Inclusive utilization of Free Trade Agreement through innovation

Korea’s FTA Origin Determination Service

FTA KOREA PLUS

30 August 2022
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.

In 2011, Korea’s overall utilization rate was 63%.
Korea – ASEAN: 33%
Korea – EU: 66%

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

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

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.

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

Responding to the customer’s request for a Country of Origin Management is necessary. It is needed to prepare for due diligence.
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 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)
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

KTNET Motors (Exporter)

1. Purchase & Production data upload and automatic mapping
2. Determined Origin
3. HS-code selection and automatic selection of RoO
4. Automatic selection of forms by FTAs - self/authority

Customer (Importer)

5. Declaration of Origin
6. Verification of Origin Questionnaire
7. Certificate of Origin

KTNET FTA COMPANY

Korea Chamber of Commerce and Industry (KCCI)
1. Origin determination
Exporter or Vendor
Capture the purchase and sales data for RoO determination on the FTA-Korea Portal (Item, HS-Code, BOM, and Trading partners)

2. Determination and Issuance of C/O or D/O

FTA-Korea

FTA-Korea Plus

Exporter or Vendor
1. Origin determination request

Purchase/sales ledger

2. Determination and Issuance of C/O or D/O

Data Compliance mapper

AI recommendation of HS-Code

Streamlined process of origin determination using AI and data compliance functions

- Manual input of product, HS-code, raw materials, and trading partners’ information on the FTA portal or download data using the KTNET form to determine origin.
- User’s own decision of an HS-code for a product

- The Korea-FTA uses the API to send data from a user's legacy system or map the uploaded proprietary raw data format to generate the base information for origin determination.
- AI recommendation of an HS-code for a product
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
  - 2011: 33%
  - 2020: 87%
- Specific rates:
  - 한-아세안: 33% → 75%
  - 한-EU: 66% → 49%
  - 전체: 63% → 87%
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

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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

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