

## CHAPTER 22

### PROCESSING UNDER CUSTOMS CONTROL (PCC)

#### 22.1 Introduction

In this chapter we cover another Customs procedure that enables an importer to save duty. The procedure is called '**Processing under Customs Control**' or **PCC**. The legislation is contained in **Articles 130-136** of the Code, and mainly **Articles 551-552** of the Implementing Regs. The procedure used to be known as 'Processing for Free Circulation' or PFC. We'll use the current name throughout this chapter.

[Art 130-136  
2913/92](#)

[Art 551-552  
2454/93](#)

#### Illustration 1

You are an importer of metal sheets. We'll imagine that the duty rate on these sheets is 5%. The reason you are importing the sheets is to process them in your factory. You produce metal screws and other metal parts from the sheets, which are to be incorporated into cars. Let's say that the duty rate on these products is currently 3%.

Using what we know so far, when we import the sheets of metal, we will declare them to Customs on the C88 and pay duty at the rate of 5%. However, the final products that we're releasing onto the UK market are screws and metal parts, and these have a duty rate of 3%. Can we pay duty at the rate of 3% as opposed to 5%?

You might be thinking that we could use Inward Processing Relief. However, if you remember, with IPR you **only get duty relief if you re-export** the finished product. Our finished product is remaining in the EU. A customs warehouse wouldn't help us either, as you can **only carry out usual forms of handling** on goods in a warehouse, so this type of processing would not be allowed.

Using PCC will help as this allows an importer to import raw materials, without paying Customs duties and Import VAT, process them in the UK, and **release them to free circulation at the rate of duty applicable to the finished products**, or "processed products" as the legislation calls them. **Duty and VAT is only payable when the processed products are released to free circulation.**

In our illustration above, instead of paying duty at 5%, we can pay duty at 3%. We also obtain a **cash flow benefit** by paying the duty once the processing is complete. The regime therefore encourages production to take place in the EU. Otherwise if we had to pay duty on the metal sheets at 5%, we might as well have the metal sheets made into screws abroad and import the finished product at a lower rate of duty!

## 22.2 Authorisation

Like with most other procedures we have looked at, if a person wishes to take advantage of PCC, they need to be authorised. The authorisation rules are contained in **Articles 132 and 133** of the Code and **Articles 497 - 508** of the Implementing Regs. You will have seen these articles in the Implementing Regs before, as they are common to most customs procedures, eg IPR, OPR and Customs warehousing.

[Art 132 & 133  
2913/92](#)  
[Art 497-508  
2454/93](#)

For a regular user of PCC, application is made on a form which replicates the one in **Annex 67** of the Implementing Regs.

[Annex 67  
2454/93](#)

Authorisations will only be granted if the following conditions are satisfied:

1. applications can only be made by **someone established in the Community**;
2. the **import goods must be capable of being identified in the processed products**;
3. the processed products must **not be capable of being restored to their former state**. Where they are capable, for example our metal screws could be melted back down into sheets, this condition is satisfied if it is **not economically viable to do so**;
4. the **procedure cannot be used to circumvent rules on quantitative restrictions**, and finally
5. the **Economic Conditions must be satisfied**. Remember you've seen this phrase a few times before - it means that the processing is not going to harm EU producers of similar goods.

## 22.3 Economic Conditions

For PCC, the economic conditions are deemed to be fulfilled, if the goods and processes are listed in **part A of Annex 76** of the Implementing Regs. To pick a couple of examples, it includes:

[Art 552  
2454/93](#)  
[Annex 76  
2454/93](#)

- Non-agricultural goods, where the **duty advantage does not exceed 50,000 euros** per annum
- Processing of any products into **samples**; and
- Carrying out **usual forms of handling** on products

If the goods and processing we wish to undertake do not fall within the list in Annex 76, then we need to satisfy the Economic Test. We need to show that the processing operations will **not harm the essential interests of Community producers** and to quote the legislation that "*the use of non-Community sources enables processing activities to be created or maintained in the Community,*" and "*without adversely affecting the essential interests of Community producers of similar goods.*"

Therefore, if the type of processing we're carrying out is not currently done by anyone in the EU, we may satisfy the Economic Test. We don't want to encourage people to export their products abroad for processing, when we could give jobs to EU citizens. The Customs Committee carries out the Economic Test. It takes a number of factors into account, which depend on the specific circumstances of the situation. These factors might include; the value of investment made, permanence of activity and its viability, and the stability of jobs created.

#### 22.4 Types of Authorisations

There are 4 types of authorisation in the UK. The '**Simplified**', the '**UK**', the '**Single Community**' and the '**Integrated**'.

#### 22.5 Simplified Authorisation

The Simplified authorisation is **applied for at the time of import**. It is, therefore, only suitable for **occasional importers**. You can only apply at the time of import, if your **goods do not need to satisfy the Economic Test**. Control of the procedure is carried out by Customs and the importer generally has **6 months** to import and process the goods, and send a return back to Customs saying that this has been done. The 6 month period may be extended at the importer's request.

#### 22.6 UK Authorisation

The UK authorisation is suitable for the **regular importer** who wishes to process the goods **in the UK only**. Application is made on form **C&E1321**, and this form is used for authorisations whether they require an Economic Test or not.

#### 22.7 Single Community and Integrated Authorisations

The **Single Community authorisation** is needed where the importer carries out processing in **more than one member state** and the **Integrated authorisation** is where the importer wishes to **combine PCC with another procedure** for instance Customs warehousing or IPR.

#### 22.8 General conditions

Authorisations will generally be granted for a **maximum 3 years**, and can in certain circumstances be granted **retroactively** but only **for 1 year**. You are probably sensing *de ja vous* here, as these are the same rules that we have covered for other authorisations, such as IPR.

For authorisations involving the UK only, Customs have **30 days to issue or reject** the authorisation. Where the authorisation involves another Member State, the authorisation needs to be sent to them. They have **30 days to object**. If no objections are received within the 30 day period, the authorisation will be granted.

Each authorisation will have a **throughput period** specified, which is the time allowed for the import and processing to have occurred and a **rate of yield**, which sets out how much imported product is used to make the finished items.

## 22.9 Calculating duty on processed goods

### Illustration 2

Continuing with illustration 1...

We've imported our sheets of metal and processed the metal into the screws and other metal parts. We need to declare our finished goods now that they are being released to free circulation, so we'll complete a C88.

We know that the duty rate is 3%, but we need to apply this to the value of the goods to find the amount of duty payable. What value do we use? Do we use the original value of the metal, the value of the finished product, or another method? **Article 551(3)** of the Implementing Regs tells us how we arrive at a value. The importer has a choice of methods.

[Art 551\(3\)  
2454/93](#)

He can use either **Methods 2, 3 or 4**, which you've seen already in the valuation chapter. As a reminder; **Method 2 is the value of identical goods, Method 3 is the value of similar goods and Method 4 uses the selling price of the goods**. As an alternative the importer can use the value of the imported goods plus the **processing costs**, ignoring any profit the manufacturer will add.

We also need to consider preference. Put simply, if the imported product would have qualified for a preferential rate and there is also a preferential rate for the finished products, if they had been imported from the same country as the raw material, then **the importer can use the preferential rate of duty for the finished product**.

**Import VAT is due as normal**. We add the value of the goods, calculated according to the above rules, to the amount of customs duty, and multiply the total by the VAT rate.

### Example 1

Continuing with illustration 2, we have our manufacturer importing the metal sheets into PCC. He processes the sheets in the factory into metal screws. The metal screws are released to free circulation and we need to calculate the duty due on them.

The metal sheets cost £5,000 at the time of import. The freight and insurance on the sheets is £800. The costs incurred in producing the screws are:

- labour £1,000
- overheads £100, and
- he will add on profit of £3,000 before selling to his customers

The duty rate on the screws is 3%. You need to work out the value of the goods to find the duty and import VAT due.

Our manufacturer is going to use the **alternative valuation method**, which **adds together the value of the imported goods and the processing costs**.

Calculate the customs duty and import VAT due.

## 22.10 Record keeping requirements

Finally we'll look at the record keeping requirements and returns that need to be made to Customs.

Customs might want to visit the trader's premises and **inspect his records** to make sure that he has been accounting for duty and VAT correctly, on his products. Our trader therefore needs to make sure that he **keeps sufficient records** to show the products imported, the processing undertaken on the goods, and the final products produced. These records can be maintained on a computer.

In addition, Customs will require **returns** from the trader at usually **monthly or quarterly** intervals, to check that he is complying with the terms of his authorisation. The frequency of returns is detailed on the authorisation and generally 'nil' returns will be required where there have been no imports in a period. The returns can be made on commercial documentation or on Customs own form the **C&E 1325**.

The type of information required on each return is:

- Information about the **imported goods**, i.e. their **commodity code**, the **quantity and value of them** and
- Information about the **goods produced**, i.e. their **commodity code**, **quantity**, **value** and **processing costs**.

Customs will check the returns to ensure that the trader is only importing goods to PCC that he is authorised for, is only carrying out the operations he is authorised for and is complying with other conditions. For example, does he comply with his throughput period, i.e. the time it takes to import and process the products and the rate of yield that was set for his goods.

**Answer 1**

£207.00 of duty and £1,243.72 of import VAT is due.

	£
Metal sheets	5,000
Freight and insurance	800
Labour	1,000
Overheads	<u>100</u>
	£6,900 × 3% = £207.00 duty

Import VAT:  $(£6,900 + £207.00) \times 17.5\% = £1,243.72$

If we hadn't used PCC, the duty payable would have been 5% on the £5,800, which is £290. We've saved ourselves £83 on this particular consignment.