



## China OEM affected by trade conflicts

### In brief

- » The Chinese authorities recently issued three new customs policies, introducing additional requirements for the recording, import, and tariff treatment of the following **four** (4) types of goods stored in bonded zones or under bonded OEM arrangements in China, which are subject to import/export controls:
  - Goods under quota control;
  - Goods under trade relief measures;
  - Goods subject to suspended trade concessions or tariff cuts; and
  - Goods facing retaliatory tariffs.
- » This newsletter analyzes the impact of these policies on certain OEM operations in China and outlines key considerations for adopting an OEM model under the new regulatory framework.

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## 2025 (No. 06 issue)

June 2025

## In detail

In the context of ongoing international trade tensions, the Chinese government has implemented trade control measures—including retaliatory tariffs—on certain foreign-origin goods, particularly those from the US and EU.

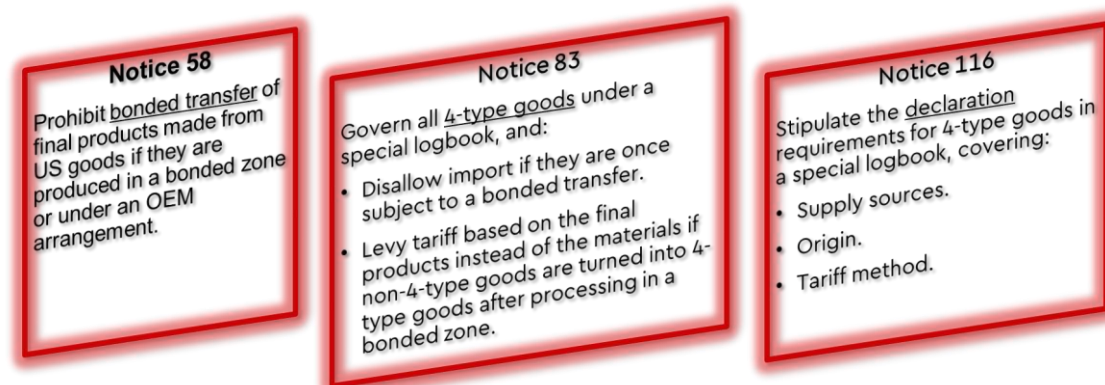
In April, May, and June 2025, the Chinese authorities, including the General Administration of Customs, issued the following three sets of customs policies to regulate the management and tariff treatment of policy-controlled goods imported under bonded zone or **OEM** (original equipment manufacturing, known as “*processing trade*” in China) arrangements.

Regulations	Policies	Issue	Effective
Notice on Additional Tariff Measures on Import of US Goods	Notice 58	9 Apr. 25	10 Apr. 25
Notice on Adjustments to Administrative Measures on OEM activities inside and outside Customs Supervised Areas and Bonded Premises	Notice 83	9 May 25	10 Jun. 25
Notice on the Declaration and Completion Standards for OEM Trades for Four Types of Goods inside and outside Customs Special Supervised Areas, Bonded Premises	Notice 116	5 Jun. 25	10 Jun. 25

These new customs regulations aim to prevent the misuse of bonded goods and curb tariff avoidance or circumvention of trade restrictions. They govern the import of all foreign goods—particularly those from the US and EU—that are subject to China’s reciprocal tariffs and trade remedy measures currently in effect (hereafter referred to as “**4-type goods**”). They include the following:



Among these 4-type goods, bonded goods are of particular concern due to their duty-free status under OEM arrangements or when stored in pre-import areas such as bonded zones. A key issue arises regarding their tariff treatment when they are either (1) reprocessed in China (thus becoming “*China-made*”) or (2) commingled with non-controlled goods. These specific scenarios have triggered the issuance of the three regulatory notices, which specifically target the proper control and taxation of 4-type goods under such circumstances.



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**New constraints to OEM arrangements**

In principle, OEM products are intended for export, which justifies the duty-free (bonded) import of their foreign-sourced materials. However, a growing practice has emerged where goods are transferred between consignees within bonded zones or bonded OEM operations without tariff assessment ("*bonded transfer*"). Certain bonded goods ultimately enter China's domestic market after tariff payment by being reclassified as non-4-type goods, thereby circumventing the restrictions applicable to controlled commodities.

These developments have created new regulatory challenges concerning: (1) tracking 4-type goods throughout the outsourcing chain while under bonded status, and (2) determining proper tariff treatment after reprocessing or transfer - whether within bonded zones (pre-import) or under bonded OEM arrangements (pre-tariff settlement).

In essence, the three new sets of customs policies aim to address these challenges by introducing the following constraints on bonded 4-type goods:

- **Special logbook requirement:** All 4-type goods, including their final products, must now be recorded in a dedicated electronic "*special logbook*" within China's existing online customs declaration system. This requirement applies to all 4-type goods, whether located inside bonded zones or held by bonded OEM operators outside these zones. Crucially, these items cannot be transferred to the normal logbooks which are used for recording non-4-type goods in bonded OEM operations.
- **Importing restriction:** Only 4-type goods that have never undergone bonded transfers may be imported (subject to their applicable adjusted tariff rates). Goods with any history of bonded transfer - whether processed or unprocessed - are prohibited from import and must be exported. Additionally, all by-products, residuals, and inferior products resulting from processing 4-type goods are strictly barred from import, with disposal limited to either export or destruction.
- **Tariff basis:** The applicable tariff valuation method varies depending on whether materials or finished products are valued. Per the new rules, the materials-based valuation applies to situations (a) and (b) below; however products-based valuation is mandatory for situation (c):
  - a) Unprocessed 4-type goods (using tariff rates for 4-type goods).
  - b) Processed 4-type goods without bonded transfer history (using tariff rates for 4-type goods).
  - c) Converted goods where non-4-type goods become 4-type goods (using tariff rates for 4-type goods).

Notably, the last scenario above eliminates the available option to choose the material-value-based tariff assessment - a common tax privilege typically extended to OEM operators.

- **OEM arrangement restriction:** Processing of 4-type goods under OEM arrangements in a bonded zone is prohibited. Such operations may only be conducted by bonded OEM operators located outside bonded zones, provided they maintain the required special logbook.

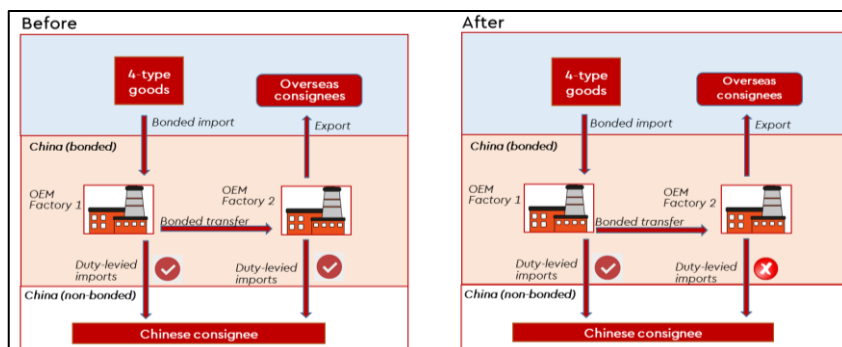
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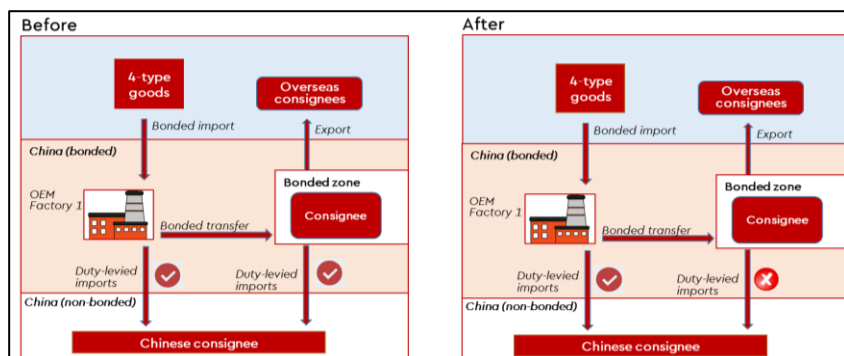
## Affected OEM models

Under the new policies, OEM operators (and their foreign principals) should evaluate whether their China operations could face import restrictions in some bonded transfer scenarios, such as the followings.

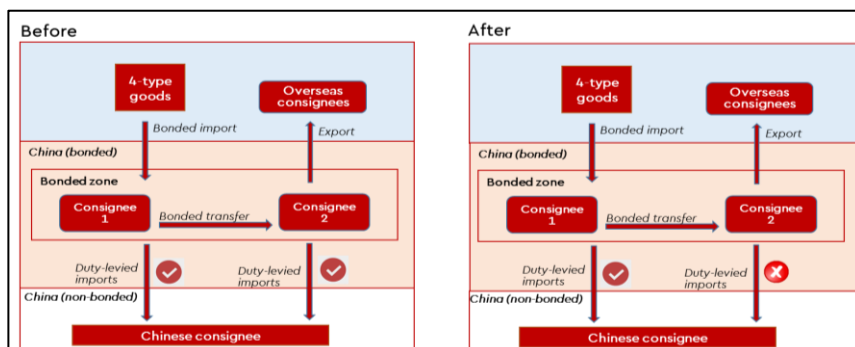
1. **Bonded transfer from one OEM operator to another:** Notice 58 (April) originally prohibited bonded transfers of products made from tariff-affected US goods, but Notice 83 (May) subsequently lifted this ban for all 4-type goods while maintaining the critical restriction that any 4-type goods undergoing bonded transfer between operators become permanently ineligible for import into China. This new rule could subject the bonded transfer from one OEM operator to another for re-processing, as depicted below.



2. **Bonded transfer from an OEM operator to a consignee in a bonded zone:** Similar to the above, when 4-type goods recorded in an OEM operator's special logbook are transferred to a bonded zone consignee, this constitutes a bonded transfer that triggers an import prohibition - the goods may only be exported. This would effectively inhibit the previously common "one-day trip" practice via a bonded zone (where goods were briefly exported and re-imported for domestic sales), as depicted below.



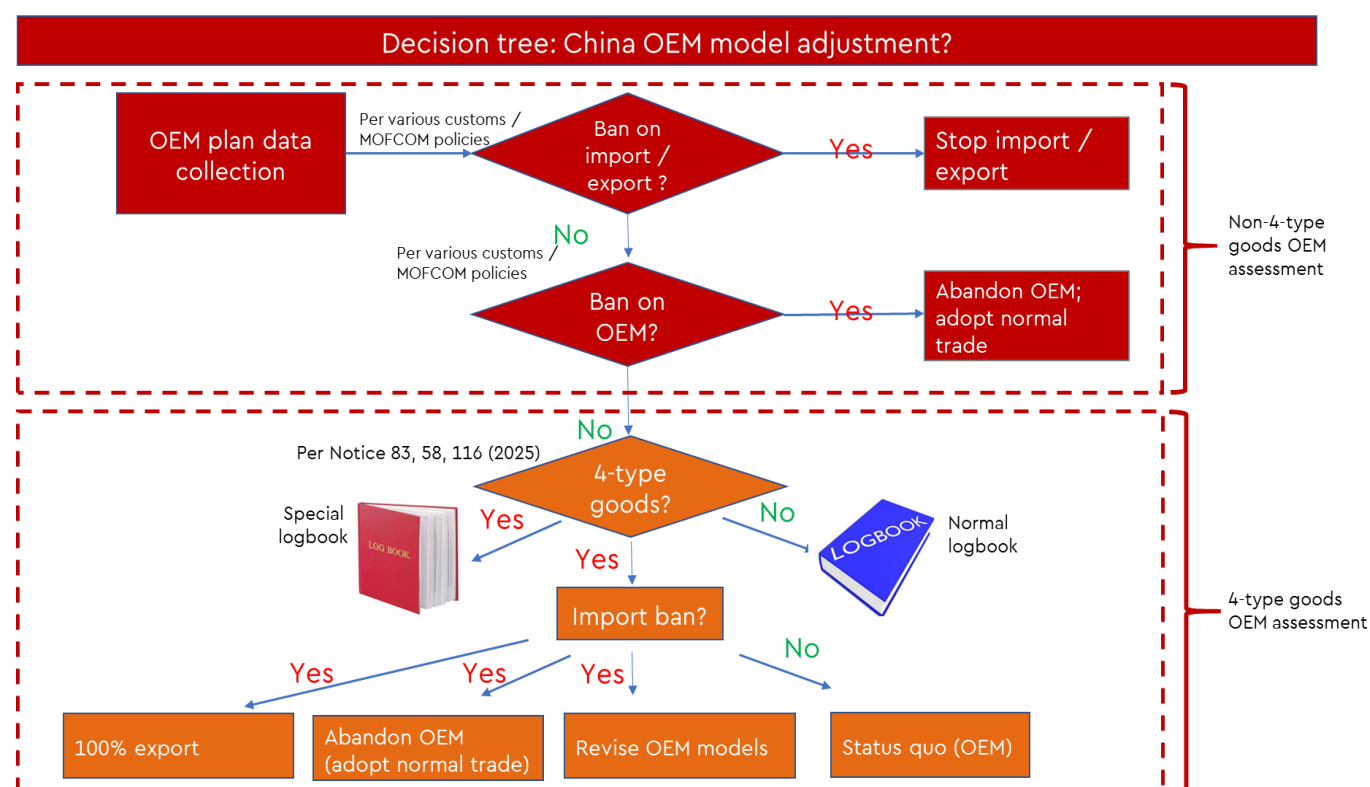
3. **Bonded transfer from one consignee to another in a bonded zone:** As illustrated in the diagram below, when 4-type goods are transferred from *Consignee 1* to *Consignee 2* within a bonded zone, this constitutes a bonded transfer between two special logbooks. This action would automatically triggers an import prohibition on the goods, restricting them to export-only disposition under the new regulations.



## WTS China's observation

The new customs policies aim to prevent scenarios where 4-type goods (or products derived from them) could be converted to "China-made" status through bonded transfers in bonded zones or OEM arrangements, or processed into different HS code products - thereby circumventing punitive tariffs on 4-type goods. These policies have necessarily implemented strict administrative controls covering record-keeping, importation, and duty valuation methods.

Consequently, OEM operators (and their foreign principals) must carefully reassess their OEM models - particularly those involving second-tier OEM partnerships - using the decision tree below when domestic Chinese sales are planned. The consequences could be severe including import bans or significantly increased tariff costs.





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