AEO Panel Discussion: Academia and Private Sector Perspective: Huawei Experience
1. Background: Our Story
2. Huawei Trade Facilitation and Market Access Strategy
3. Huawei’s AA Classification in China, and Its Experience with China’s MRAs
4. Summary
Background: Our Story
Huawei was founded in the Shenzhen Special Economic Zone, a window to China's reform and opening

1987
Huawei, a private company, was founded by Ren Zhengfei and several other investors with an investment of CNY21,000 as a sales agent reselling the PBX of Hong Kong Hong Nian Company.

1992
Huawei developed HJD analog switches that supported 48 ports.

1993
Huawei developed C&C08 digital switches, which were primarily applied in rural areas and townships.

1997
Huawei was introduced to major Western consulting firms and initiated management transformations.

1998
Huawei entered China’s urban communications market.

1999
Huawei established its first R&D center outside of China in Bangalore, India.

2000
Huawei made significant headway into the market outside of China.

2005
Huawei became a preferred supplier of such top carriers as British Telecom and Vodafone. Revenue from outside of China surpassed that of the domestic market for the first time.

2009
Huawei deployed the world's first LTE network in Northern Europe.
Today, Huawei is a world-class company

Who is Huawei
- A leading global ICT solutions provider
- A Fortune Global 500 company, ranking 315 in 2013

Employees
- 150,000+ employees worldwide
- 70,000+ engaged in R&D

Market Progress
- $39.5B revenue in 2013
- Serving 45 of the world's top 50 carriers, which account for 77% of Huawei's revenue generated from the carrier network business
- Serving 1/3 of the world's population

Business Areas
- Carrier
- Enterprise
- Consumer
Huawei’s International Value Chain

Globalization is a reality, particularly in ICT. R&D runs 24/7 in markets across the planet, and coding, sub-assembly, assembly, packaging, shipping and deployment of solutions are transnational exercises.

International trade has been and continues to be a powerful engine of growth. Huawei’s global supply chain system that supports this trade is a critical global asset.

As a customer-centric and “glocal” supplier, Huawei is internationalizing its operations, attracting top resources from across the world, and investing in key locations to be closer to its customers, closer to its suppliers, and closer to specialized R&D and innovation centers.
Globalized resource deployment and localized business operations

- Operations in 170+ countries; 150,000+ employees with 150+ nationalities worldwide with 30,000+ non-Chinese employees; 70%+ recruited locally.
- Huawei’s global value chain allows fluid capability transfer across the globe, develops and retains talent in local countries, and creates jobs and economic opportunities.
Brand Promise & Brand Attributes

Our Enduring Brand Promise

Enriching life and improving efficiency through a better connected world.

Our Brand Attributes

- Customer-Centric
- Dedicated
- Innovative
- Global
- Open
- Trusted
### Factors to Huawei’s Success

<table>
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<tr>
<th>Booming China and International Telecom Market</th>
<th>R&amp;D Cost Advantage</th>
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<tbody>
<tr>
<td>- From 1992 to 2000, China’s telephone subs grew 15.5 times (11M to 171M), mobile subs grew 500 times (170K to 85 M)</td>
<td>- Customer-centric innovation by a large cost-effective R&amp;D force distinguishes Huawei from our global competitors. 6.6M college graduates in 2011 in China, 6x growth in 10 years.</td>
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<tr>
<td>- From 1990 to 2010, number of mobile phone users worldwide jumped from 11M to 5.3B, up nearly 500 times.</td>
<td>- Total150,000 employees, 70,000+ in R&amp;D.</td>
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<th>World-leading Management</th>
<th>Employee Stock Ownership Program</th>
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<td>- Since 1997, Huawei has partnered with world-class consultancies on management transformations</td>
<td>- Employee Stock Ownership Program attracting and retaining talent.</td>
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<td>- Stocks are granted to high-performing employees</td>
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<td></td>
<td>- A total of 74000+ shareholding employees as of Dec 2012.</td>
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Huawei Trade Facilitation and Market Access Strategy
Efforts to agree international standards and approaches benefit the economic well-being of all countries. An orderly, open competition environment is not only the foundation for the sustainable development of the telecoms industry, but also ensures that consumers benefit from the latest telecommunications technologies.

Internationally agreed standards and principles should be adopted to guide rule-making, facing the inevitable cross-border nature of the digital economy, preventing discrimination, and avoiding unnecessary regulatory burdens that slow growth and development. Global free trade needs to be supported through the WTO and FTAs.

Trade and Customs Compliance is a critical priority to enhance trade facilitation. In the era of “just-in-time” manufacturing and “just in-time” product delivery, extended delays for customs clearance are a significant impediment to efficient business. Rules and systems to improve customs clearance are critical to business success.
Huawei Uses A Proactive Customs Compliance Process Globally, including China

- Huawei has a six-prong set of customs compliance practices.
- Where possible, Huawei seeks to obtain the highest level customs approvals from relevant governments, e.g., AA in China.
Key: Implement Six-Fold Import/Export Compliance Practices

- Trade and Customs Policy Analysis and Utilization
- Integrated IT System to Support Business Management
- Standard Process and KCP Compliance Testing
- Broker Qualification and Performance Management
- All Correct Necessary Clearance Documents Are Available
- Authorized “Accredited Importer”
1. Trade and Customs Policy Analysis and Utilization

Utilize local customs preferential policies and E-system to enhance our customs clearance operation, reduce cost and improve efficiency.

- When available, pre-submit documentation before cargo arrival. This will both save lead time and get an extra check that there are no errors in any of the documents.

- Regional or bilateral preferential certificates of origin can help to obtain preferential tariff treatment of imports. If the imported products meet the requirements of FTA rules of origin and in the scope of tariff reductions, and comply with the direct transport rule, usually they can be available for import tariff reduction.

- Many countries have implemented EDI or other forms of electronic customs procedure. Make use of all possibilities available to submit documentation electronically. This ensures higher quality of documents submitted and gives customs officials less reasons to intervene in the clearance process.

- When a country is available for tariff online payment or online guarantee or can enjoy the "first-pass clearance, after tax," use these services instead of pre-payment.

- Pre-submit
- EDI
- Preferential country of origin
- Timely Tariff payment

Build compliant local import and export processes, and conduct operations accordingly, to ensure standardized operations and readiness for external audit.

**Global**
- Release and update the global clearance processes
- Do training and adaption of each new processes to ensure availability and implement
- Review business needs in order to establish regular clearance process

**Region**
- Global: do policy analysis and output the regular working instructions under the global processes
- Country: Guide region to do policy analysis and process adaptation to output the localized process and submit KCPs
3. Documentation Quality Improvement

The single most important factor to achieve shorter clearance time is to ensure that **all necessary clearance documents are available and 100% correct** before being submitted to Customs.

<table>
<thead>
<tr>
<th>Sign contract with proper terms &amp; clause</th>
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<tbody>
<tr>
<td>✓ Contract No.</td>
</tr>
<tr>
<td>✓ Entities</td>
</tr>
<tr>
<td>✓ Delivery terms</td>
</tr>
<tr>
<td>✓ Transaction price</td>
</tr>
<tr>
<td>✓ Country of origin</td>
</tr>
<tr>
<td>✓ .......</td>
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<table>
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<tr>
<th>Basic information of the products reflects the physical goods</th>
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<tbody>
<tr>
<td>✓ Product name/desc</td>
</tr>
<tr>
<td>✓ Brand</td>
</tr>
<tr>
<td>✓ Model/Spec</td>
</tr>
<tr>
<td>✓ Functions &amp; usage</td>
</tr>
<tr>
<td>✓ Technical Data</td>
</tr>
<tr>
<td>✓ GW &amp; NW</td>
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<th>Logistics document record actual information</th>
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<tbody>
<tr>
<td>✓ Transportation</td>
</tr>
<tr>
<td>✓ BL/AWB</td>
</tr>
<tr>
<td>✓ Departure /arrival</td>
</tr>
<tr>
<td>✓ Q’ty/ package no.</td>
</tr>
<tr>
<td>✓ .......</td>
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<th>Customs info</th>
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<tbody>
<tr>
<td>✓ HS code (&amp; ECCN)</td>
</tr>
<tr>
<td>✓ CO Certificate</td>
</tr>
<tr>
<td>✓ Imp/Exp license</td>
</tr>
<tr>
<td>✓ Quarantine</td>
</tr>
<tr>
<td>✓ Duty &amp; tax</td>
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<tr>
<td>✓ .......</td>
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**Customs requirements for documentation:**
1. Familiar with the local customs clearance documentation requirements
2. Timely feedback on any document problems, and effectively manage document quality
4. Integrated IT system

Develop import and export management IT platform, known as Global Trade Management (GTM), to improve invoice preparation, tariff classification, tax payment requests, etc., to standardize business operations, and to improve documentation quality.
5. Broker Management and Performance Management

In overseas countries, the broker is very important in customs clearance. Vet brokers according to standardized criteria. The local team should ensure the broker’s operation is compliant with local customs regulations and the declarations are correct.

Broker qualification

In order to ensure broker meets delivery requirement, and avoid delivery risk happening due to not enough capability of broker, every representative should evaluate capability of Broker which is certified or needs to be certified.

Assessment factors:

- Broker should have legal qualification/licenses
- There are not any bad record in customs
- Broker should have good relationship with shipping line and airline and have no outstanding financial or legal issue with shipping line and airline.
- Good performances in clearance turnaround time.

Performance management

Good broker management ensures business fulfillment. Therefore should strengthen the supervision and service improvement of brokers. Prevent illegal operation of brokers. Avoid relative customs risks.

 Requirement:

- Follow up and supervise the daily operation of brokers, issue a report for abnormal operations, push brokers to improve
- Build a system for regular meeting with brokers.
- KPI assessment and meeting minutes should be issued after confirmed by broker and company.

Broker audit

Site inspection and audit scoring method to quickly identify the risk and manage broker and to enhance the broker’s capability.

Key factors of the audit:

- Broker internal operations SOP
- Support team organizational structure
- Broker’s IT systems and operations management
- Broker operating mechanism
6. Become an “Accredited Importer”

Many countries’ customs allow a qualified low risk importer to get cargo released without physical inspection in customs clearance, which brings opportunity to improve customs clearance efficiency. **Standardizing internal business operations and getting good credit in local Customs** are basic conditions to achieve these priority treatment from customs. The goal is to become a “partner” with Customs in the overall process.

**International supply chains increasingly sophisticated**

**Demand for Securing Global Trade**

**Growing demands for trade facilitation**
Good Practice of “Accredited Importer”

Accredited Importer

- China AA
- Turkey A class
- Indonesia Green Lane
- Kenya AEO
- Malaysia AEO (In processing)

- Customs officers provide policy and regulation introduction and training
- Company provides training of industry trends and equipment knowledge to customs officers
- Company visits the customs officer, and participates in customs activities to communicate deeply
- Company provides policy advice to customs, and submits business operating proposal to customs.
Classification Management of Enterprises by Customs

- **Objective:**
  
  In order to encourage enterprises to comply with the Customs laws, and to improve Customs’ management effect and ensure the safety and convenience for import & export trade, some countries’ Customs adopt Classification management systems of enterprises.

- **Definition of classification management:**
  
  Customs appoints a class to each enterprise periodically through auditing this enterprise. Generally there are at least three classes to all the enterprises, and where the class is higher, the enterprise’s Customs clearance is more convenient and faster.
Huawei’s AA Classification in China, and Its Experience with China’s MRAs
In China, Huawei has the Highest Customs Ranking, the “Double A” Qualification.

A consignor or consignee of AA-classification imported or exported goods should be simultaneously qualified for the following conditions:

1. qualified for requirements for A-classification management for over one year;
2. having the error rate of import or export declaration below 3% during the previous year;
3. meeting the requirements for customs administration, enterprise business management and trading safety upon the inspection of the Customs;
4. annually submitting the Report on Assessing Enterprise Business Management Status and the previous year’s audit report issued by the accounting firm; and semiannually submitting the Statement of Import or Export Business.
China Customs Classified Management Measures of Enterprises

- Qualified for B-classification management for over one year;
- Having no offense of smuggling acts or no administrative penalty and no defaulted payable tax, and so on
- The total value of import and export above USD500,000 during the previous year;

Having committed the act of smuggling, or administrative penalty, or infringing intellectual property rights
- Defaulted payable tax or penalty exceeding RMB500,000.
China’s Mutual Recognition Agreements (MRA)

- China Customs is carrying this movement forward based upon the idea that the mutual recognition of AEO programs could maximize the benefits of compliant stakeholders.
- Singapore, South Korea and Hong Kong accept AA class enterprises as AEO for trade facilitation.
- Currently we do not use, since our operating practice in this countries is satisfactory. The import turnaround time is no more than 2 days.
- Our target through AEO program implementation is to provide mutual benefit, including smoother and more facilitated import/export Customs clearance complying with the supply chain security standards.

- China MRA signed in June, 2013
- Singapore MRA signed in June, 2012
- Hong Kong MRA signed in June, 2013
- South Korea MRA signed in Oct, 2013

MRA current progress
Huawei Customs Compliance Success: Summary

- Trade and customs compliance is a top priority for Huawei. Huawei has invested heavily in its global supply chain strategy and processes.
- Through implementing its standard six-prong set of import/export compliance practices, Huawei has established a quality supply chain compliance system globally.
- In China, Huawei has earned the trust of Customs and has achieved partner status, which is the highly sought-after “AA” status, similar to AEO. China’s AEO MRA network is growing and increasingly useful.
- Huawei is in favor of more MRAs, and encourages internationalization.
Speaker:

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