Origin Verification in Korea and its Implication

Presented by Duk-soo Lee
Korea Customs Service
Table of Contents

1. Overview on Origin Verification
2. Origin Verification System
3. Case Studies on Verification
4. Issues and Challenges
1. Overview on Origin Verification
FTA Trend in Korea

- Number of FTAs in effect: 9 FTAs
- Number of FTA partner countries: 47 countries
- Percentage of trade volume under FTAs: 36% as of 2013
Iceland, Norway, Switzerland, Liechtenstein

Korea’s FTA in Effect

- Under Negotiation with Indonesia, China, Vietnam, Korea-China-Japan, RCEP, Canada, Australia, New Zealand
- Signed with Columbia
Import utilization rate ranges from 41.4% to 98.5% (very high)
Export utilization under K-ASEAN and K-India accounts for 38.7% and 42.9% respectively (relatively low)

As of December, 2013
Since 2011, the number of Origin Verification has been surged.

Especially after, Korea-EU FTA in 2011, KORUS in 2012
Since July 2011, EU is No. 1 customer in terms of verification request on exported products, followed by ASEAN countries and EFTA states.
There has been constant origin verifications conducted in case of ASEAN, EFTA and EU.

As for US, origin verification has started since 2013.
Results of Export Verification

- In 2013, 18% of verifications turned out negative determination
- 53% were errors or simple mistakes in Certificates of Origin and 22% are failure to fulfill origin requirements
Results of Import Verification

- Number of origin verification on Imports has been increasing.
- Failure of ROO (46%), Errors in CO (37%) followed by failure of HS classification (9%)
2. Origin Verification System
Verification is regarded as;
- a **critical instrument** for FTA implementation
- a promotion tool for **legitimate regional trade and investment** which ensures fair trade competition

However, **abuse of verification** may cause **administrative burden** on FTA partner countries and work as **non-tariff barrier**

**Mutual trust and closer cooperation** are Key factors for successful verification
To minimize administrative costs & burden, the following principles shall be applied in conducting verification:

- Post verification after the release;
- Document based verification first; and
- On-site verification under exceptional circumstances
- Respect the procedures under the Agreements
Each FTA adopts different set of verification procedures, which results in complexity and errors in operations.

**Verification Type by FTAs**

- **Direct Verification** (K-Chile, K-Singapore, K-US)
- **Indirect Verification with observation** (K-EFTA, K-EU, K-Turkey)
- **Combination of Indirect and Direct Verification** (K-ASEAN, K-India, K-Peru)
- **Direct Verification with Indirect verification for Textile Products only** (K-US)
Korea Origin Risk Intelligence System

KORI S

Country Risk
Supplier Risk
Importer Risk
Transport Route Risk
Tariff Risk
Product Risk

+ Trade Volume
+ Complexity in ROO
+ Social Impact
Verification Check Points

- 1st stage: Formality check
- 2nd stage: Substantial factors
Verification Tool

- **Questionnaires** based on risk assessment and information collection: the most important tool
- **Supporting documents** submitted by importer, exporter or producer
- **Interview** during on-site visit
- **Production line tour**
- Cross-check between supporting documents and accounting records in case of value test

Through our experiences, on-site visit followed by production tour was the most effective method to verify country of origin of products.
Authority Issuance, Proof of origin by approved exporter
- Indirect Verification is preferred
Self Issuance: direct Verification is preferred
Credibility of CO impacts on origin verification
- Origin verification & certification are to be taken into consideration simultaneously

<table>
<thead>
<tr>
<th>FTA/Element</th>
<th>Chile</th>
<th>Singapore</th>
<th>US</th>
<th>Peru</th>
<th>ASEAN</th>
<th>India</th>
<th>EFTA</th>
<th>EU</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verification Technique</td>
<td>Direct</td>
<td>Direct</td>
<td>Direct</td>
<td>Direct or Indirect</td>
<td>Mixed</td>
<td>Mixed</td>
<td>Indirect</td>
<td>Indirect</td>
<td>Indirect</td>
</tr>
<tr>
<td>Issuance Type</td>
<td>Self</td>
<td>Authority</td>
<td>Self</td>
<td>Authority (Self after 5 years of Effectuation)</td>
<td>Authority</td>
<td>Authority</td>
<td>Self (Approved exporter)</td>
<td>Self</td>
<td></td>
</tr>
<tr>
<td>Issuer</td>
<td>Exporter</td>
<td>Authority</td>
<td>Importer/Exporter</td>
<td>Authority (Exporter)</td>
<td>Authority</td>
<td>Authority</td>
<td>Exporter</td>
<td>Exporter</td>
<td>Exporter</td>
</tr>
<tr>
<td></td>
<td>Direct Verification</td>
<td>Indirect Verification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>---------------------------------------------------------</td>
<td>------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pros</td>
<td>Security of sovereignty to impose tariff</td>
<td>Reduction in verification cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prevention of tariff evasion &amp; import circumvention</td>
<td>Eased management of domestic exporters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prompt verification procedures</td>
<td>Efficiency of onsite verification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Securing verification accuracy</td>
<td>Eased verification on multiple companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cons</td>
<td>Verification cost increase</td>
<td>Dependency on exporting customs authority</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technical problems concerning onsite verification</td>
<td>Administrative burden increase</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Accounting management, onsite information, etc.)</td>
<td>(When verification requests from the importing customs authority flood)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Difficulty in Verification on multiple companies</td>
<td>longer verification result reply period concerns over extension of verification period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comparison on Verification Technique**

I
Preconditions for facilitated implementation are as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Preconditions for Facilitated Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Verification</strong></td>
<td>- Administrative power of the customs authority of the importing country is necessary</td>
</tr>
<tr>
<td></td>
<td>- Professionals in charge of verification on exporters and producers to be secured</td>
</tr>
<tr>
<td><strong>Indirect Verification</strong></td>
<td>- Administrative power of the exporting country is to be supported</td>
</tr>
<tr>
<td></td>
<td>- Security of professional in charge of verification &amp; rigid origin verification</td>
</tr>
<tr>
<td></td>
<td>- Mutual trust between contracting parties shall be built</td>
</tr>
<tr>
<td></td>
<td>- Mutual administrative cooperation</td>
</tr>
</tbody>
</table>
Origin certification techniques, contracting party’s policies, effectiveness of verification and expenses should be taken into consideration.

- Harmonized administrative cooperation is available & mutual trust is established
- Verification requests from contracting parties are not considered to be an excessive burden
- Authority issuance or proof by approved exporters are chosen
  - **Indirect verification**

- The administrative power of contracting party is weak, and mutual administrative cooperation is not harmonized
- Great number of contracting party’s verification requests are considered to be a significant administrative burden
- Security of sovereignty to impose tariff is considered to be imperative
- Self issuance was adopted
  - **Direct verification**
3. Case Studies on Verification
## #1: Verification Reply Period passed

- Origin Verification on the imported goods was requested to the FTA contracting country. **However, the FTA contracting country did not provide the results of the verification within the period stipulated in the Agreement.**

## #2: Insufficient Information provided

- In case where origin verification was requested to the other FTA contracting party, the party is to provide results of the verification along with the reasons for the determination and supporting documents. **However, the party simply provided the results only.**

## #3: Invalid Certificate of Origin

- Origin is to be proven pursuant to the method and format stipulated in the Agreement. **However, Certificate of Origin was made out by a random body or in a different format which is not set out in the Agreement.** Hence, the C/O is regarded invalid.
#4: Mis-calculation of RVC due to omitted cost of non-originating materials

- Value of the non-originating materials (VNM) used in the production of the goods in question should be included in the value of the goods in question in order to calculate the RVC rate. **However, the VNM was not included in the calculation which resulted in a wrongly calculated amount.**

#5: Origin Supporting Documents omitted by the exporter

- KCS requested that the exporter of the FTA contracting country provide documents substantiating the origin of the goods in question. **However, they were not submitted.**

#6: Direct Transportation Requirements not fulfilled

- If a good is not directly transported from the FTA contracting country to the importing country and undergoes a transit period within a third country, the good shall be under the customs control and shall not undergo any commercial transactions. **However, commercial transactions were conducted in the country.**
5. Issues and Challenges
Issues

- Non-compliance or Negligence in Cooperation of Partners
- Reluctant to supply sufficient information
- Lack of expertise in classification and valuation
- Different interpretation, classification and guidelines between the importing & exporting parties
- Heavy administrative burden on Customs Authority of the exporting Party
- Lack of effective bilateral consultation process in terms of settling verification disputes
Challenges

- Establishment of contact points for prompt and effective communication

- Signing MOU with FTA Contracting parties for uniform interpretation and operation and mutual administrative assistance on origin verification under the Agreement.

- Establishing common guideline or manual for verification procedures

- Building mutual trust and understanding by joint workshop and training program as well as holding regular meeting
Challenges (cont.)

- Introduction of explanatory note regulating overlapping and repeated requests, extension of time-limit, scope of sufficient information and range of exceptional circumstances

- Developing sophisticated risk assessment system

- Information exchange and sharing best practices
감사합니다
Thank you for your attention
leeds@customs.go.kr