



**INDIVIDUAL-COUNTRY OBSERVATIONAL
STUDY MISSION (I-OSM): BEST PRACTICE
REGULATION FOR TRADE FACILITATION -
SEOUL, ROK**

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Final Report

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1.0 Introduction

Members of the Malaysian delegation are from the implementing agencies, professional companies and policy makers. The delegation participated in the 5-day observational study on best practice regulation for trade facilitation in Korea. Learning experiences were gained on the Korean startup landscape opportunities & challenges, efficiency in Korean Customs Services administration with its implementation of business-friendly regulations and simplification of administrative procedures & inspection during customs clearance which have enabled more efficient trade. The knowledge sharing on the Pangyo Techno Valley, a regional innovation cluster based on the Korean government's creative economy driven strategy led by GCCEI with various types of special economic zones, tax reductions and incentives were enlightening. The site visit provided interesting insights on their AEO, procedures of acquisition, post management, regular self-evaluation and comprehensive audits as well as the benefits of AEO-MRA.

2.0 Objective

The overall objective is to gain in-depth understanding on South Korea's Customs (KCS) best practices in complying with provisions of the Trade Facilitation Agreement on the following:

- i. Article 2.2: Consultation
- ii. Article 7.1: Pre-arrival Processing
- iii. Article 7.7: Trade Facilitation Measures for Authorized Operators
- iv. Article 7.8: Expedited Shipments
- v. Article 10.4: Single Window

3.0 Present Situation

Inefficient processes, unnecessary regulatory burdens on business and redundant procedures add to the time and cost for trading across borders. Malaysia was ranked 61st / 190 economies in Trading Across Borders (Ease of Doing Business Report 2018) as compared to Korea (33rd). In Logistics Performance Index (LPI) report 2016, Malaysia was ranked 32nd/160 economies, while Korea ranked 34th.

Table 1: Doing Business 2018, Trading Across Borders (TAB) performance for selected economies in 2018 (Appendix 1).

Therefore, Malaysia needs to improve performance in Trade Facilitation through learning best practices from Korea Customs Service (KCS). Fully implementing the best practices of trade facilitation will enhance efficiency; reduce trade costs; and improve productivity.

The Organization for Economic Co-operation and Development (OECD)¹ estimates that the potential cost reduction from a “full” implementation of the Trade Facilitation Agreement (TFA) is 16.5% of total costs for low income countries, 17.4% for lower-middle income countries, 14.6% for upper-middle income countries and 11.8% for OECD countries according to 2015 Trade Facilitation Indicators data.

4.0 Highlights and Lessons Learnt from the Study Mission

Korea Customs Service Trade facilitation

Average time taken for KCS air cargo clearance is 60 minutes. This is due to:

- ✓ the implementation of uCustoms with Artificial Intelligent (AI) and ability to track KCS performance;
- ✓ simplified declaration form for export;
- ✓ advanced manifest;
- ✓ deferred payment;
- ✓ dedicated scanner, dog and other government authorities for each conveyor belt for air cargo clearance;
- ✓ close collaboration with Customs Agent (CA).

CA is a professional business (likes architect, engineer, and doctor) and regulated entity. There are 1,876 CAs in South Korea. Their market share increases yearly since 2014. Shippers have good trust on them. They provide consultancy on AEO to shippers.

4.1 The KCS Import & Export Business Center

The nationwide main Customs provides personalised solutions for the following:

- **FTA** (provides total consulting for FTA application free consulting to SMEs, provides FTA education support project to support FTA utilization, trains FTA specialists through education projects and support maximisation of exports using FTA),

¹http://www.oecd.org/tad/tradedev/WTO-TF-Implementation-Policy-Brief_EN_2015_06.pdf

- **AEO** (supports SMEs to obtain AEO authorisation and post management through an account manager, advantages/benefits include prompt clearance as logistics flow becomes smooth as cargo inspection ratio is reduced and document submission is eliminated. Enhances business stabilisation such as easing financial burden by allowing monthly payment and guarantee waivers upon import declaration. Arrangement between customs parties to accept counterpart country's as equal to its own AEO company and provides customs procedural preference mutually agreed (AEO MRA).
- As for **overseas clearance issues**, provides support to apply and handle overseas clearance issues.

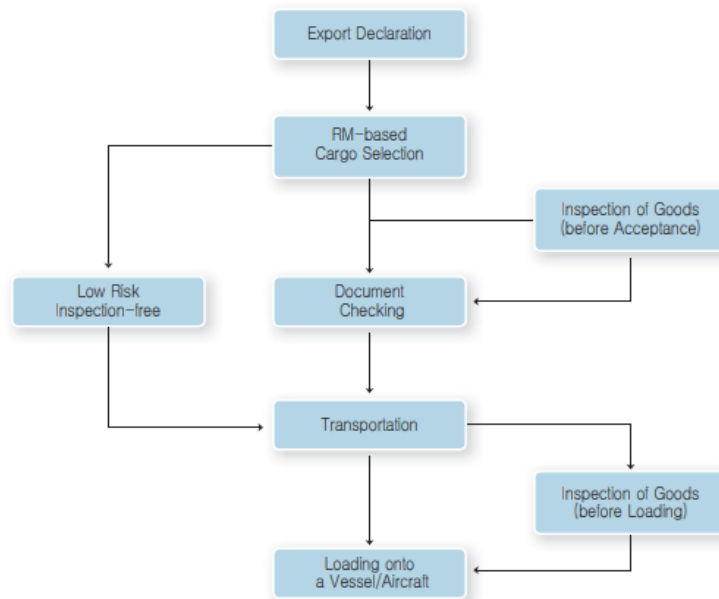
4.2 Introduction of Free Trade Zones

- There are 8 Free Economic Zones in Korea: Incheon FEZ, the competitive industrial belt of Busan – Jinhae FEZ (BJFEZ), Gwangyang Bay Area FEZ (ports), Daegu – Gyeongbuk FEZ, Yellow Sea FEZ, Saemangeum – Gunsan FEZ, East Coast FEZ and Chungbuk FEZ.
- Research on improvement of logistics policy in domestic FEZ through cognitive analysis of Investor Relations (IR) content of the FEZ, development international logistics cooperation for building a production network and joint logistics centre development initiatives.

4.3 Export and Import clearance

- All export and import procedures are dealt in the KCS internet-based electronic clearance system, so called **UNIPASS**. The customs clearance system automatically decides that it is subject to cargo inspection or inspection based on documents or inspection free.
- Inspection for Import Goods Methods and Disciplinary Measures
 - o **Selections subject to inspection:** selected among import declarations, based on risk management technique and cargo data analysis.
 - o **Purpose of inspection:** to ensure the accuracy of import declaration, including description of goods, quantity, country of origin, and trademark
 - o **Inspection methods:** whole cargo inspection, partial cargo inspection, or component analysis by customs laboratory

- Making Shipment within 30 days from the Date of Export Declaration Acceptance. However, the period can be extended by up to a year.



4.4 Clearance Methods for Express Cargo

- **Listed import declaration** is a clearance method which allows goods to be cleared only with an invoice with the names, phone numbers and addresses of the consigner and the consignee, and the description, price and weight of the goods. May apply for goods for personal use or samples to be used at businesses, priced at USD 100 (200 dollars for the U.S.) or lower if they are not one of the following goods excluded from listed declaration.
- **Simplified import declaration** may apply for goods priced higher than USD 100(USD 200 dollars for the US) and no more than USD 2,000
- An **ordinary import declaration** is required for goods priced at higher than USD 2,000, and goods excluded from the listed import declaration and the simplified one.

4.5 Duty Payment System and Due Date

- **Installment Payment** of Customs Duties facilities provided for the plant facilities and its machinery and goods imported for direct use by small and medium-sized manufacturers. The period of installment payment of customs duties may be up to 5 years depending on the amounts approved by customs. (Article 107 of the Customs Act and Article 59 of the Circular of the Customs Act).
- Where customs duties have not been paid until the acceptance of the duty payment declaration, a notice bill of duty payment will be issued with the payment period of 15 days from the date of the acceptance of

the duty payment declaration. Those who have paid duties after the acceptance of the duty payment declaration need not to **provide security** in principle; but the duty payers who fall under Article 248(2) of the Customs Act are required to offer security.

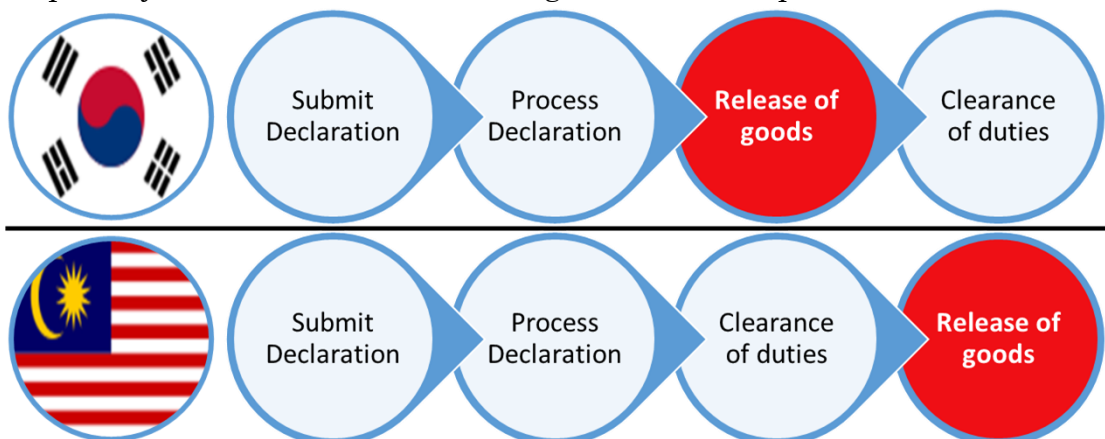
- The **monthly payment system** is designed to promote the convenience of duty payers faithfully meeting payment obligations: if the duty payers have made multiple duty payment declarations, and all of their due dates are in the same month, the duty payers are allowed to make a lump-sum payment of all of the duty liabilities by the last day of the month. **Table 2: KCS various payment systems (Appendix 2)**

4.6 Correction of Errors in the Declaration

Stage	1st		2nd		3rd	
How	Self-Correction	Notice of correction/ correction by customs	Application for revision	Revision notice	Amended declaration	Rectification
Who	Duty payer	head of the customs	Duty payer	Head of the customs	Duty payer	Head of the customs
Period	From duty payment declaration (import declaration) to payment		Within 6 months from the date of declaration and payment (revision period)		From the day after the date of termination of the revision period to the end of the dutiable period	
Reasons	More or less declaration of customs duty		Less payment		Less payment	More or less payment
Note	<ul style="list-style-type: none"> - Correction by customs may be made only to import declaration which are not related to duty payment. - No reply to correction notice may be subject to correction by the head of a customs. - When duty payers find out that they had paid more than needed, they may claim for rectification within 5 years from the date of the duty payment declaration. 					

5.0 Applicability or adaptability of the knowledge gained through the visit

Gap analysis of current Customs cargo declarations process



Gap analysis on implementation of Customs trade facilitation programme

Cargo clearance activities	Programme Implemented	
	Korean Customs	Malaysian Customs
Submit declaration	<ul style="list-style-type: none"> • Unipass • Advanced manifest • AEO operator <ul style="list-style-type: none"> - 292 companies - 78 exporters - 80 importers - 60 freight forwarders - 11 warehouse operators - 9 transporters - 5 sea carriers - 49 customs brokers - 139 SMEs 	<ul style="list-style-type: none"> • SMK • AEO operator <ul style="list-style-type: none"> - 59 companies
Process declaration	<ul style="list-style-type: none"> • Simplified declaration form 	
Customs Release	<ul style="list-style-type: none"> • Deferred payment systems 	
Customs Clearance	<ul style="list-style-type: none"> • Correction of Errors 	

6.0 Moving Forward

- Accelerate the implementation of uCustoms;
- Strengthen the Customs Brokerage Agents;
- Create simplified declaration form for air cargo export with value below RM 5,000; and
- Implement Deferred Payment System for Customs Duty and other Taxes.

7.0 Concluding Remarks

The programme has provided the delegation with some insights on strategic measures to be formulated and implemented for improving trade facilitation in Malaysia.



Prepared by,
I-OSMROK Study Mission Malaysian Delegates, 2018

Table 1: Doing Business 2018, Trading Across Borders (TAB) performance for selected economies in 2018

EXPORT	MYS	NOR	GBR	KOR	FIN	SGP
(Rank)	61	22	28	33	34	42
Economies Import	China	France	United States	China	China	Hong Kong
Port	Klang	Oslo	Southampton	Incheon	Helsinki	Singapore
Time to export: Border compliance (Hrs)	45	2	24	13	36	10
Cost to export: Border compliance (USD)	321	125	280	185	213	335
Time to export: Documentary compliance (Hrs)	10	2	4	1	2	2
Cost to export: Documentary compliance (USD)	45	0	25	11	70	37
IMPORT	MYS	NOR	GBR	KOR	FIN	SGP
Economies Export	Thailand	German	Germany	Japan	Germany	Germany
Port	Klang	Oslo	Dover	Busan	Helsinki	Singapore
Time to import: Border compliance (Hrs)	69	2	3	6	2	33
Cost to import: Border compliance (USD)	321	125	0	315	0	220
Time to import: Documentary compliance (Hrs)	10	2	2	1	1	3
Cost to import: Documentary compliance (USD)	60	0	0	27	0	40

Table 2: KCS various payment systems

	Payment System	Main Purpose	Due Date
Principle	Payment in general	-	Declaration and payment system: within 15 days from the date of the acceptance of the duty payment declaration
			Notice of imposition-payment system: within 15 days from the date of a duty payment notice
			Immediate release system: within 15 days from the date of the import declaration
Exceptions	Duty payment correction system for revision application	To pay the deficient value	The day after the date of the revision application
	Duty payment correction system for amended declaration	To pay the deficient value	The day after the date of the amended declaration
	Monthly payment system	For the convenience of duty payers and saving financial costs	The last day of the month into which the due dates of duty payments fall
		To mitigate difficulties from disasters, etc.	The date set by the head of the customs within one year
	act of God, etc.		
	particular goods, etc.	To build industrial facilities, support SMEs, etc.	The date set by the head of the customs within 5 years from the date of approval for installment payment
	Lump-sum payment system	To defer the due date	15th of the month following the month into which the last day of the lump-sum payment period falls (within 6 months)
Collection before due date system	To secure tax receivables	The date fixed by the head of the customs	

Import Clearance Workflow (Incheon Main Customs)

