E-commerce in the view of the WCO

Yonghwan Choi
28, March, 2017
<table>
<thead>
<tr>
<th>INDEX</th>
<th>Korea’s Trade Facilitation Through E-Commerce</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Definition of E-Commerce</td>
</tr>
<tr>
<td>02</td>
<td>E-commerce with WCO</td>
</tr>
<tr>
<td>03</td>
<td>WCO Working Group on E-Commerce</td>
</tr>
<tr>
<td>04</td>
<td>E-commerce with Korea Customs Service</td>
</tr>
</tbody>
</table>
01
Definition of E-Commerce
Similac, Organic Infant Formula with Iron, Powder, Birth to 12 Months, 1.45 lb (658 g)

By Similac

32 Reviews

In Stock

- Expiration Date: Feb 2018
- Shipping Weight: 0.94 kg
- Product Code: SML-50822
- UPC Code: 700745082221
- Package Quantity: 1.45 lb (658 g)
- Dimensions: 14.7 x 13.7 x 10.9 cm, 0.79 kg

Note: Korean Customs will quarantine and inspect this item before final shipment to the customer. Please be advised that ordering this item could cause delivery delays.
(1) What’s Going on?

**DEVELOPMENT OF CROSS-BORDER E-COMMERCE SHARE**

2015 – 2020E

<table>
<thead>
<tr>
<th>Year</th>
<th>Cross-border share</th>
<th>Global e-commerce market</th>
<th>Percent</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>~22</td>
<td>15%</td>
<td>15</td>
<td>USD 2,000 bn</td>
</tr>
<tr>
<td>2020E</td>
<td>~22</td>
<td>100%</td>
<td>100</td>
<td>USD 4,000 – 4,500 bn</td>
</tr>
</tbody>
</table>

Source: Alipay, McKinsey
01 Definition of E-commerce

(1) What’s Going on?

Engine for Growth
What is E-commerce?
(2) What is E-commerce?

**WCO definition**

“Cross-border Business to Consumer (B2C) and Consumer to Consumer (C2C) physical consignments of value/duty below which no duties/taxes are collected or under which no full Customs declaration/formalities are required.”
More Essential Elements

- Online initiation
- Cross-border transaction/shipment
- Physical goods
02
E-commerce with WCO
(1) Backgrounds

- Rapid Expansion of Internet trade
- Wider Options to Consumers and MSMEs
- A New Key driver of Economic Growth

Requires a Comprehensive Response
(2) WCO’s Work

WCO’s work

- Creating a modern e-Customs environment
- Developing a number of Instruments, Standards, and Tools
- Discussions within various Working Bodies
Discussions within WCO

- [PTC] Revenue Leakage (de minimis) & Efficient Collection of Customs Duties and VAT/GST
- [EC] Dark Side of E-commerce
- [PC] Loss of revenue collection and security
Collaborative Work with Partners

Pragmatic/practical Operational
Multi-dimensional perspective
True collaborative spirit

Early stages of discussions
(4) Collaborative Work with Partners

- [WTO] Digital Customs & Facilitation
- [UPU] Advance Electronic Exchange of Information
- [OECD] Revenue Collection
- [UNCTAD] Measuring Cross-Border E-commerce
03
WCO Working Group on E-Commerce
What is WGEC?

Working Group on E-commerce

- WCO members, Private Sectors, International Organizations, Academia
- 2016-2018 (1st Meeting on Sep 2016)
- Practical Solutions for **both Facilitation & Safety** perspective (4 Subgroups)
  ① Trade Facilitation & Simplification  ② Safety & Security
  ③ Revenue Collection  ④ Measurement & Analysis
## (1) What is WGEC?

### I. Trade Facilitation & Simplification
- Definitions of terminologies
- Enabling legislation for e-commerce
- Automated systems - Single Window (other government agencies)
- Exchange of advance electronic data (*interoperability, minimum data sets, data quality, data privacy*)
- Trusted Trader/AEO programme for e-vendors marketplaces and intermediaries - enhanced facilitation
- Framework/guidelines/standards - harmonization and support to micro, small and medium enterprises
- Return/refund (drawback) processes
- Implementation and review/update of the WCO Immediate Release Guidelines and other related tools

### II. Safety & Security
- Product safety
- Illicit trade
- Quarantine/bio-security
- Dark web/net
- Cyber security
- Illicit Financial Flows - tracking financial trails
- Cooperation and information exchange between Customs administrations
- Smuggling of high-value items and environmentally sensitive goods
- Non-intrusive inspection (NII) technologies
- Review/update of relevant tools
- Case studies

### III. Revenue Collection
- *De minimis*
- Simplified entry threshold
- Classification, valuation, origin issues
- Harmonized System Navigator, integrated tariff database
- Transactional approach vs account-based approach
- Alternate models of revenue collection (including impact analysis on the industry and government)
- Fees and charges
- Cooperation amongst authorities (Customs and Tax)

### IV. Measurement & Analysis
- Big Data
- Stocktake and analysis of work currently being undertaken by international bodies
- Research and analysis of various e-commerce business models - case studies
- Measuring e-commerce flows and economic benefits
- Capacity building, awareness, and education - implementation support
How to Facilitate E-commerce?

- Challenges
- Solutions
- Enablers
Top 10 barriers for E-commerce shopping: Consumers

1. **Delivery shipping costs**
2. **Concern that I may not receive the item**
3. **Having to pay customs duties/fees and/or taxes**
4. **May not receive sufficient help if I encounter problems**
5. **Delivery time not fast enough**
6. **Concern that the item I receive would not be as described**
7. **Difficult process for returning products**
8. **Concerns about counterfeit goods**
9. **Concern about identity theft/fraud**
10. **It is not clear how much duties/customs fees/taxes I will have to pay**

Q36. Which, if any, of the following reasons prevent you purchasing from websites in another country (more often)? Base: Online shoppers = 16,302 by PayPal
### Top Barriers for E-commerce selling: Merchants

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipping costs</td>
<td>26%</td>
</tr>
<tr>
<td>Handling cross-border returns</td>
<td>21%</td>
</tr>
<tr>
<td>Customs and duties</td>
<td>20%</td>
</tr>
<tr>
<td>Compliance with market regulations</td>
<td>19%</td>
</tr>
<tr>
<td>Handling cross-border payments</td>
<td>19%</td>
</tr>
<tr>
<td>Providing local language customer service</td>
<td>18%</td>
</tr>
<tr>
<td>Shipping time</td>
<td>17%</td>
</tr>
<tr>
<td>Tracking shipments</td>
<td>17%</td>
</tr>
<tr>
<td>Setting up collections for unpaid items</td>
<td>16%</td>
</tr>
<tr>
<td>Having to offer shipping</td>
<td>15%</td>
</tr>
<tr>
<td>Compliance with local/international tax</td>
<td>15%</td>
</tr>
<tr>
<td>Offering different currencies</td>
<td>15%</td>
</tr>
</tbody>
</table>

Q9. What are the main problems and barriers preventing you selling to foreign online shoppers, whether in general or in relation to specific markets?

Base: ALL online cross-border sellers (n=598) by PayPal
(2) Facilitation & Simplification: Challenges

- High volumes of packages VS Limited Customs resources

![Graph showing the comparison of small package (Import), all cargo (Import), and Customs personnel over years 2005 to 2015.]

- Green line: small package (Import)
- Pink line: all cargo (Import)
- Yellow line: Customs personnel

Key:
- 189 (2015) for small package (Import)
- 143 (2015) for all cargo (Import)
- 105 (2015) for Customs personnel
(2) Facilitation & Simplification: Challenges

- Time sensitive clearance
- Return / refund processes
- Unknown players (both senders and recipients)
- De minimis threshold
- Compliance
- Data quality, Liability of e-vendors/intermediaries
- Predictability of landed cost
- Integration of e-commerce and traditional trade
(2) Facilitation & Simplification : Solution

- Obtaining **advance electronic data**
- **Simplification** of procedures
- Systems to support small parcels / low value (eCommerce goods)
- Update of legal frameworks
- Consumer education on good trade practices
- **Bilateral agreements** / arrangements for data sharing based on trust
(3) Safety & Security

- Including Safety and Security aspects to a definition for e-commerce
- B2C & C2C: Lack of Transparency
- Advance Cargo Information, Non-Intrusive Inspection
- Cooperation between Customs administrations
(4) Revenue Collection

- **De Minimis threshold**: or

- **Alternate Revenue Collection Models**

<table>
<thead>
<tr>
<th>Models</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediaries based models</td>
<td>Bridge btw MSMEs &amp; Customs</td>
<td>Handling payments, Undervaluation</td>
</tr>
<tr>
<td>Seller/vendor based models</td>
<td>Fill the missing data, Low establishment costs</td>
<td>Enforcement (foreign jurisdictions), Auditing issues</td>
</tr>
<tr>
<td>Buyer based models</td>
<td>Low cost, Full audit trail</td>
<td>One time set up cost of hardware &amp; software</td>
</tr>
<tr>
<td>Traditional models</td>
<td>Prevents leakage in tax revenue</td>
<td>Slow, Collection cost</td>
</tr>
</tbody>
</table>
(5) Measurement & Analysis

- Measuring e-commerce flows and benefits
- Stocktaking
- Business models
- Big data analytics and its use
04
E-Commerce with Korea Customs Service
(1) Facilitation: Legal Framework

**Customs Act article 254**

Special customs clearance for electronic commerce goods, etc. (30. Dec. 2010)

The Commissioner of the Korea Customs Service may separately prescribe matters necessary for customs clearance for exported or imported goods traded through digital documents, including export or import declarations and the inspection of goods and other relevant matters, as prescribed by Presidential Decree.
### (1) Facilitation: Export Clearance system

<table>
<thead>
<tr>
<th>List Clearance</th>
<th>E-commerce Simplified Declaration</th>
<th>General Declaration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exempt from declaration</td>
<td>Simplified declaration form (57→33)</td>
<td>General Export declaration</td>
</tr>
<tr>
<td>(Goods can be cleared by submitting the list of goods)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All goods exported by Express cargo &amp; International post</td>
<td>All goods (Less than USD 2,000)</td>
<td>All goods (goods excluded from list clearance &amp; simplified declaration)</td>
</tr>
<tr>
<td>No Duty Drawback, Some Export performance</td>
<td>Duty Drawback, Export Performance</td>
<td>Duty Drawback, Export Performance</td>
</tr>
</tbody>
</table>
Platform for E-Commerce Export Declaration: Automatic conversion of details of orders and sales on online shopping malls into export declarations.

Open Market

Batch transmission (in real-time)

On-line Shopping malls

API

platform

Convert into declaration data
Thank you!

Yonghwan Choi
welcome@customs.go.kr

KOREA CUSTOMS SERVICE