

TRADE FACILITATION

National Experience Paper - Reforming the Customs Clearance System in Korea

Communication from the Republic of Korea

1. Introduction

The Korean government, finding that the existing clearance procedures are burdensome for traders and hamper efficient international trade, is taking concrete steps to guarantee an efficient trade flow through computerization and simplified work processes.

This paper provides a summary of Korea's recent achievement in terms of simplification, harmonization and computerization of the customs clearance system administered by the Korea Customs Service (hereinafter "KCS").

2. Reform of the Import Clearance System

2.1 Reforming the Import Declaration System

The Korean government has reformed the import clearance system, departing from the existing permit system to a self-declaration system in its efforts to de-regulate and facilitate the trading system since July 1, 1996.

In the past, an import declaration had to be made after the imported goods were stored in bonded areas. The import permit would be granted only after the importer had paid the customs duty to a designated customs office so that the imported goods were allowed out of the bonded areas only once the transaction between the two parties had taken place.

The essence of the reformed customs clearance system is described below:

- The existing import permit system has been reformed into an import declaration system. Under the new system, if an importer files a declaration before a customs office, it will be accepted immediately and a certificate of declaration will be issued by the customs collector so that the goods are released.
- An alternate procedure which provides for immediate release of a shipment may be used in some cases by filing an application prior to the arrival of the goods. If the application is approved, the shipment is released expeditiously following arrival. An entry summary must then be filed in proper form and estimated duties be deposited within 15 working days of acceptance of an importer's declaration. This alternate procedure is valid for the following merchandise:

1. Shipments consigned to or for the account of any agency or officials of the Korean government.
2. Articles for a trade fair.
3. Tariff-rate quota goods and under certain circumstances goods subject to an absolute quota. Absolute quota items require a formal entry at all times.
4. Goods specifically authorized by a customs office to be entitled to release for immediate delivery.

In this case, goods are allowed out of the port without being stored in bonded areas. In other words, the importer can transport in bond the imported goods from the port to the destination immediately after entry into port.

- The existing system of pre-clearance payment of duty has been changed into the post-clearance payment system under which the duty must be paid within 15 days after the customs collector accepted the importer's declaration. An importer deemed "reliable" by the Commissioner of the KCS may offer to ensure the customs duty payment on credit instead of a real security.
- Furthermore, an importer may file an import declaration via an electronic data interface system without visiting a customs office, thus contributing to a rapid import clearance.

2.2 Valuation Procedures

In Korea, the valuation of imported goods is, in principle, conducted after the grant of an import license. Article 17, Paragraph (2) of the Customs Act prescribes that "[T]he collector shall, upon receiving a duty declaration under Paragraph (1), examine matters specified in the import declaration notice, etc. and those confirmed under this Act, but review the declared duty amount after granting a license for import" (parenthesis added). Valuation prior to import licensing has been in practice since 1991 within the meaning of de-regulation by the government.

However, the Customs Act also provides that "in the case of such goods as prescribed by the Ministerial Regulation if it is deemed difficult to secure the Customs obligation of the declared duty amount, or improper to examine the duty amount after granting the license for import, the declared duty amount shall be examined before the license for import is granted."

To be specific, the Ministerial Regulation prescribes items which are subject to appraisalment prior to licensing as follows:

- Goods subject to a reduction or exemption in terms of customs duty and domestic tax pursuant to a law or treaty;
- Goods which a liable duty payer wants to pay duties in instalments pursuant to Article 36 of the Customs Act;
- Goods which a liable duty payer, who is in arrears, declares before a customs office;
- Goods which a declarant considered "dishonest" by the Commissioner of the KCS declares before a customs office;
- A commodity designated by the KCS as experiencing price fluctuations which are substantial, and/or on which the examination of customs value, after a granting of import license, is improper.

The imported agricultural commodities currently subject to a special tariff rate as allowed in the WTO Agreement on Agriculture within the framework of the section on special safeguard are mandatorily subject to appraisement prior to import licensing. The number of the agricultural commodities subject to the Special Safeguard amounts to 61 in 1998.

With respect to the valuation matters, the Korean government has developed and implemented a system called System of Post-Audit on Business since 1993 for a more effective post-clearance appraisement of imported goods. The purpose of this system is to examine particulars and documents of companies necessary for an accurate appraisement of the goods imported. The legal bases to formulate the System of Post-Audit on Business are Articles 17, Para. 2 (Declaration and Payment), 9-14 (Research and Report on Price), and 175 (Presentation, etc. of Records or Data) of the Customs Act.

The System of Post-Audit on Business is basically designed to achieve simplification of the customs procedures through the promotion of self-assessment and strengthening of the selectivity function of the customs office by focusing on false and dishonest declarants.

The KCS designates a limited number of corporations which are subject to the post-audit system in accordance with the categorization of the corporations as honest importers, quasi-honest importers, importers under general surveillance and importers under special surveillance. The KCS or the Regional Customs Headquarters may perform on-the-spot examinations through either documentary examinations or summary on-the-spot examinations according to the degree of the honesty of the corporate determined by the KCS.

Notable improvements were brought to several aspects of the procedure. These include improvements in the level of expertise of customs officials in charge of post-audit reviews, in the collection of information, and to the establishment of refined information management, particularly with respect to payment for royalties and assists which are necessary to ensure adequate and accurate customs valuation.

2.3 Post-Entry Investigation of Imported Goods

(a) Outline

With the introduction of the self-declaration system, the post-entry investigation of importers is conducted by the KCS. This investigation is carried out after the completion of the import clearance in order to verify whether the import declaration made by importers were accurate, i.e., whether the basis for assessment, the disbursement of foreign exchange and other matters contained in the declaration of the imported goods were correctly established in accordance with the related laws and regulations.

The primary purpose of the self-declaration system is to allow importers to pay customs duty on the basis of their declaration. However voluntary declarations are not always accurate. Thus each declaration must be carefully examined at the time of import clearance. As such careful examination may cause delays in the clearance, the post-entry investigation system has been developed so that both a speedy clearance and a correct levying of customs duty can be achieved simultaneously and in a timely manner.

(b) Post-Entry Investigation

The authority to conduct an investigation of the importer and concerned parties is based on the right of inquiry and examination prescribed in the Customs Act. Under the relevant provisions, the customs authorities are authorized to inquire importers and any other parties concerned as necessary. The goods in question and any relevant books, records and documents can also be examined during the investigation. This investigation does not necessarily mean that the importer has violated the rules concerned.

The post-entry investigation puts an emphasis on confirming whether the declared value of the imported goods corresponds to the actual transaction value. The investigation of contracts, invoices, account books, records and any other books relating to the transaction may be carried out at the importer's office.

By means of the above method, the customs office attempts carefully to establish whether the declaration for the payment of customs duty has been properly filed. In cases where errors have been found through such investigation, the customs office is entitled to rectify the basis for assessment and the amount of duty declared.

In addition, it is worth noting that the Foreign Exchange Transaction Act, as amended in 1997, gives the Commissioner of the KCS a right to investigate a matter relating to an in-flow and out-flow of the foreign exchange involved in the foreign trade.

The KCS is therefore granted the necessary powers to investigate an illicit trading.

2.4 Introduction of EDI-based Cargo Selectivity System

The Cargo Selectivity System, which entered into operation in July 1996, provides an efficient goods inspection based on a risk management method that uses EDI (Electronic Data Interchange). Under this system, low-risk items are exempt from the inspection, while high-risk items are closely inspected.

The system also contributes to monitoring suspect travellers and vessels, which would lead to detecting prohibited articles such as prohibited chemical substances.

2.5 Introduction of On-Dock Immediate Delivery System

Since June 1998, the Customs has put into effect the On-Dock Immediate Delivery System in two seaports in Korea. Under the system, the Customs allow the importer to unload and release the imported goods both at the time of entry, so that he/she may transport the imported goods in bond immediately after being cleared at the seaport. The KCS plans to increase the number of seaports eligible for the On-Dock Immediate Delivery System throughout Korea from 1999 on.

2.6 Simplification of checklist for eligibility for importation

The Customs examines only statutory items for eligibility for importation - i.e., those directly related to public health, order, and national security - at the clearance stage. Other considerations will be ascertained by pertinent agencies by electronic means thereafter.

3. Computerization of Customs Procedures

3.1 Introduction of EDI

Since 1993, KCS has been developing Electronic Data Interchange. The EDI was included in the Export Clearance System in November 1994, in the Import Clearance System in July 1996, and in the Customs Duty Drawback System in July 1997.

The KCS has started monitoring sanitary inspections by linking the KCS computer network with that of the quarantine inspection agency since May 1998.

Effect of Computerization

	Processing Time (per cent)	
	Prior to Computerization	After Computerization
Export Clearance	4 hours	4 minutes
Import Clearance	8.5 hours	3.5 hours

3.2 Computerization

The KCS is developing an computerized network to better control illicit importation and exportation and assess the eligibility of goods for clearance more rapidly.

The KCS is also establishing a paperless clearance system through EDI. All documents involving the import/export declaration will soon be processed electronically.

In addition, the KCS will examine the eligibility of goods for import clearance by electronic means by linking its computer network with those of other agencies responsible for import approval, import recommendation, and quality inspection, etc.

Korea has actively participated in APEC activities including activities related to cooperation on import clearance procedures since APEC's foundation in 1989. For instance, Korea plans to provide technical assistance to Papua New Guinea on mutually agreed terms in 1999 with respect to Advance Classification Ruling System which is one area of the Collective Action Plan (CAP) decided by the Sub-Committee on Customs Procedures under the Committee of Trade and Investment (CTI) of APEC.

4. Concluding Remarks

Ever-expanding international trade calls for the restructuring of countries' customs clearance systems and a number of tasks must still be tackled by Members Countries to guarantee smooth cross-border flows of goods.

As for Korea, the Korean government will continue to pursue reforms with respect to customs clearance. Despite the present financial difficulty, Korea will carry on the modernization process of the customs clearance system to facilitate international trade and foreign investment. The fact that Korea will adopt the result of the negotiations under way with respect to the revision of the Kyoto Convention is an indication of the direction it intends to take on this matter.