



Opportunities & Challenges of E-Commerce: Korea's Experience

Yonghwan Choi



INDEX

Trade Facilitation
through E-Commerce:
Korea's Experience

01

Opportunities & Challenges

02

Clearance Procedure for E-Commerce Goods

03

E-Commerce Risk Management

04

E-Commerce Trade Facilitation Measure



01

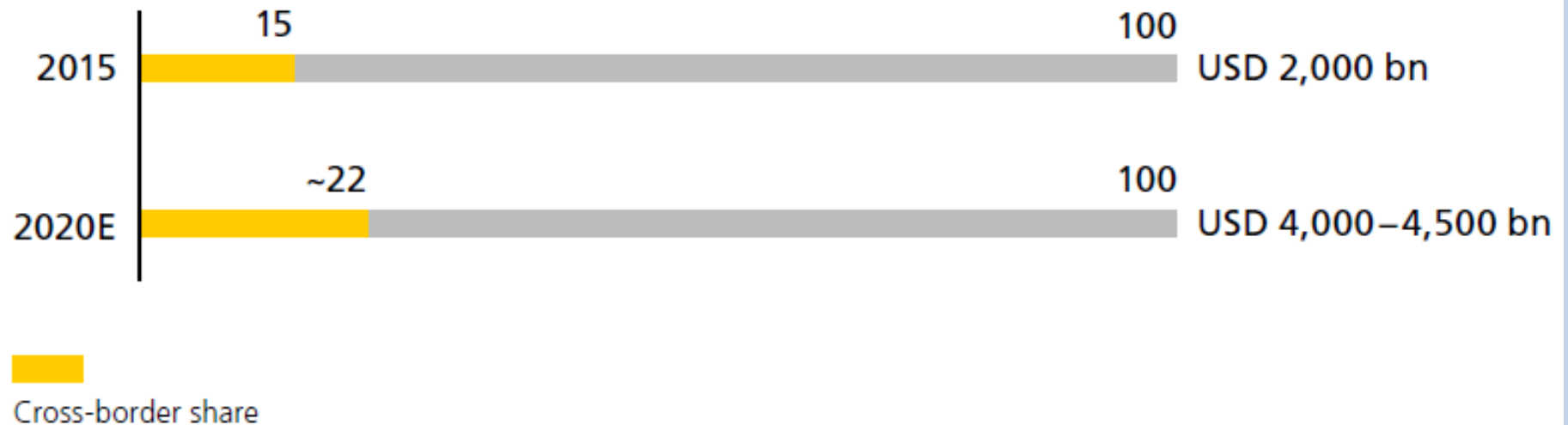
Opportunities & Challenges

(1) What's Going on?

DEVELOPMENT OF CROSS-BORDER E-COMMERCE SHARE

2015–2020E

Global e-commerce market
Percent



Source: Alipay, McKinsey

Source: DHL “THE 21ST CENTURY SPICE TRADE”

(1) What's Going on?

Engine for Growth



Source : WCO News 78 - October 2016

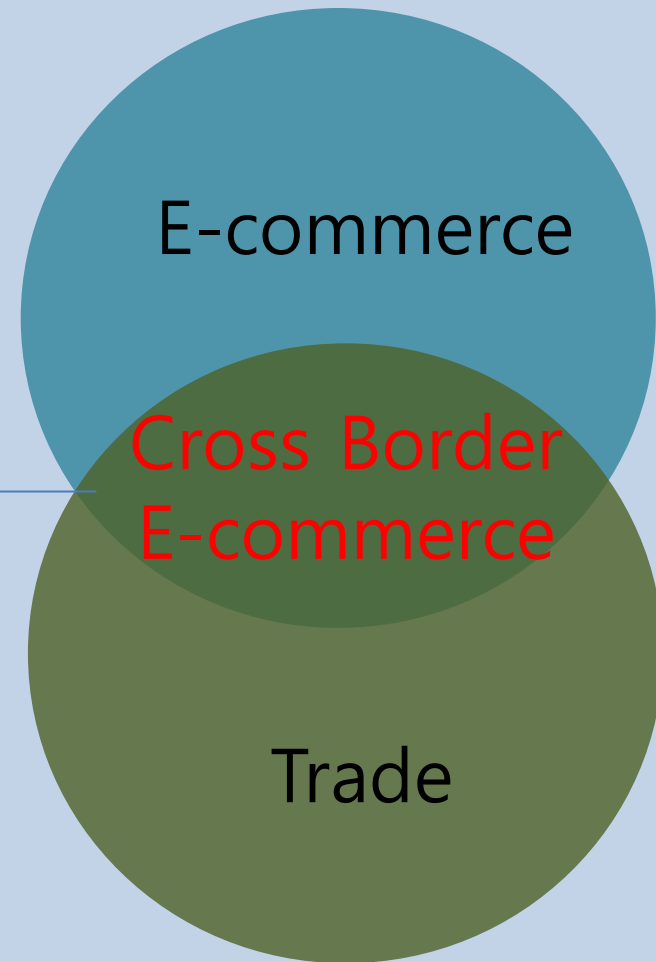
(2) What is E-commerce?

E-commerce?

(2) What is Cross border E-commerce?

Online Transaction

Off-line Crossing Border



(3) Challenges: Private Sector Perspectives

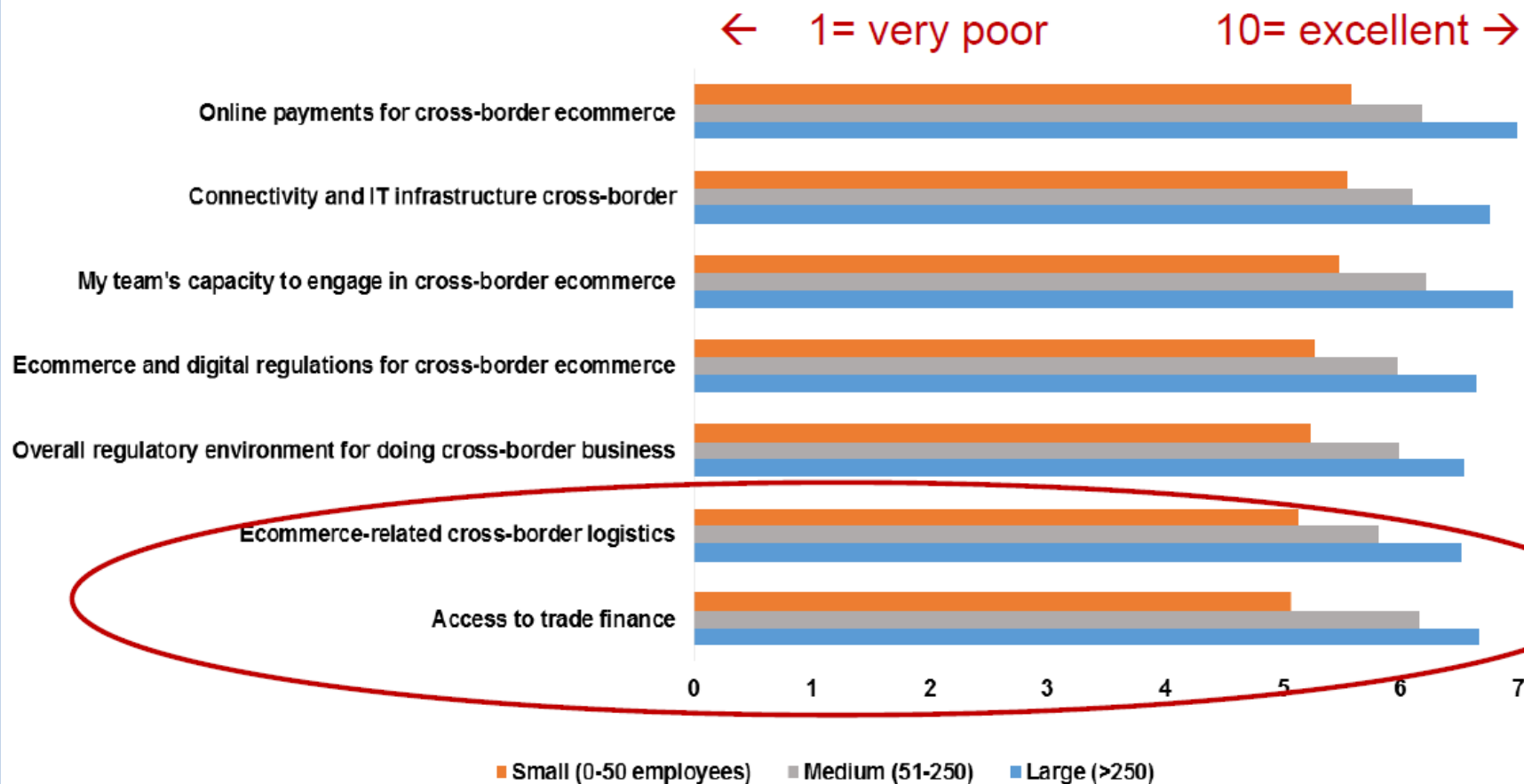
Top Barriers for E-commerce selling : Merchants



Source: Paypal(WGEC, <https://www.paypal.com/us/webapps/mpp/public-policy/issues/promoting-cross-border-trade>)

(3) Challenges: Private Sector Perspectives

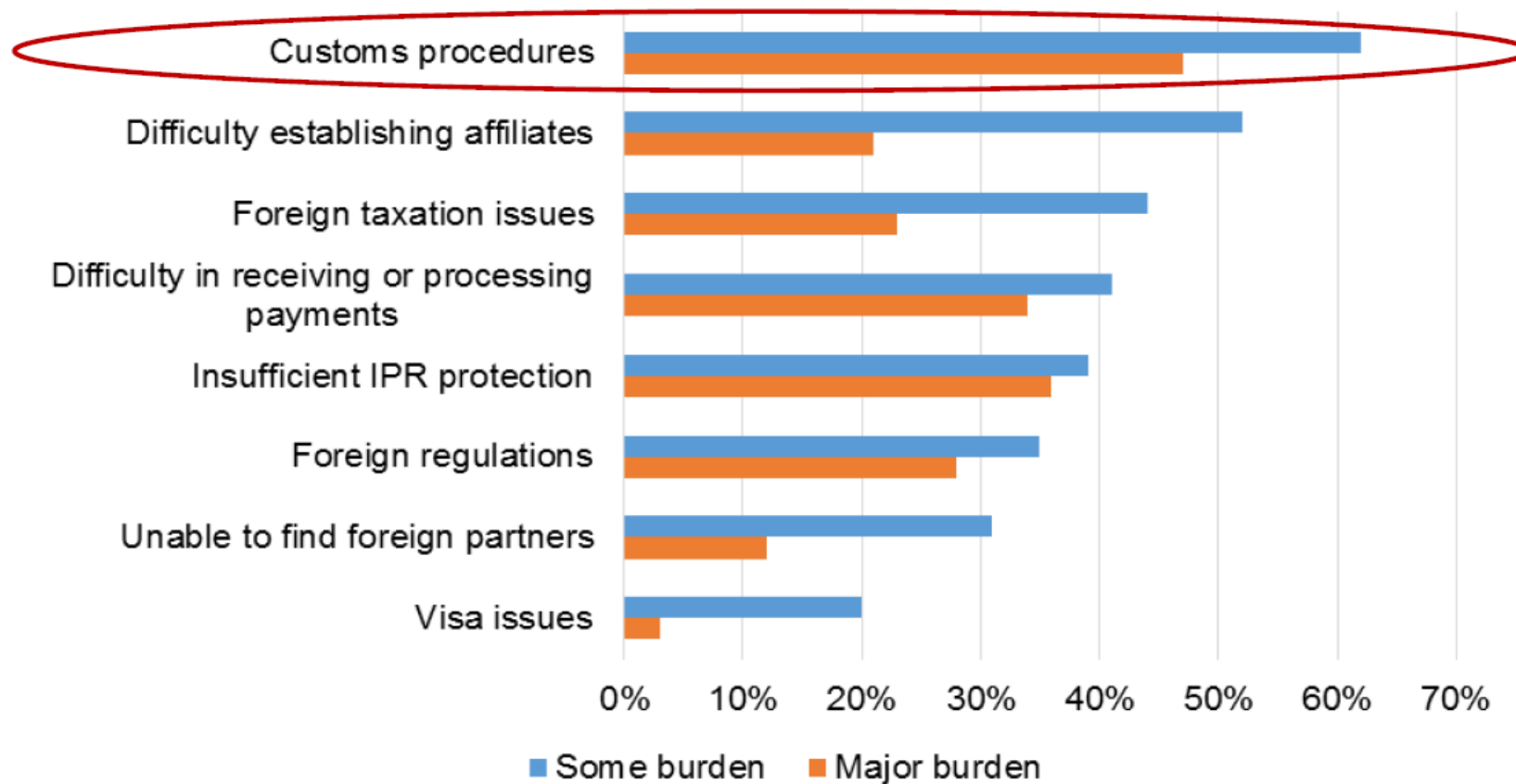
SMEs in 15 Developing Countries: Customs and logistics among worst challenges to ecommerce



(3) Challenges: Private Sector Perspectives

And the United States

% of U.S. SME Manufacturers Experiencing Non-Tariff Measures as “Burdensome”



(4) Challenges: Customs Perspective

- **High volumes of packages VS Limited Customs resources**
 - In the past 5 years express cargo volume increased by 2.6 times (8,960,000 cases in 2010 → 23,080,000 cases in 2015).
- **Dark Side of E-commerce: Risk Management**
 - Recurrent inflow of illegal goods such as drugs, misusing the simplified procedure for express shipments
- **Statistics**
 - Difficulties of E-commerce Statistics
- **Revenue Loss**
 - De Minimis
 - Split overseas purchases to keep the value below De Minimis

(4) Challenges: Customs Perspective

▪ Dark Side of E-commerce



- In more than 50% of cases, medicines purchased over the Internet from illegal sites that conceal their physical address have been found to be counterfeit, - WHO
- Higher Profit Margins than Drugs with lower punishment

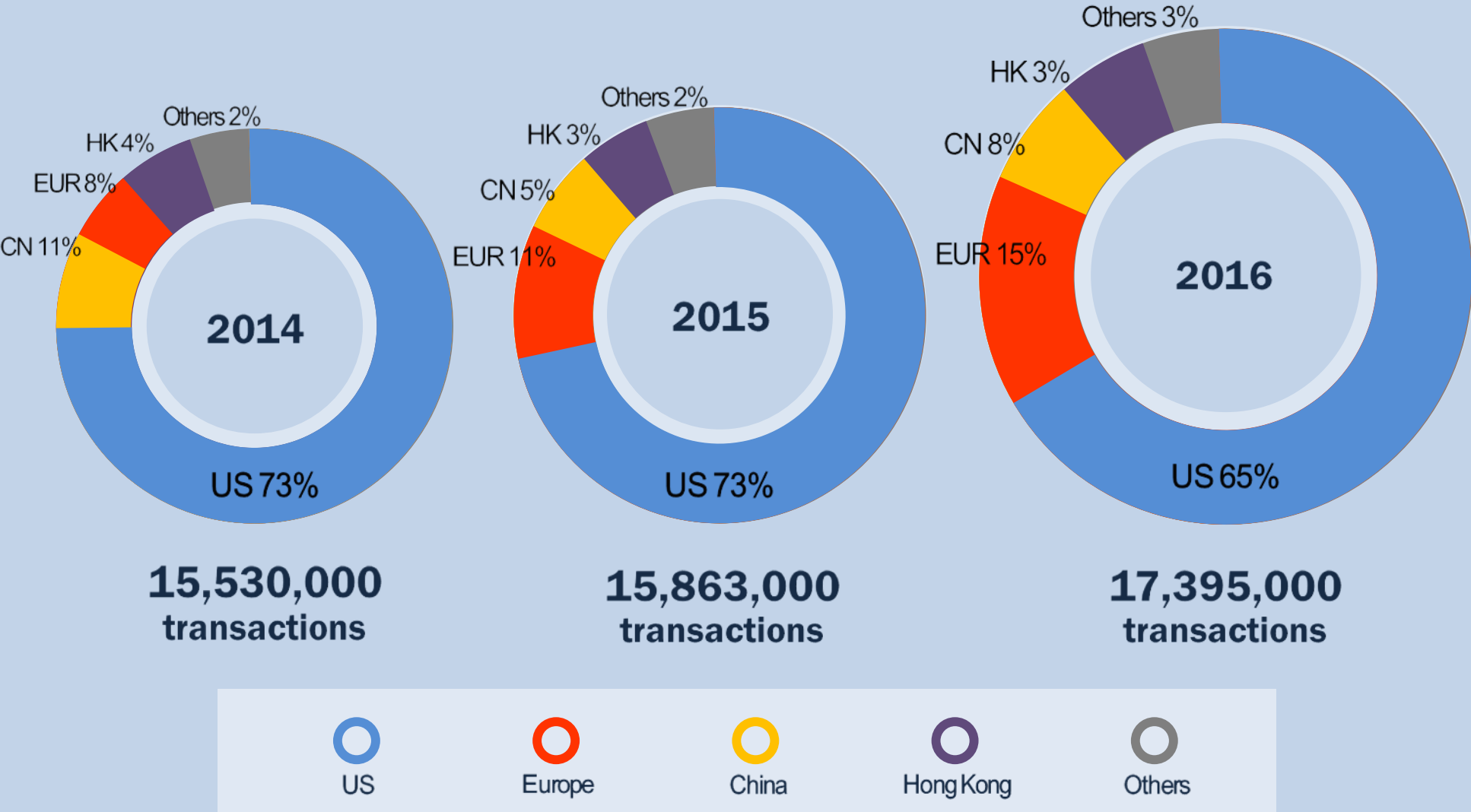
Source : WHO, <http://www.who.int/bulletin/volumes/88/4/10-020410/en>



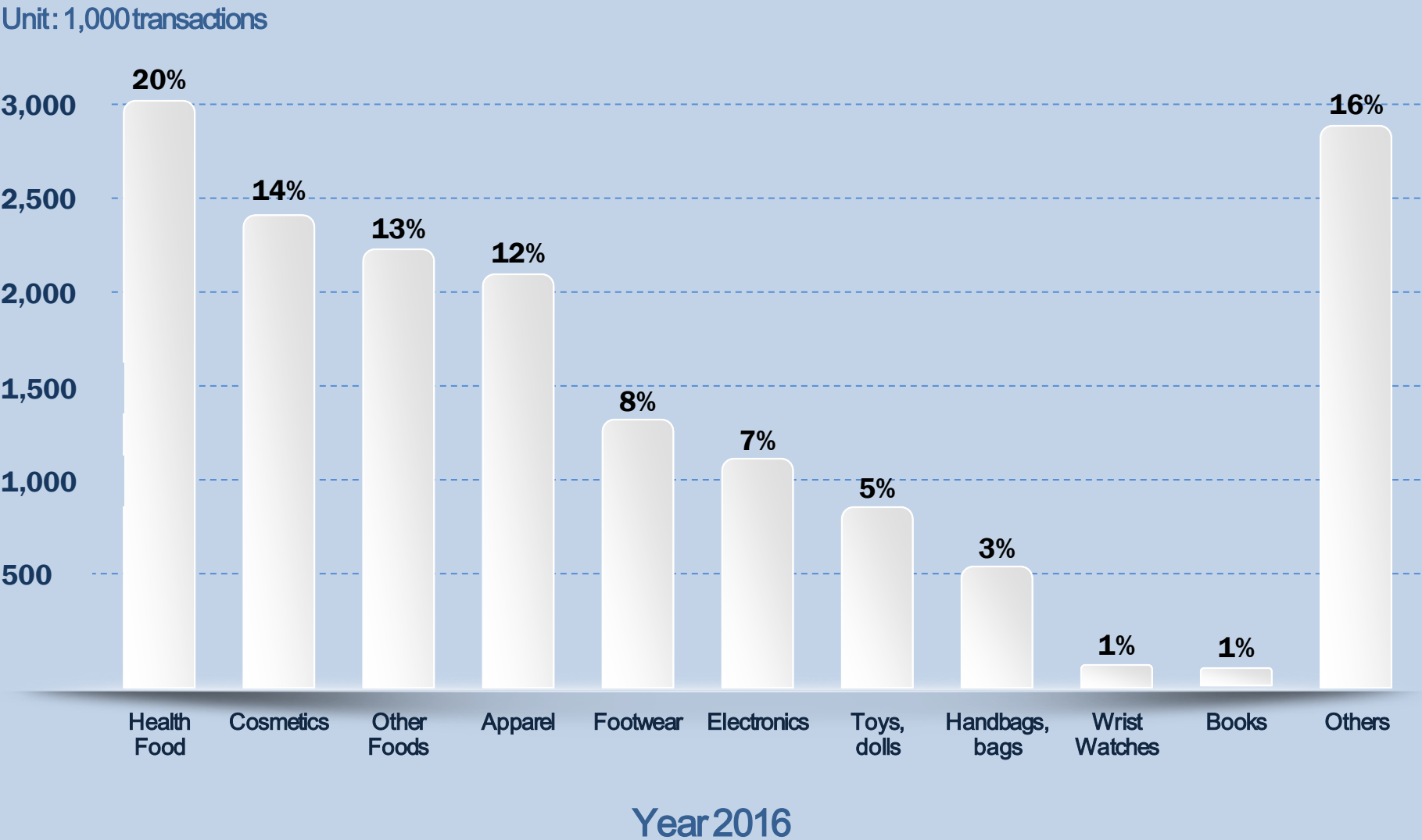
02

Clearance Procedure for E-Commerce Goods

(1) E-Commerce Import Volume

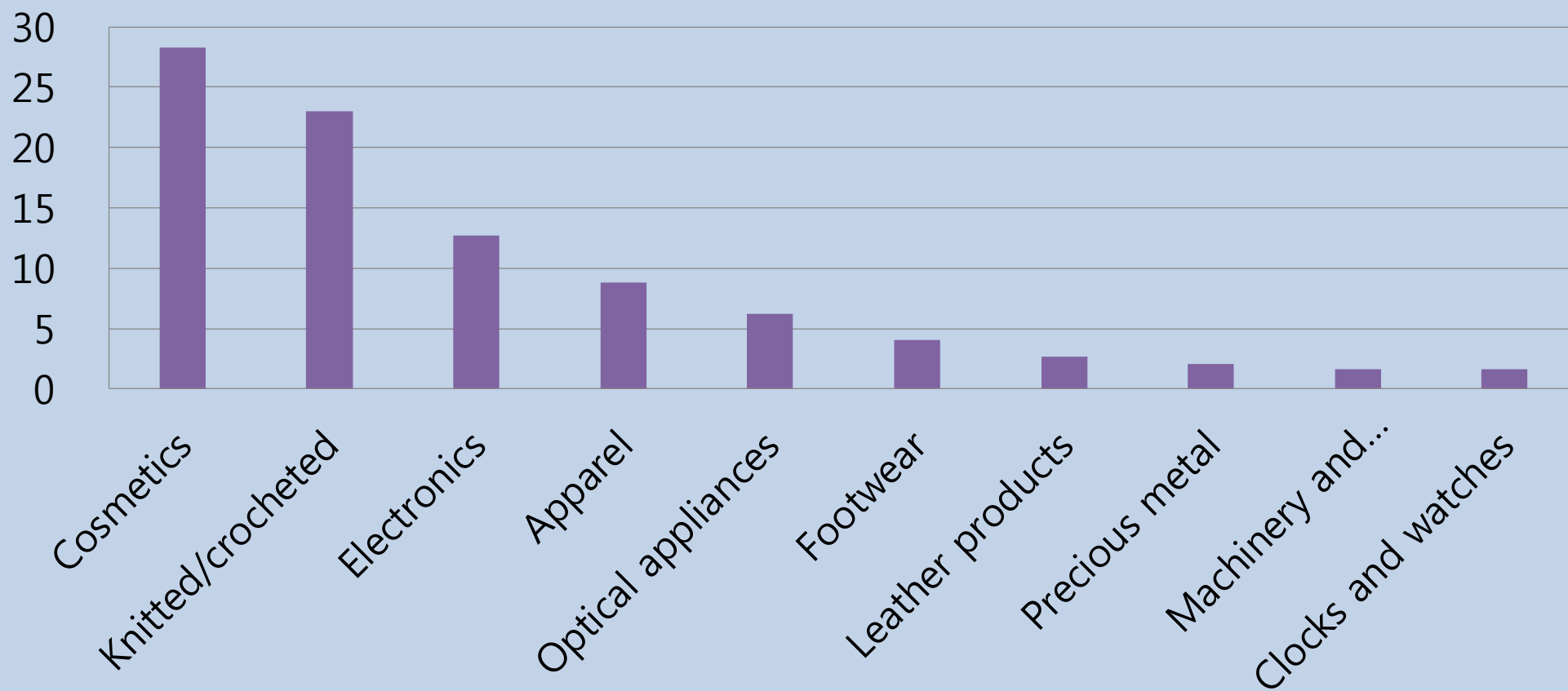


(1) E-Commerce Import Volume: by Item



(2) E-Commerce Export Volume: by Item

10 Most Frequently Exported Items through E-Commerce (based on declared value, %)



(3) Definition & Legal Framework

Statute

- **Customs Act**
 - Special customs clearance for electronic commerce goods
 - Definition: Goods exported/imported through digital documents (Article 254, Customs Act)

Ordinance

- **Enforcement Ordinance of the Customs Act**
 - Special customs clearance for electronic commerce goods

Public Notice

- 1) Notice on special customs clearance of electronic commerce good
- 2) Notice on affairs of import clearance for express cargo
- 3) Notice on affairs of export customs clearance
- Definition: Commercial transactions where some or all of their processes, including ordering goods and making payments, are dealt with through electronic documents

(3) Definition & 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

(4) Clearance Procedure for Inbound E-Commerce Goods

Express Cargo		
List Clearance	Simplified Declaration	General Declaration
Exempt from declaration (Goods can be cleared by submitting the list of goods)	Simplified declaration form (69→57)	General import declaration
Goods for personal use (Less than \$150)	All goods (\$150~\$2000)	① All goods over \$2,000 ② Goods not eligible for list clearance
Exempt from all taxes	Tax exemption for low-value goods available	Tax exemption for low-value goods available
[As of 2015]		
57.2%	0.03%	42.8%

* Goods relevant to public health such as food and medicines are not eligible for list clearance.
General declaration is required to clear these items.

(5) Clearance Procedure for Outbound E-Commerce Goods

List Clearance	E-commerce Simplified Declaration	General Declaration
Exempt from declaration (Goods can be cleared by submitting the list of goods)	Simplified declaration form (57→33)	General Export declaration
All goods exported by Express cargo & International post	All goods (Less than USD 2,000)	All goods (goods excluded from list clearance & simplified declaration)
No Duty Drawback, Limited Export performance	Duty Drawback, Export Performance	Duty Drawback, Export Performance



03

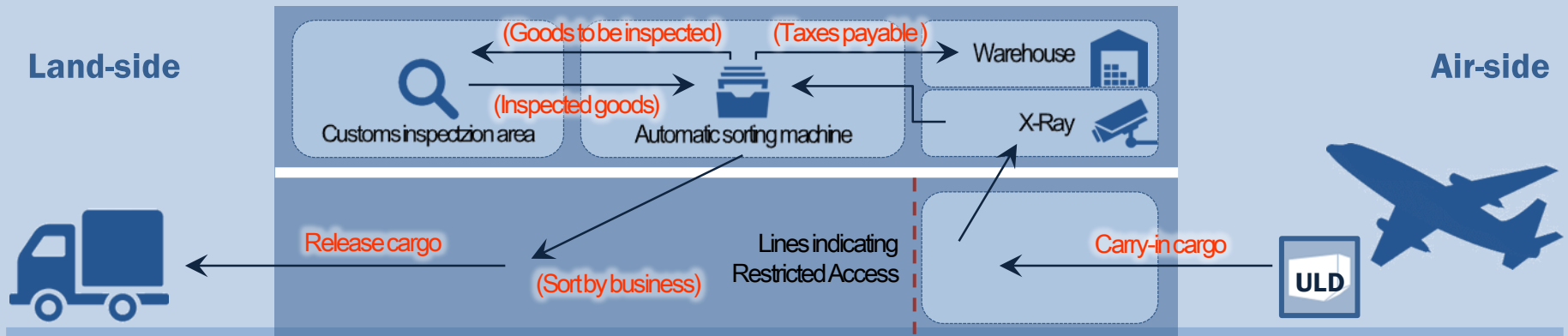
E-Commerce Risk Management

(1) Express Cargo Logistics Center



- Period: 2013 to early 2016
- Area: Total ground area of 35,885m² (4 stories for work area, 2 stories for storage)
- Location: In the cargo terminal of Incheon Int'l Airport

Functional process in cross-section



(1) Express Cargo Logistics Center

Key facilities of the Express Cargo Clearance Center



Automatic sorter (Cross Belt)



Fixed Scanner (IPS)



Centralized X-ray interpretation room



Integrated Control Room

(1) Express Cargo Logistics Center

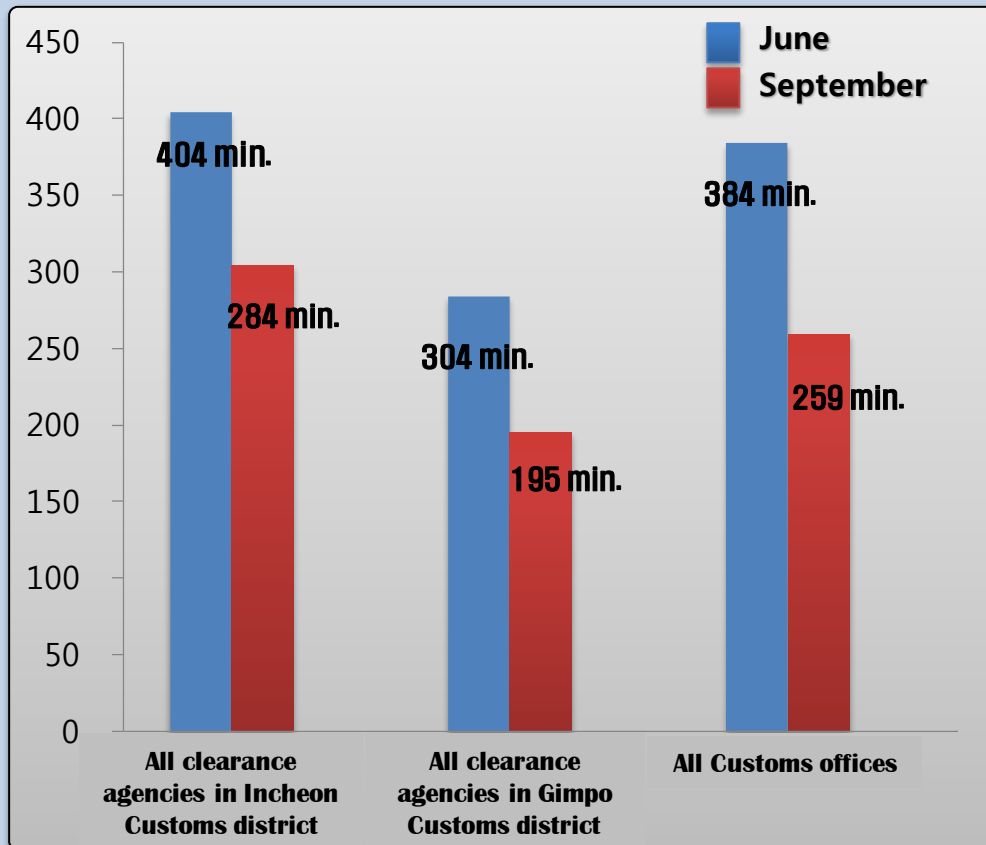
Changes after Express Shipments Logistics Center

Area	Before	After
① X-Ray image interpretation	Individual facilities (Customs & express shippers)	<u>Centralized interpretation</u> (by designated Customs X-Ray experts)
② Surveillance & monitoring	Partially (30 CCTVs) (Blind zones exist.)	Entire facilities in real time. (156 CCTVs)
③ Division of work	By Express cargo Company	By functions
④ Inspection venue	Individual warehouses	<u>Centralized inspection</u>

Efficiency: Customs can process 3,000 → 30,000 consignments at a lower cost
+ share real time information on clearance & flow

(1) Express Cargo Logistics Center

Reduced logistics processing time



Reduced costs

Fees for
operations &
unloading

25%



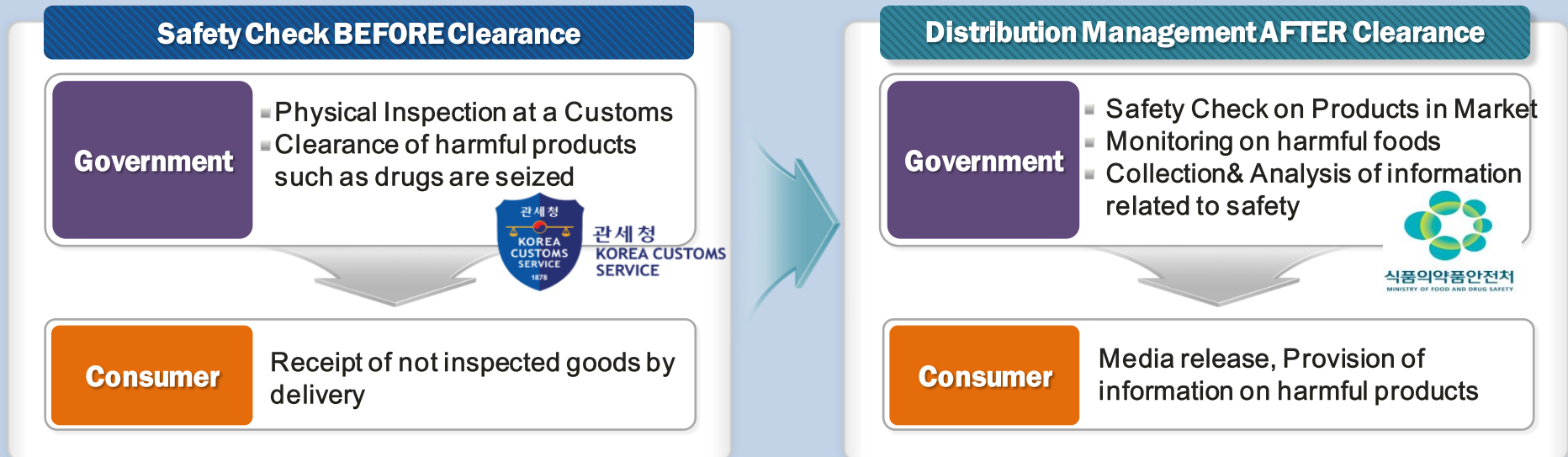
Cargo handling
fees
(per delivery)

50%



(2) Information Sharing and Joint Inspection: The KCS and the Ministry of Food and Drug Safety

Current Structure



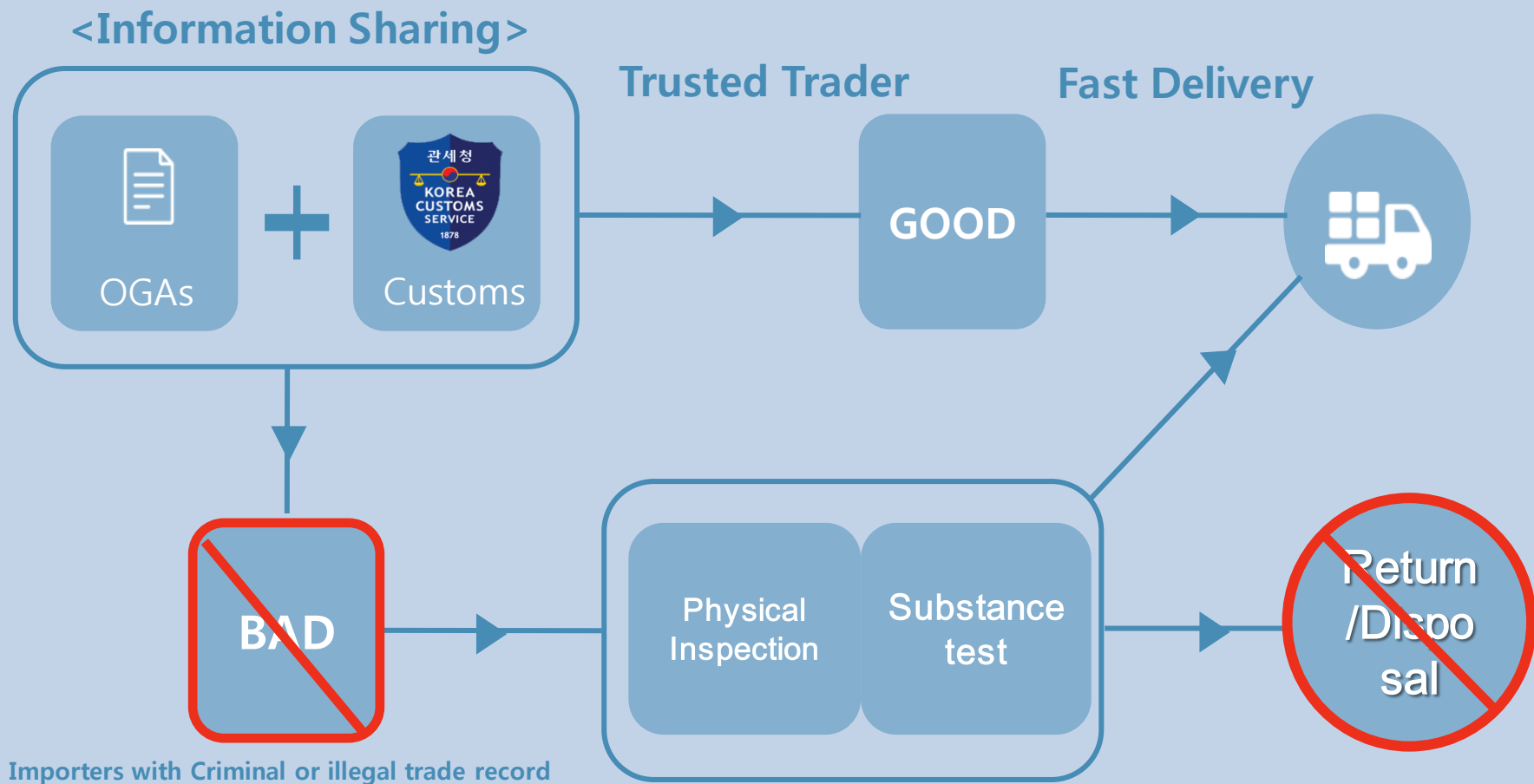
Weakness

- KCS : Lack of expertise in the verification & analysis of information on harmful products purchased overseas and medicines
- MFDS: No right to crack down on foods directly purchased by individuals from overseas; unable to obtain information on import clearance

Strength

- KCS : Pre-clearance cargo selectivity system & manpower for inspection
- MFDS : Abundant resources to gather information on hazardous food & expertise in and legal Authority for food safety management

(2) Information Sharing and Joint Inspection



As of 2016: 9,921 cases detected(13,834 ton)

(3) Revenue Management

Delivery Destination monitoring



Express Cargo companies should submit the actual shipping address when the goods are imported through list clearance.

→ Customs utilize information analysis methods to block illegal entry of non-personal or hazardous goods that might have been split into multiple express cargo shipments.

SMS service to prevent ID theft



Sends SMS alert if the recipient's address & phone number on the import declaration form does not match with the information held by Customs(Personal Clearance Number)

→ This prevents ID theft and agents or carriers defrauding taxes.

※ Social Security Number → Personal Clearance Number

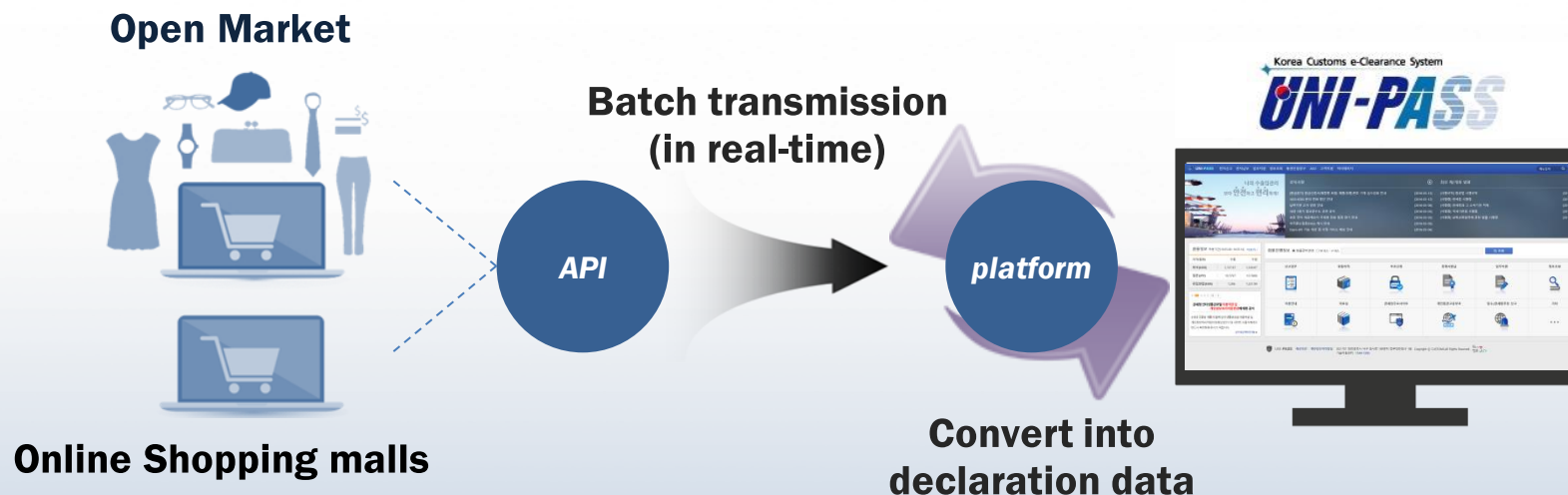


04

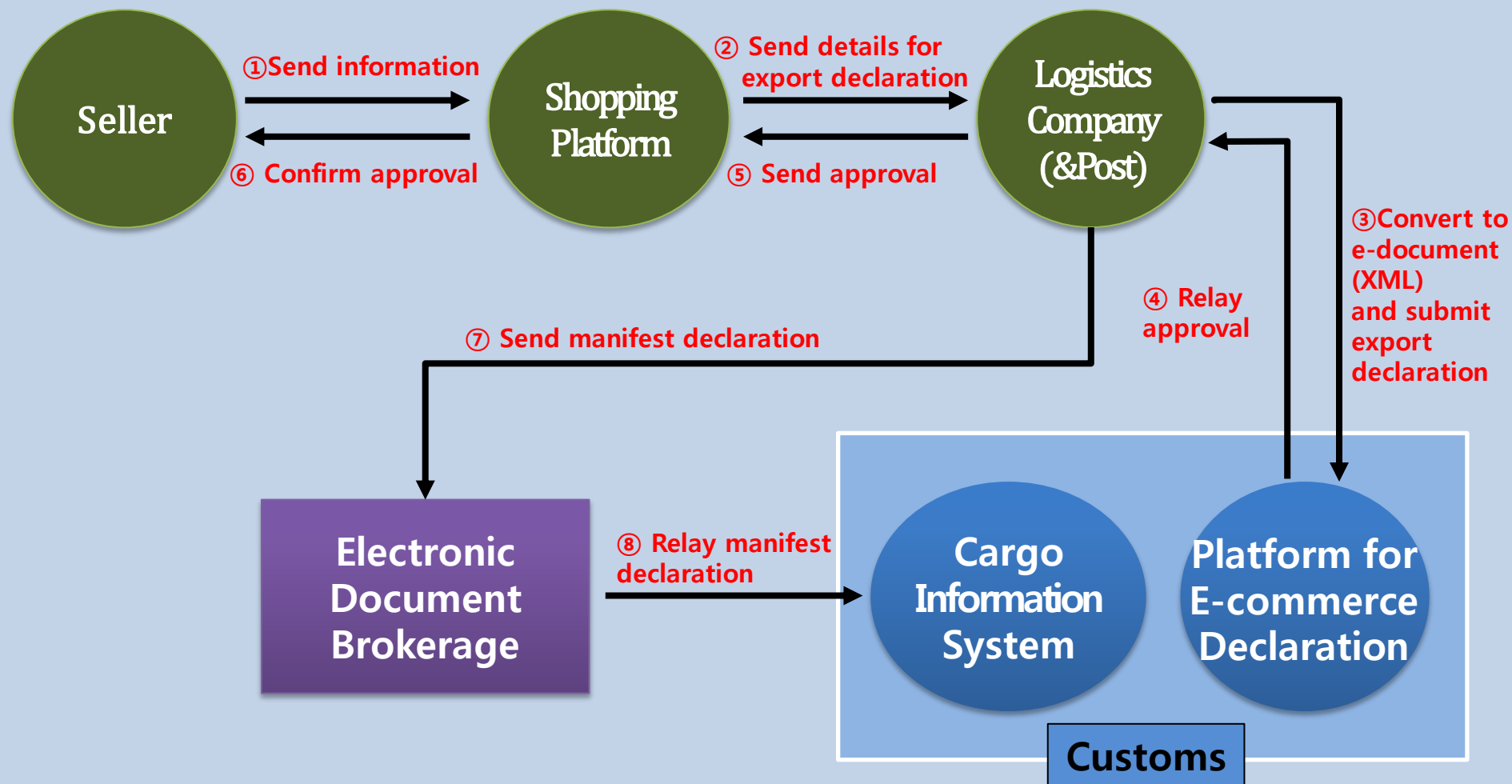
E-Commerce Trade Facilitation Measure

(1) E-Commerce Export Declaration Platform

Platform for E-Commerce Export Declaration: Automatically convert details of orders and sales on online shopping malls into export declarations



(1) E-Commerce Export Declaration Platform

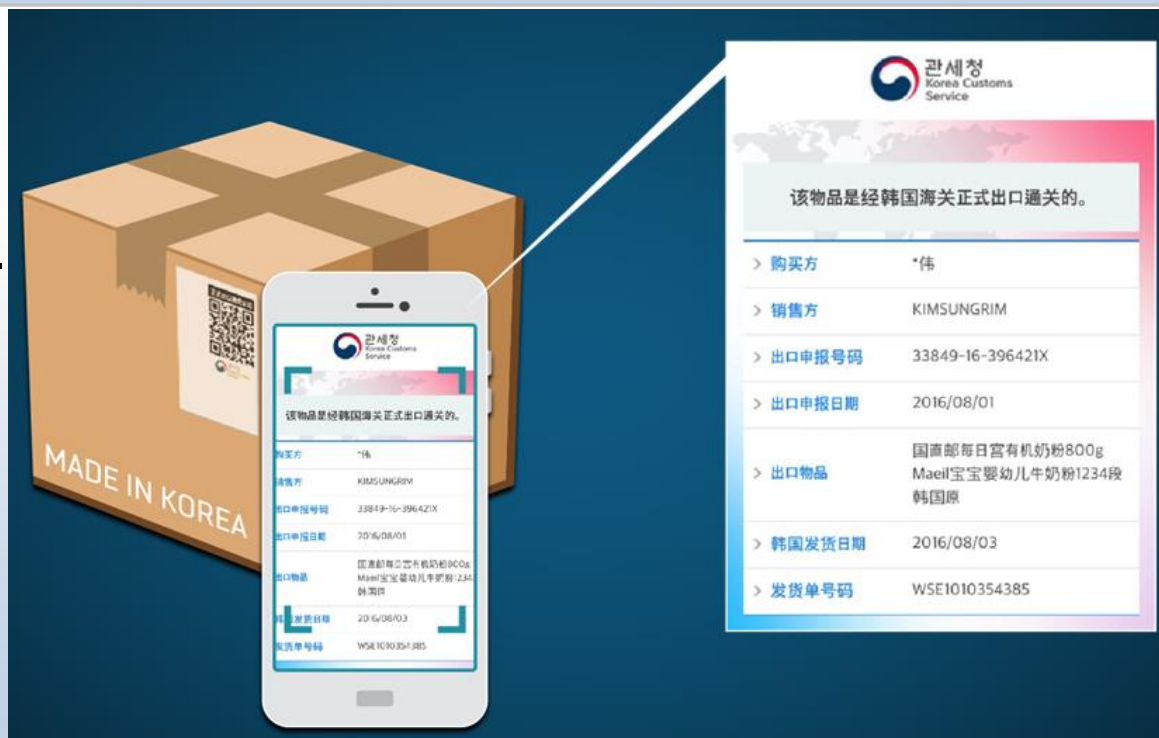


(2) Preventing Exports of Counterfeit Goods

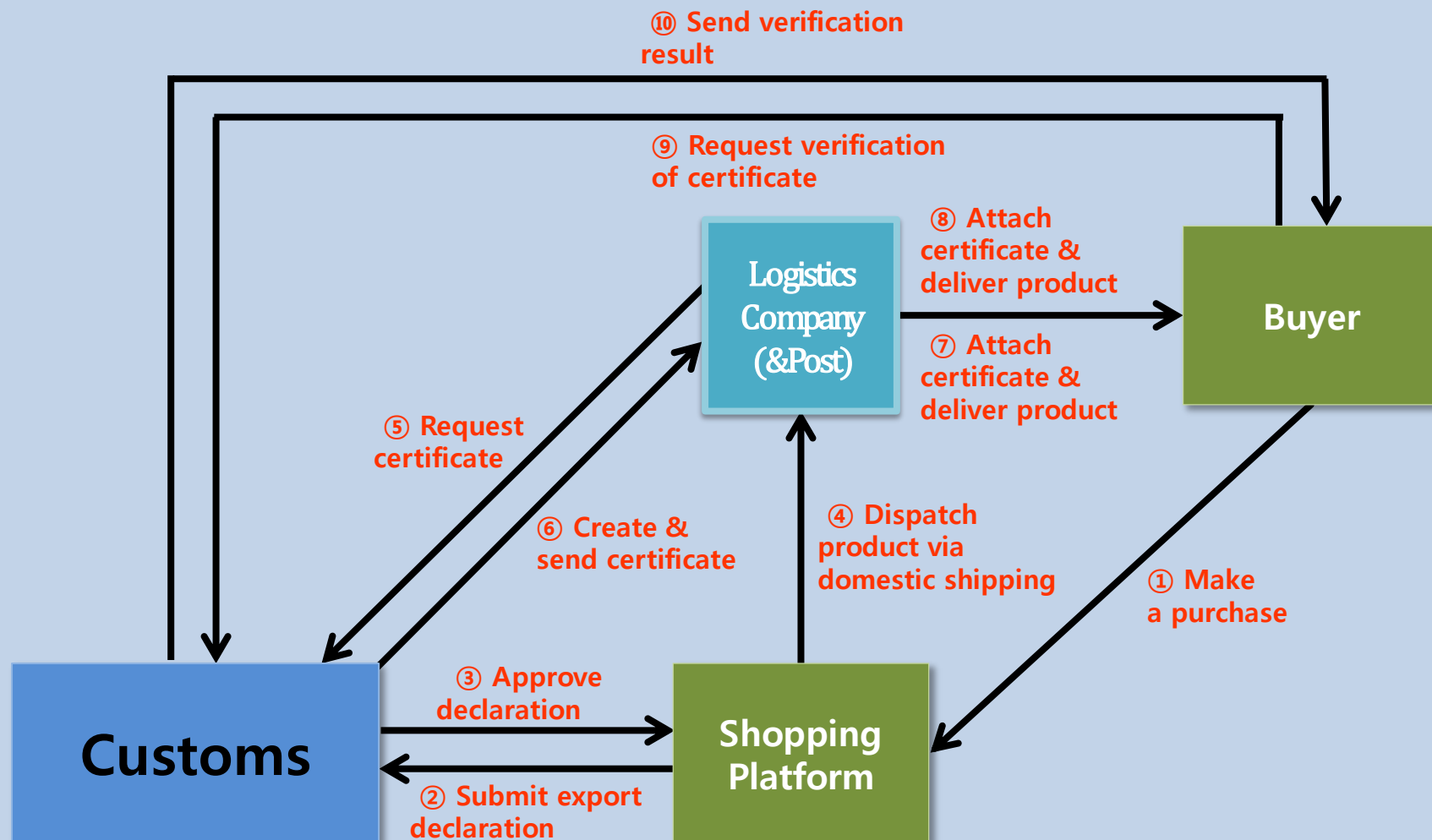
E-commerce export certification system: Distinguishes genuine goods from counterfeits; ensures Korean exporters' credibility overseas

Online certification marks are granted to e-commerce exporters.

→ The marks are included in the invoice which is printed and attached on the packaging for overseas delivery.



(2) Preventing Exports of Counterfeit Goods





(3) Maritime Express Delivery Service

Maritime Express Delivery Service: Reduces logistics costs

A low-cost maritime logistics service has been in operation since 19 March 2015 using Incheon-Qingdao ferry lines. It boasts the cost reduction of more than 50% compared to air delivery.



**“More than 50% reduced
compared to delivery by air”**

	Time	Cost (per kg)
 Ferry	4~5 days	KRW 8,000 max.
 Air	3~4 days	KRW 20,000 max.

It requires a total of 8 hours from the arrival of the ferry to the release of goods.

* [Key items] Diapers, formula milk, books, & clothing

(4) Reduced Burden of Export Declaration

HS Code Navigation: Enables HS code search with actual names of goods

Purpose: To ensure a user-friendly HS Code service that enables import/export declarers to figure out the HS Code applicable to the product name in real-life commercial transactions

How to build it? Based on the analysis of big data on approved export declarations, to ensure users can find out the HS Code that matches the product name used in real-life commercial transactions with high probability

입력하신 품목명은 아래 HSCODE 2단위 속건표에 표시된 품목으로 수출입 되었습니다.
세부 HSCODE 확인을 원하시는 분류종목을 선택하여 주시기 바랍니다.

신고비율: ☐ 61% 이상 ☐ 31% ~ 60% ☐ 30% 이하

	0	1	2	3	4	5	6	7	8	9
0		산 동물	육과 식용설육	어류	낙농품	기타 동물성 생산품	산 수목및 절화	채소	과실·견과류	커피·향신료
10	곡물	제분공업 생산품	채유용종자	식물성 수액과 엑스	기타 식물성 생산품	동·식물성 유지	육·어류 조제품	당류 설탕과자	코코아	곡물·의 조제품
20	채소·과실의 조제품	각종의 조제 식품	음료·알콜 식초	사료	담배	암석광물	금속광물	광물성 연료 에너지	무기화학품	유기화학품
30	의료용품	비료	유연·착색제	향료·화장품	비누·왁스	단백질계 물질	화약류·성냥	사진·영화 용재료	각종 화학 공업생산품	플라스틱

신고비율 92.83%

아래 HS CODE를 선택하시면 신고수리된 실거래품명 정보를 제공합니다.
해당 HS CODE에 대한 HS 품목해설 및 산성질별 분류 해설을 참고하신 후 선택하여 주시기 바랍니다.

순번	HSCODE	HS 품목 해설	산성질별 분류 해설	기본 세율
1	0203.12-0000	닐적다리살·머깨살과 미를 절단한 것(뼈가 있는 것으로 한정한다)	돼지고기	22.5%
2	0203.19-1000	삼겹살	돼지고기	22.5%
3	0203.19-9000	기타	돼지고기	22.5%
4	0203.22-0000	닐적다리살·머깨살과 미를 절단한 것(뼈가 있는 것으로 한정한다)	돼지고기	25%
5	0203.29-1000	삼겹살	돼지고기	25%
6	0203.29-9000	기타	돼지고기	25%
7	0206.30-0000	돼지의 것(신선한 것이나 냉장한 것으로 한정한다)	돼지 설육	18%



Thank you!

Yonghwan Choi
Deputy Director

Tel: +82 10-5382-1128

E-mail: welcome@customs.go.kr

koreaminister@gmail.com



KOREA CUSTOMS SERVICE