

An **FTA** is a pact between countries that have agreed to eliminate tariffs, quotas and preferences on most goods and services traded between them

What's going on FTA Implementation in Korea & Korea Customs Service

Take its Benefits

- / Increasing national income
- / Expanding export markets
- / Creating job opportunities
- / Reducing the prices of material imports



관세청
KOREA CUSTOMS SERVICE



What is an FTA?

A Free Trade Agreement (FTA) is a bilateral or multilateral trade agreement aimed at increasing income and employment by facilitating trade through lowered barriers. The parties involved will reap the benefits of price competitiveness and increased export

FTA Partners of Korea

Korea's simultaneous engagement in FTA negotiations made the economic agreement so important that many economists now forecast trade under FTAs will represent about 80% of the nation's foreign trade

	FTAs in effect (16 countries)	FTAs under conclusion (28 countries)	FTAs under negotiation (22 countries)	FTAs under consideration (7 countries)
Countries	Chile, Singapore, EFTA, ASEAN, India	the US, EU	Canada, Colombia, Mexico, GCC, Peru, Australia, New Zealand	China, Russia, Mercosur, Turkey, Israel, Japan, SACU
Proportion	14%	22%	24%	24%
Accumulation	14%	36%	60%	84%

FTAs in Effect & under Conclusion



- * EFTA (4 countries): Iceland, Liechtenstein, Norway, Switzerland
- * ASEAN (10 countries): Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam

FTA - related Laws and Regulations

Agreements

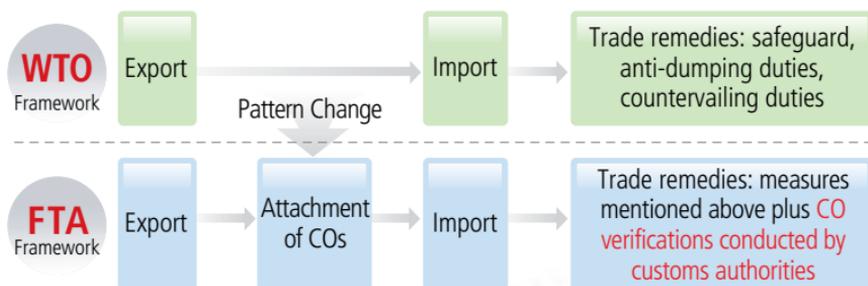
- Korea - Chile FTA
- Korea - Singapore FTA
- Korea - ASEAN FTA
- Korea - EFTA FTA

Domestic Laws & Regulations

- Special Customs Act on FTA Implementation (SCAFI)
- Presidential Decree of the SCAFI
- MOSF's Implementation Regulation of the SCAFI
- KCS' Implementation Notice of the SCAFI

- * MOSF: Ministry of Strategy and Finance
- * KCS: Korea Customs Service

► Different Trade Patterns under WTO and FTA



* In the era of FTAs origin verifications will have greater importance in trade remedies.

► Lowered Tariff Rate under FTAs

Basic requirements :

- Trading companies be located in the territories of Parties;
- A good have an HS code subject to tariff concessions;
- A good be transported directly or transhipped to the territory of the other Party; and
- A valid CO be issued in a proper timeframe.

Application Procedure before Import Declaration Approval

- Before making an import declaration, an importer with a CO under a relevant FTA completes and submits an application for preferential tariff treatment to customs authorities.



Application Procedure after Import Declaration Approval

- After getting an import approval, an importer that does not have a CO at the time of import declaration pays duty at a regular duty rate and then later submits a CO to have the paid duty refunded





Export Procedure under the FTA Framework

- Only after export is approved, an exporter applies for and sends a CO to an importer for preferential tariffs



Issuing Certificates of Origin under FTAs

- Preferential COs under FTAs use different forms from those of ordinary COs designed to protect domestic consumers and industries
- Issuance process
 - Depending on issuers, COs fall into two different groups: self-issued and customs(KCS) issued. The former is made out by exporters or producers; the latter is issued by designated organizations. Each CO , meanwhile, shall meet all requirements, including validity periods, forms and issuance, which are set out in each agreement

Issuers of Proof of Origin

	Kor-Chile	Kor-Singapore	Kor-EFTA/EU	Kor-ASEAN	Kor-US	Kor-India
Types	Self-issuance	Authority-issuance	Self-issuance	Authority-issuance	Self-issuance	Authority-issuance
Issuers	Exporters	- Singapore: Customs - Korea: Customs, Free Trade Zones, Chambers of Commerce	Exporters, Producers -EU :Approved Expoters only, in case of over €6,000	- ASEAN: Government Agency - Korea: Customs, Chambers of Commerce, only customs for goods from the Gaesung industrial complex	Exporters, Producers, Importers	- India:Export Inspection Council - Korea: Customs, Chambers of Commerce

* Foreign Ministry ; Brunei, Department of Commerce ; Cambodia, Laos, Myanmar, Thailand, Vietnam, Agency ; Malaysia, Philipines, Singapore



► Origin Decision Criteria under FTAs

Wholly obtained

Products wholly raised, grown or manufactured in the territory of a Party without any foreign materials qualify as originating

Not wholly obtained

Though they consist of imported materials, products that undergo sufficient working or processing in the territory of a Party are considered as originating

Change in Tariff Headings (CTH)

Products that undergo changes in tariff classification qualify as originating though they are made of foreign materials

Regional Value Content (RVC)

Products that have a certain level of value created in the territory of a Party are considered as originating, e.g. automobiles

Specific Processes

Products that undergo specific processes are regarded as originating, e.g. apparel

Outward Processing

Products that undergo processing outside the territory of both Parties qualify as originating under certain circumstances, e.g. goods manufactured in Gaesung Industrial Complex located in DPRK

► Origin Verifications under FTAs

- A Party may verify the accuracy and authenticity of COs upon requests from the other Party

*All records relating to the origin of a good shall be kept for five years. A business who receives preferential treatment under FTAs is obliged to show origin-related evidence when it is requested by competent customs authority. Otherwise the company will have to pay unpaid duties and penalties

- Types of Verifications

	Kor-Chile	Kor-Singapore	Kor-EFTA	Kor-ASEAN	Kor-India
Types	Direct	Direct	Indirect under conditions	Basically indirect & Conditionally direct	Indirect
Inspectors	Customs of the importing Party		Customs of the exporting Party with the participation of the importing Party's customs officials		Customs of exporting Parties



▶ How to Search for the HS Codes?

- Clients in Korea can find HS codes from consultations with customs brokers or the KCS customer help center. The website, www.customs.go.kr, also provides a search service for the codes.

* The KCS Customer Help Center

- ✓ Website : <http://call.customs.go.kr>
- ✓ Phone : 1577-8577 (in Korea) / 82 2 3438 5199 (from overseas)
- ✓ Address : 10th floor, the Seoul Customs, Nonhyeon-dong, Gangnam-gu, Seoul, Korea

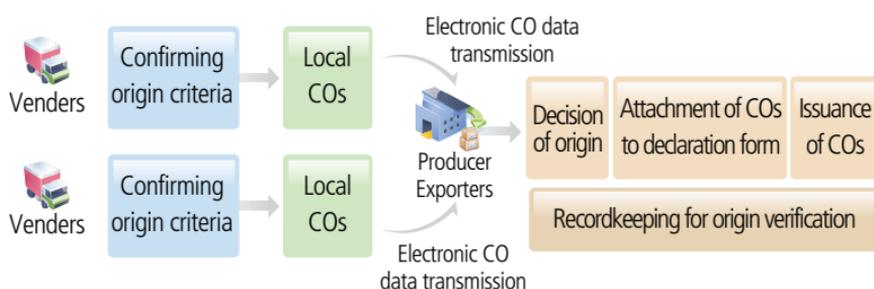
* KCS website : <http://www.customs.go.kr> → Information Plaza → Korea Customs Tariff D/B

- The pre-application of HS-classification service is provided by the Customs Valuation and Classification Institute of the KCS
 - For the items that have not undergone the clearance process, exporters can ask the institute (Phone no. 82-42-930-3630) for classifying the HS codes of their goods
 - For the items that have undergone the clearance process, exporters can ask local customs to confirm HS codes for the items to be exported by mail or application forms

▶ What is KECOMS?

- The KCS developed and provides a comprehensive and effective origin management program, called the Korean Electronic Certificate of Origin Management System with which businesses can confirm the origins of their parts or finished goods, issue and send COs to trading partners and maintain supporting data for origin verification
- This System is available to anyone who accesses KCS' electronic clearance system, Uni-Pass. Any businesses will also be able to download its modularized program, now under development, freely from the website of the Korea Institute of Origin Information after July 2010

Data Processing Flow of Origin Management System





- Indirect verification means that the customs agency of an importing Party makes a request for verification to issuing authorities, including the customs agency, of an exporting Party
- Direct verification means that a customs agency of an importing Party conducts documentary or visit inspections on exporters in an exporting Party
- Indirect verification under conditions means that the customs agency of an exporting Party conducts verifications upon the request of an importing Party with possible participation of customs officials from the importing country

Statistics of Verification Requests

Developed partners of FTAs made more requests for verifications than the others, leading us to predict that such requests will increase when Korea's agreements with the United States and European Union take effect

Requests from Korea's FTA partners

as of Jan. 2010

Switzerland	Vietnam	Norway	Chile	Total
17	2	1	1	21

Korea's requests to FTA partners

as of Jan. 2010

Switzerland	Norway	Iceland	Singapore	Indonesia	Malaysia	Myanmar	Vietnam	the Philippines	Chile	Total
16	6	6	2	7	5	1	3	1	2	49

What is the HS Tariff Nomenclature?

- Trading goods are classified according to the Harmonized Commodity Description and Coding System established by the World Customs Organization. For instance, the HS code for natural pearls is 7116.10-1000 in Korea
 - The nomenclature includes the chapters (two digits), the headings (four digits) and sub-headings (six digits)

71

(chapter)

16

(heading)

10

(sub-heading)

1000

Korea uses ten-digit codes while EU and the US employ eight digits and Japan adopts nine digits

Six-digit HS codes are international standards whereas the other numbers are adopted and managed by each country

Approved Exporter Program

- Issuing and submitting COs for every export case after confirming each CO requirement cause additional cost and workloads to trading companies
- Approved Exporter Program is designed to previously designate exporters or producers that have an internal self-control system and show high compliance with customs related laws, so that they need to only undergo a simplified clearance process

Requirements for Designation

- **Business-specific Approved Exporters shall:**
 - have an electronic system that manages materials for exports;
 - maintain a register of COs and designate persons to keep records;
 - have high compliance over certain level;
 - cooperate with the customs administration in investigating origins; and
 - keep supporting documents for certain periods
- **Product-specific Approved Exporters shall:**
 - export goods that qualify for rules of origin under FTAs;
 - maintain a register of COs and designate persons to keep records;
 - cooperate with the customs administration in investigating origins; and
 - keep supporting documents for certain periods

Required Documents

- Application form for approved exporter status
- Explanations for each item to be approved
- Confirmation of origin, when the producer and exporter are different entities
- Proof of origin supporting the origin confirmation

Benefits

- Being required to submit only applications for issuing CO without other supporting documents
- Being able to use approved exporter numbers in origin declarations instead of signatures, making it easier for designated approved exporters to use the electronic system
- The Korea-EU FTA provides that businesses whose export value exceeds €6,000 shall be approved exporters to issue COs





▶ Customs' Management for Approved Exporters



▶ Request for Advance Origin Certification prior to Import Declaration

• Importers, exporters and producers of the Parties may be able to request the origin confirmation of export products to be certified by the customs authority before the exportation takes place. The followings are the details:

- Applicants: importers, exporters and producers of the Parties
- Subject to certification: whether an item meets the origin criterion or not
- Required documents: applications, contracts, cost statements and others needed for certification

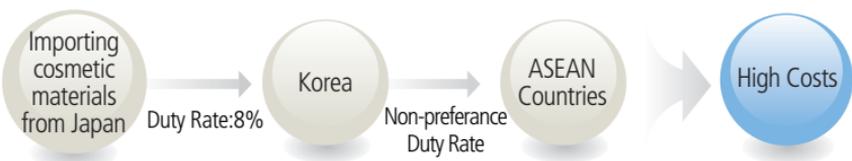
Note : The regulation applies only to the trade under Korea's FTAs with Chile, Singapore, the EFTA and India.

▶ Good and Bad examples of FTA Utilization

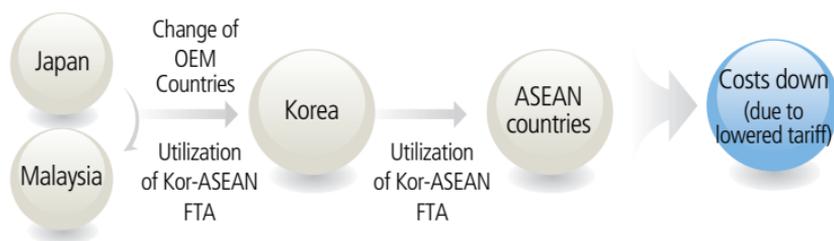
• A good example

- Before the entry into force of the Korea-ASEAN FTA, a Korean company working with a Japanese original equipment manufacturer (OEM) used to pay 8% of duty for imports from Japan, and bear export tariffs in ASEAN nations.
- After the entry into force of the Korea-ASEAN FTA, the company began doing business with a Malaysian OEM, which lowered or eliminated duties for both imports and exports.
- As a result, KRW 600 million of duties was saved for only one item, the facial cleanser, which increased the company's price competitiveness and export

Before the utilization of FTA in foreign trade

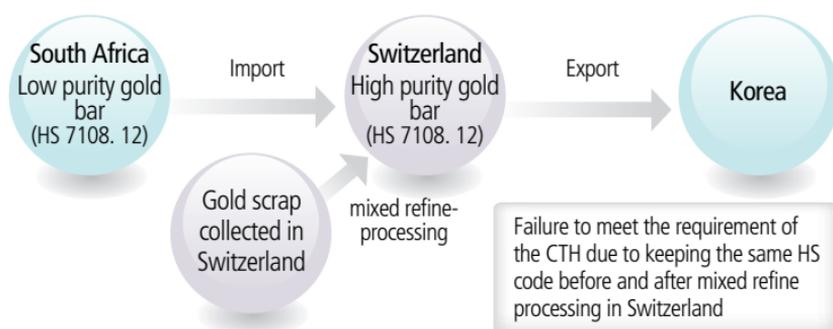


After the utilization of FTAs in foreign trade



• A bad example

- Several businesses in Korea imported from Switzerland gold bars, which should go through a change in tariff heading for the preferential tariff under the Korea-EFTA FTA.
- However, they could not alter the HS code, failing to meet the CTH criterion.
- The Korean customs collected the unpaid duties of about KRW 10 billion from 14 Korean importers in 2008



▶ FTA Global Center of KCS

- Anyone who wants to well utilize FTAs, please contact the FTA Global Center. KCS built the cluster to provide you with various one-stop services of;
 - Research: developing policies to support trading businesses;
 - Education: training SME employees to better utilize FTAs;
 - Consultation: advising businesses on data maintenance to prepare for later verification requests for preferential COs from importing countries;
 - Information: providing industry- and product-specific data under FTAs; and
 - ICT: developing and distributing the e-manager such as KECOMS and KEFUSS
- The center consists of the FTA Implementation Division of KCS, the Korea Institute of Origin Information and the training and computing centers
 - Website : <http://fta.customs.go.kr>.
 - Phone : 82-31-697-2553
 - Address : FTA Global Center, (463-070) 264-2 Yatap dong, Bundang gu, Seongnam si, Gyeonggi do, Korea