






# *Transshipment Trends in South East Asia*

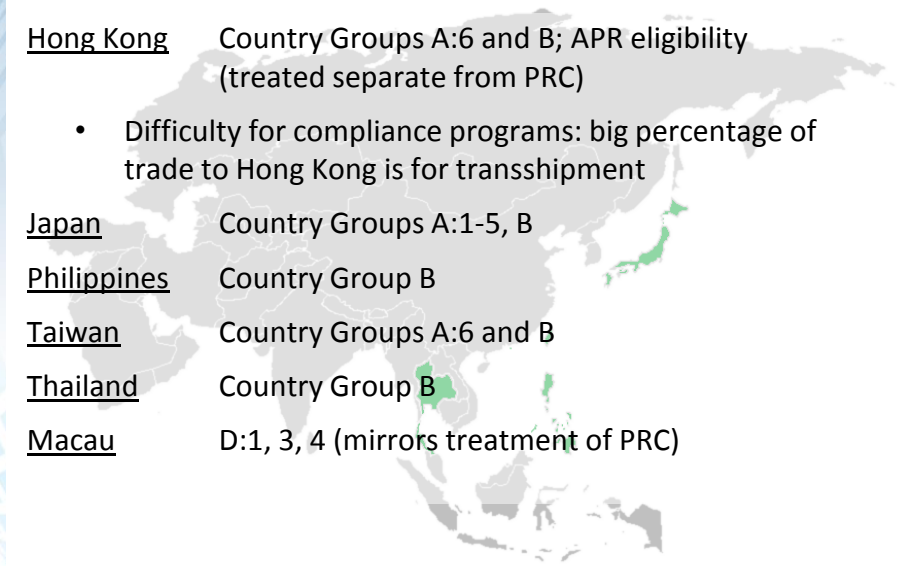


Charles Wall  
Regional Export Control Officer  
U.S. Commercial Service  
U.S. Consulate Hong Kong & Macau

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## Region Overview



<u>Hong Kong</u>	Country Groups A:6 and B; APR eligibility (treated separate from PRC)
	<ul style="list-style-type: none"> <li>• Difficulty for compliance programs: big percentage of trade to Hong Kong is for transshipment</li> </ul>
<u>Japan</u>	Country Groups A:1-5, B
<u>Philippines</u>	Country Group B
<u>Taiwan</u>	Country Groups A:6 and B
<u>Thailand</u>	Country Group B
<u>Macau</u>	D:1, 3, 4 (mirrors treatment of PRC)

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## Strategic Trade Control Laws

- Hong Kong – Trade and Industry Department has specific import and export requirements  
[www.stc.tid.gov.hk/eindex.html](http://www.stc.tid.gov.hk/eindex.html)
- Japan – Ministry of Economy, Trade and Industry has its own prohibited end-user list:  
[www.meti.go.jp/english/press/2014/0401\\_01.html](http://www.meti.go.jp/english/press/2014/0401_01.html)
- Taiwan – Bureau of Foreign Trade  
[www.trade.gov.tw/english/](http://www.trade.gov.tw/english/)

No Specific Strategic Trade Control Laws (in effect)

- Philippines
- Thailand
- Macau

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## HONG KONG

Hong Kong is small

**Global Metropolitan Urban Area Footprints\***

\*Areas are drawn to reflect total urban built-up area, including suburbs, and do not reflect municipal boundaries. Where one metropolitan region bleeds into another as part of a megalopolis, as with New York and Tokyo, the area limits are drawn subjectively. Populations and areas below are approximate and intended for basic comparison purposes only.

■ USA, Canada, & Australia  
■ Middle East and Africa  
■ Europe  
■ Asia  
■ Latin America

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- Less than 10% of Hong Kong's land is used for residential + commercial + industrial purposes
- Hong Kong has more buildings over 100m than the next 4 cities combined (New York, Tokyo, Dubai, and Shanghai).

**Land Area Analysis**

Category	Percentage
Woodland/Shrubland/Grassland/Wetland	66.5%
Agriculture	6.1%
Other Urban or Built-up Land	4.8%
Residential	6.9%
Commercial	0.4%
Industrial	2.3%
Institutional	2.3%
Open Space	2.3%
Transportation	5.1%
Water Bodies	2.7%
Barren Land	0.6%

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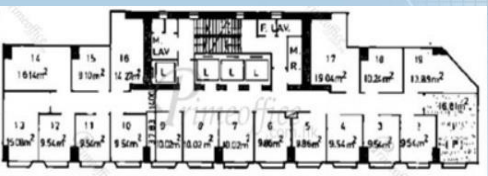


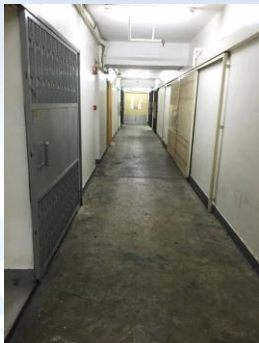


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## A Question To Consider



When you send your electronics to your manufacturing customer in Hong Kong, where are they really going?








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## Transshipment and Shell Companies




- Transshipment through shell companies is big business. There is a large infrastructure of service industries that facilitate transboundary trade.




The reasons shipments may go through Hong Kong vary and include:

- ✓ more favorable foreign exchange policies
- ✓ more favorable tax laws
- ✓ more experienced customs brokers used to dealing with mainland China.

Sometimes, the reason is to circumvent various strategic trade control laws.




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## The Hong Kong Economy



- Hong Kong's electronics industry accounted for **61%** of Hong Kong's total exports in 2014. The Chinese mainland is both the major source and the major destination.
- Manufacturing accounted for only **1.4%** of the GDP in 2013, while services made up **90%** of GDP
- Trade and logistics made up **23.9%** of GDP.
- Most manufacturers have relocated their production facilities to the mainland. Their Hong Kong offices now focus mainly on R&D activities, product design and development, management, logistic support, marketing, etc.


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## Case 1: Pre-License Check (PLC)





- License application from 2015, end user allegedly in Hong Kong.
- End-User Statement showed end-user address and phone number.
- End user claimed electronic components' end use was for flood control data.
- End user claimed to be in the manufacturing test & measurement field.



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## Case 1 (continued)

- End-User Statement only had a partial address; person who answered the phone denied being the end user.
- Online research showed the alleged end user dissolved its business in 2011.
- Old annual return obtained online showing that the end user used to be located at address matching what was on the Statement
- Visited address; was a new yoga studio. Front desk claimed to have never heard of the end user.



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## Case 2: Post-Shipment Verification (PSV)

- Purchaser claimed to be located in the Hong Kong Science Park, along with their customer.
- Full set of documents with End-User Statement signed by end user, signature, company stamp, end user company letter on letterhead, Hong Kong banking info.
- Documents looked legitimate.



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## Case 2 (continued)

- Purchaser company incorporated less than 1 year.
- Owner/Director is located in Mainland China.
- Company address on shipping paperwork does not match registered company address (which was the address of their company secretary).
- Company phone, fax number, and address match info for a logistics-related IT company. When contacted, they knew nothing about the purchaser.
- Alleged end user is a real company and alleged end use matches their typical business. HOWEVER. . .
  - When contacted, the customer claims the letterhead and company “chop” are not theirs; the company’s Chinese name does not match their name; End-User Statement contact persons are not recognized.
- Shipping address was not to the Science Park, but rather to a mini storage company that rented lockers that could be used as mailboxes. The purchaser cancelled service several months after the shipment arrived.

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## Red Flag Indicators

- Deal too good to be true.
  - Price above market rate, or sale does not follow typical negotiation pattern
- Someone in Mainland China orders for Hong Kong delivery.
  - Phone numbers have China country code (86); Hong Kong company is owned by mainland nationals or shows signs of being a shell company.
- End-user address looks incomplete.
  - No unit number, no floor number, no building name, no district name; Address appears to have mailbox number in addition to unit number.
- Suspicious or vague End-User Statements.
  - Norm in Hong Kong is to stamp official documents. Ensure documents actually signed. Watch out for alias names, like “Kevin” with no surname.
- Shipment’s details don’t make sense
  - Purchaser located in Asia, but the Intermediate Consignee is located in the UAE; training and installation refused when normally part of your sales.



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## Best Practices - Hong Kong

- Understand the local market in places where you do business.
  - DETERMINE WHETHER YOUR CUSTOMER IS THE END USER.
- Know your client – use public sources to help verify what your client is telling you.
- Seeing is believing – visit your customers to see where they operate.
  - Third-party verification services are an option.
- Your AES filing should identify the end user as the Ultimate Consignee.
  - Secretarial firms and freight forwarders are NOT Ultimate Consignees.
- Obtain a copy of the import license and export license for multilaterally-controlled items.

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## Best Practices - Regional

- Japan
  - Use of License Exception STA (Country Group A:5) conditioned upon the creation/exchange by transaction parties of notifications and statements designed to provide assurance against diversion to other destinations. **Authorized for items controlled for NS, CB, NP, RS, CC, SI.**
  - A major destination for 600 series items.
- Philippines
  - Keep an eye out for new strategic trade law in 2016, which will likely include both import and export license requirements.
- Taiwan
  - Use of License Exception STA (Country Group A:6) conditioned upon the creation/exchange by transaction parties of notifications and statements designed to provide assurance against diversion to other destinations. **Authorized for items only controlled for NS.**
  - Strong domestic industry; many business ties with Mainland China which is treated differently under the EAR. **Watch for transshipment and migration of manufacturing.**
- Thailand
  - As with other countries in SE Asia, manufacturing is often for export, so be aware of onward destinations.
- Macau
  - EAR treats like the PRC; largely a service economy without the strong transshipment or finance industry of Hong Kong.

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## Resources

- Business Registration Search & Company Registry Search
  - [www.gov.hk/en/business/registration/businesscompany/](http://www.gov.hk/en/business/registration/businesscompany/)
  - [www.icris.cr.gov.hk/csci/](http://www.icris.cr.gov.hk/csci/)
- Company Search – Hong Kong Trade Development Council
  - [www.hktdc.com](http://www.hktdc.com)

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## Hong Kong Strategic Trade

- Hong Kong Trade and Industry Department:  
[www.tid.gov.hk/eindex.html](http://www.tid.gov.hk/eindex.html)
- Hong Kong Customs:  
[www.customs.gov.hk/en/trade\\_controls/control/index.html](http://www.customs.gov.hk/en/trade_controls/control/index.html)
- Hong Kong Export Control Ordinance/Regulations (Chapter 60):  
[www.legislation.gov.hk/eng/home.htm](http://www.legislation.gov.hk/eng/home.htm)

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**Thank You!**

**Consulate General Hong Kong & Macau**

**[Charles.Wall@trade.gov](mailto:Charles.Wall@trade.gov) or**

**[Carrie.Chan@trade.gov](mailto:Carrie.Chan@trade.gov)**

**[www.export.gov/hongkong](http://www.export.gov/hongkong)**

**[www.bis.doc.gov](http://www.bis.doc.gov)**