terminals, customs warehousing and customs brokers; it is one of the most important Spanish companies in logistics.

From its headquarters in Barcelona, UGL carries out all the customs clearances for the companies of the group and for outsiders.

Pepi is one of the best specialists in customs legislation of the entire country, with a lot of experience in the sector –she was one of the first women to pass the customs broker opposition-. Her help has been crucial in order to understand the customs normative. In the conclusion of this project I will reflect some of her ideas.

UGL does not count with customs establishments itself. Other companies of the group are specialized in running warehouses. It is these customs warehouses they use in the day to day. Mostly they use a type B customs deposit, a TSW, a WAME and a free warehouse concession (FW). Following I will explain when they make use of each CE.

TSW	Used to import LCL containers. They are introduced in the TSW, with a transit or a CUB. Once there the forwarder has a period of time to devan the container and clear customs of the goods sequentially. For FCL containers, customs are cleared in the customs site and sent directly to the importer; like this unnecessary transport costs to the TSW are avoided.
WAME	Like in the case of the TSW, the WAME is used for LCL containers. FCL containers are sent directly to the customs site in order to avoid unnecessary transport costs.
CD type B	Used only when the importer requests it expressly. Usually only big companies request the use of CD. Industries with a VMI strategy will request to their providers to stock big quantities of inventory in consignment in this deposits, like this they can be sure they will always have sufficient stock to operate.
FW	Their free warehouses are open air areas thought to stock big merchandise: Machinery, cars, steel coils, etc...In the practice they operate like a CD, the main advantage of FW is that they can be open air.

CONCLUSIONS

The advantages customs establishments and procedures offer to companies operating on an international basis are huge. The companies that I have had the opportunity to study, proof the success of implementing a customs policy plan within the company.

If this is so, how is it that so many companies do not make use of these instruments to save hundreds of thousands of euros? Size is not an excuse as these services can be outsourced –in fact they usually are- to logistic operators for reasonable prices. (Storing goods in a CE costs the same than doing so in a standard warehouse!)

To Pepi Martínez, the answer to this lies in the fact that companies tend to underestimate the importance of their logistics departments and demand little from them. This results in a big lack of professionalism within these departments, where tasks are carried out by under-qualified people who memorize how to do the day to day tasks but are helpless when their routine is broken. Their lack of knowledge on international trade compliance is huge; this can take companies to -unintentionally- cross the line of legality. When problems arise, these are solved by external consultants or logistic operators so that things can keep on going, but results are still very far from what they could be.

The fact is that it is not easy to find qualified customs experts. Like Pepi, they must have knowledge on many fields. Besides the deep understanding on fiscal law and the community customs code in their home country, they must also be able to understand foreign legislations. They also need to have a crystal water vision of logistics and supply chain (theoretical and practical) and finally they must have a superficial knowledge in plenty of different fields like chemistry, biology, medicine or engineering in order to understand the laws regulating certain good categories. If to this we add the fact that customs regulations are constantly changing, it becomes evident why customs experts are so scarce.

It is the lack of qualified personnel not the size that is holding companies from exploiting all the potential offered by the customs legislation. This really is a lost opportunity for Spanish companies, as Spain is one of the most advanced and innovative countries of the EU in its implementation of the community customs code. Not taking advantage of this means giving up to a source of competitive advantage within our economic region.

According to Pepi, the scene will not change in the future years: “In universities students are not prepared to cope with customs and international trade compliance. It really surprises me that in a globalizing world something as crucial to international trade as customs is being left behind”.

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