

Inclusive utilization of Free Trade Agreement through innovation

Korea's **FTA Origin Determination Service** **FTA KOREA PLUS**

30 August 2022



Background

Environment

In 2011, Korea entered into Preferential Trade Agreement (FTA) with Chile(2004), Singapore (2006), European Free Trade Association (2006), ASEAN (2007), India (2010), and the EU (2011). The expectation of the benefit of the FTA was high. However, the utilization rate of FTAs wasn't high enough, and SMEs complained of difficulties in understanding different RoO of FTAs

Low utilization

In 2011, Korea's overall utilization rate was 63%.

Korea – ASEAN: 33%

Korea – EU: 66%

Challenges

According to various studies, many SMEs were not aware of FTAs. The Rules of Origin to attribute the country of origin to each product by different FTAs were confusing. The cost of origin determination and documentation was too high, and suppliers' support in the origin verification of raw materials was insufficient.

Problem Statement

Complicated RoO

88% of trading SMEs interviewed complained about the origin determination;

Challenges in Complicated RoO, difficult issuing process, and lack of knowledge and experts

High cost

The application and verification of RoO by Authority is a growing barrier 'at the border' in some countries. Sometimes, the total cost of utilizing FTA is higher than the tariff benefit of FTA.

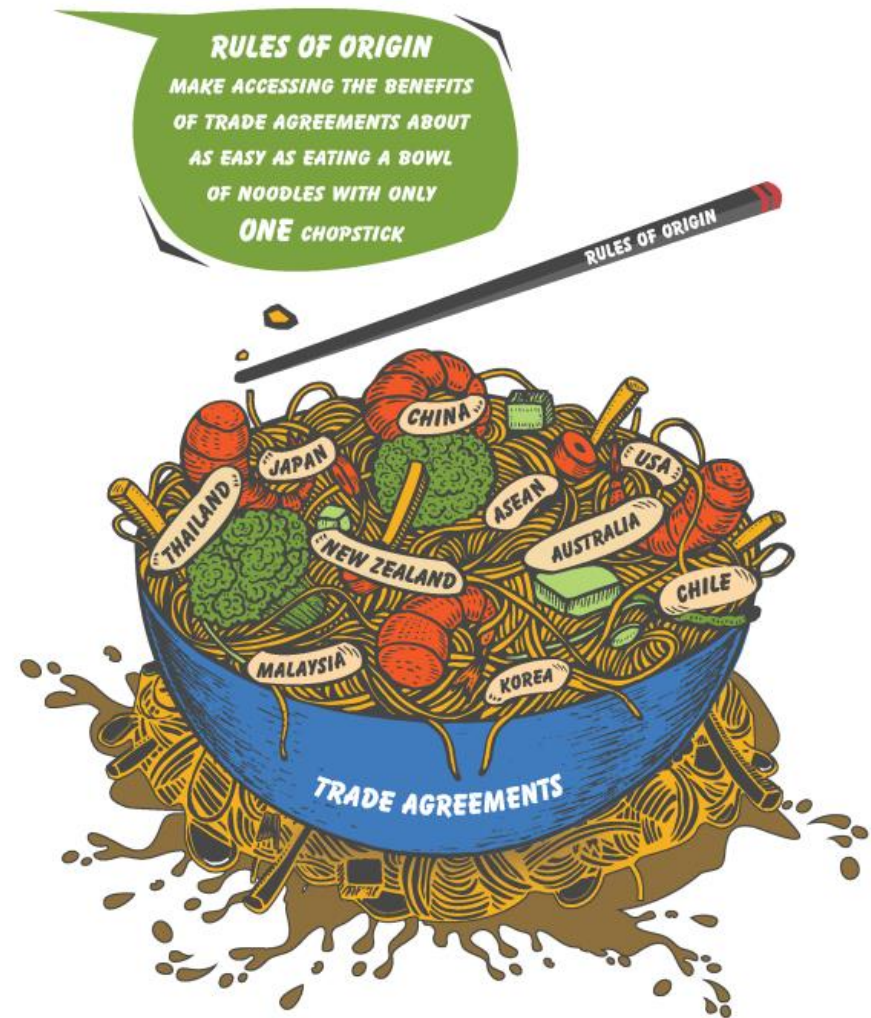
Compliance

It is necessary to prepare for the risk of additional customs duties due to errors in the determination of origin and incomplete determination documents.

Administration burden

Responding to the customer's request for a Country of Origin Management is necessary.

It is needed to prepare for due diligence.



Crook, W. and Gordon, J. 2017, Rules of Origin: can the noodle bowl of trade agreements be untangled?, Productivity Commission Staff Research Note, Canberra, May.

FTA-Korea Plus

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The Ministry of Trade, Industry and Energy of Korea supported the implementation of the FTA Trade Agreement Rule of Origin Determination Service to increase the SMEs' utilization rate of FTAs



FTA-Korea Development stages

- **2014 FTA-Korea** → FTA RoO Determination for MSMEs
- **2014 FTA-Agri** → FTA RoO Determination for agricultural products
- **2021 FTA-Korea Plus** → Revamp of service applying AI and other latest technologies

2004 Chile

2006 Singapore

2006 EFTA

2007 ASEAN

2010 India

2011 EU



USA, China, RCEP, etc.
Total 18 FTAs in effect
(June, '22)

FTA-Korea Plus

Main functions

FTA Information

Rules of Origin information by FTAs

- RoO of RCEP and other 17 FTAs in effect

HS code Search

- Manual search of HS-code by keywords, category, and tariff heads
- AI recommendation of HS-code by product information

Base information Management

Product management

Customer management

Bill of Materials management

Purchase/Sales ledger

- Transaction data of parts and raw materials as well as an export product

Declaration of Origin Management

- Receive and store Declaration of Origin from local vendors

Origin Determination

Origin determination

- RoO engine determines the Origin of a product by RoO/PSR of a FTA

Origin Verification Questionnaire

- PSR, Preferential RoO, production, and raw materials information to determine the preferential tariff treatment by customs

Issuing Declaration of Origin (D/O)

- A document issued by a local vendor to the exporter as a certificate of origin of raw materials

Preferential Certificate of Origin

- Agency issuance
- Self-Certification

Post-Determination Management

P-C/O and D/O Signature register

- Manage register of the designation and cancellation of the signatory of the certificate of origin

Due diligence

- Management of proof documents (P-C/O and D/O record sheet, Purchase ledger and sales ledger, Bill of Materials, Origin Verification Questionnaire)

How it works

Auto Parts – Air Piston (Process and data)

Suppliers(Foreign)

China Factory

India Factory

Suppliers(Domestic)

DS
FREE TRADE
COMPANY

TY FTA
PACKING CO

TW PAN
KOREA

AIR PISTON
PART

RETURN
SPRING

Wooden BOX

WHITE KIT BOX

KTNET Motors
(Exporter)

FTA KOREA PLUS

Compliance

Purchase &
Production data
upload and
automatic
mapping

Determine
Origin

HS-code
selection and
automatic
selection of
RoO

Issue C/O

Automatic
selection of
forms by FTAs
- self/authority

Master Data

- Item
- Product Name : AIR PISTON
- HS CODE : 8708930000
- Trading Partner
- Supplier
- Customer (Importer)
- BOM
- AIR PISTON
- Wooden BOX

Trading Information

- Purchase Ledger
- Declaration of Origin from vendors
- Sales Ledger
- Sales No. : FKS40544T

HS Code, ROO

Auto Clutch and Parts

HS CODE : 8708.93

- FTA : Korea-US

Determination of Origin

- Determine Origin by Sales
- Sales Date : 2022.05.11
- Raw Material Purchase Period : 2022.01.01 ~ 2022.05.11
- BOM Applied Date : 2022.05.11
- FTA : Korea - US
- Verify Result of Origin Determination
- Verify Origin Verification Questionnaire

Issuing of C/O

- Issue Korea-US Self-Certificate of Origin
- Blanket/Separate
- Print & Save C/O
- Online submission of C/O application to issuing agency(KCCI)
- Automatic creation of supporting documents

Customer
(Importer)

KTNET FTA
COMPANY

AIR PISTON
RETURN SPRING

Korea Chamber of
Commerce and Industry
(KCCI)



Declaration of Origin



Verification of Origin Questionnaire



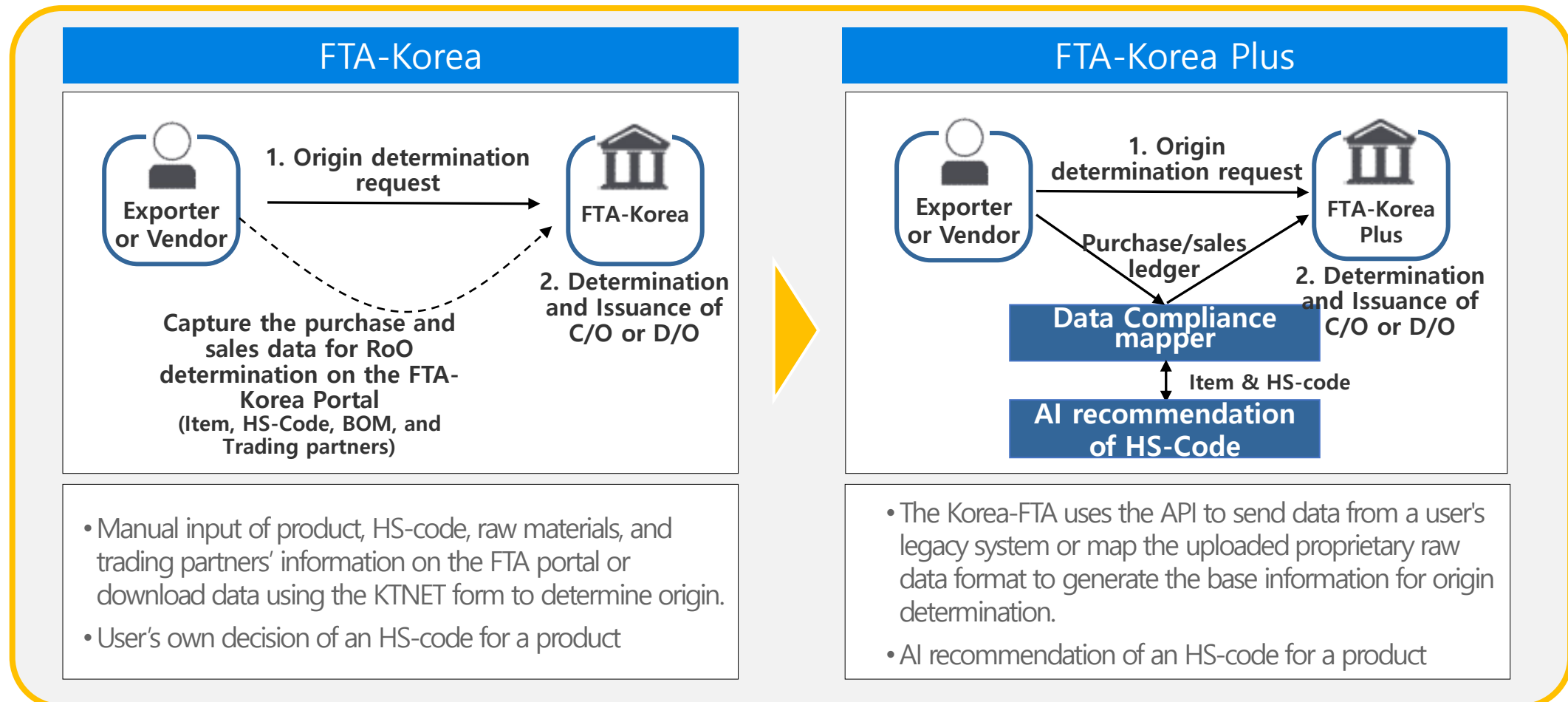
Certificate of Origin

Innovation and Effectiveness

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Innovation

Streamlined process of origin determination using AI and data compliance functions



Effectiveness (1)

04 Innovation and Effectiveness

Benefits of RoO Services to MSMEs and Institutions

- Registered company : 26,600 companies (as of June 2022)
- Origin determination cases by FTAs : 5,169,000
- Origin Declaration and Certificate of Origin cases : 58,000

MSME Exporters

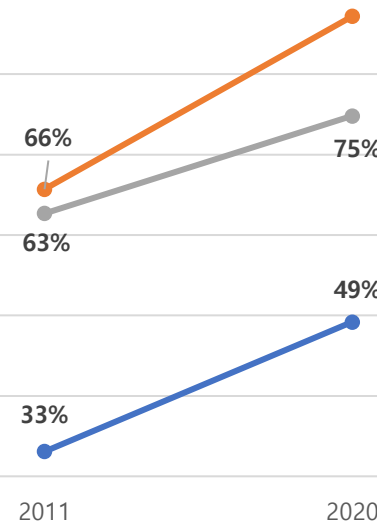
- Increase a compliance level by automatically mapping data for C/O application, C/O signature register, C/O record sheet, Origin Verification Questionnaire, etc.
- Reduce the time for RoO determination to less than 20 minutes

Government and Issuing agency

- Reliable C/O application lessens the burden of issuing agency. KCCI has reduced the examination time for Certificate of Origin Application from the FTA-Korea Plus to 5 minutes

Overall Increase of FTA utilization of Korea

FTA utilization rate

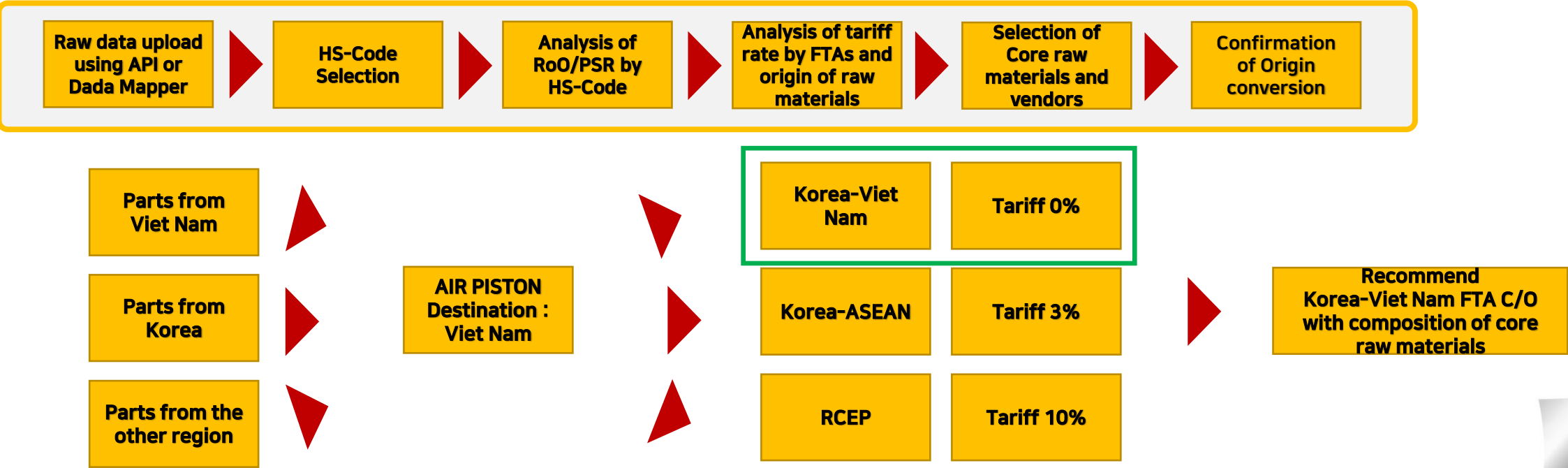


한-아세안 한-EU 전체

Effectiveness (2)

Optimal Business Model Designing Consulting Service

A core value of the service of FTA-Korea Plus is to establish an optimal business model by comparing tariff rates by FTAs and PSR of products according to differences in the origin of raw materials. KTNET provides additional consulting services for MSMEs on how MSMEs can utilize FTAs to maximize their export.



Capacity Building for MSMEs

FTA Awareness and Capacity building Program

- (Co-host) FTA Support Center of KITA(Korea International Trade Association)
- (Objective) To introduce FTA and FTA-Korea Service for MSMEs employees
- Free On-Offline Training Course
 - Understanding of FTA RoO, HS-code, etc.
 - FTA-Korea user Training
- Around 500 to 800 trainees every year



Recent record

	2020	2021	~ 2022.06
Trainings	35	41	17
Trainees	574	800	419

Consulting for MSME's Origin Management

- (Objective) Strengthening the FTA capacity of MSMEs and increase of FTA utilization
- (Target) MSMEs exporters
- Free Consulting
 - FTA business model design : HS-code, BOM, PSR, HS-code selection of export products and raw materials, etc.
 - System consulting : Integration of internal system with FTA-Korea

Recent record

	2020	2021	~ 2022.06
Exporting MSMEs	25	35	31
Vendors to exporter	150	317	TBC