



CORPORATE TRADE COMPLIANCE

A NAVIGATION TOOL TO ASSIST YOUR
ORGANIZATION IN GAINING AND MAINTAINING
COMPLIANCE

Korea Free Trade Agreement

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WELCOME TO COMPLIANCE

Hello!

You hold a very important legal requirement: ensuring compliance within your organization. This task can feel daunting, convoluted, and messy. However, we feel as though a brief, simplified training can override any difficulties you may have previously encountered. While this training is not wholly determinative, we do our best to eliminate the guesswork. Following these steps can achieve multiple objectives for your organization. Firstly, it will help you avoid costly fees and legal traps. To illuminate the value of this alone, U.S. Customs is growing rapidly, and their revenue accumulation will total somewhere near \$100 billion in the next decade. We do not want you to be part of that statistic. Secondly, properly complying via the Rules of Origin and HTS Codes can save you thousands of dollars each year. This process is no different than filing your taxes. No, it is not glamorous, but it is necessary. Plus, if you do it correctly, you may gain a nice return check in the mail. So, thank you so much for taking this step. At the end of the day, you are helping us, help you. And we surely want to help you in whatever way we can.

Warm Regards,

The Trade Compliance Team

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Overview

For this training, our aim is to teach you how to fill out the proper regulatory importation forms. Each form requires the following information:

- HTS Tariff Classification Number
- Producer
- Rules of Origin
- Preference Criterion
- Country of Origin

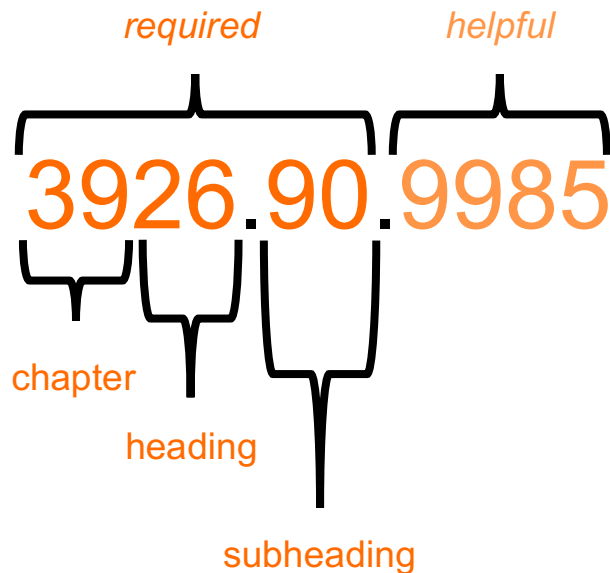
Each concept is rather simple, and we will explain them in part. Furthermore, they each build upon each other. Therefore, with their interconnectivity, learning one concept aids you in completing another.

Producer Responsibility

As was mentioned above, U.S. Customs accumulates additional revenue through fees and taxes, with total numbers nearing \$100 billion. Therefore, noncompliance can have severe legal and monetary ramifications. In addition, the producer holds a heightened responsibility of ensuring compliance. The signed certificate that you supply to us may be submitted to U.S. Customs. In as such, any questions arising from your certification will be directed to your company under this potential scenario. Thus, as a producer, a heightened duty of care will fall upon you. It is for this reason that we are actively seeking to ensure that you do not incur any consequences brought about by noncompliance.

HTS Classifications

Classifying via HTS Code, like the rest of your governmental responsibilities, is an easy task. It only requires looking at your product and determining where it fits in the HTS. We have included the link [here](#) for your convenience. As you will notice, the HTS is broken up into chapters, headings, and subheadings. Each is an additional layer of detail.

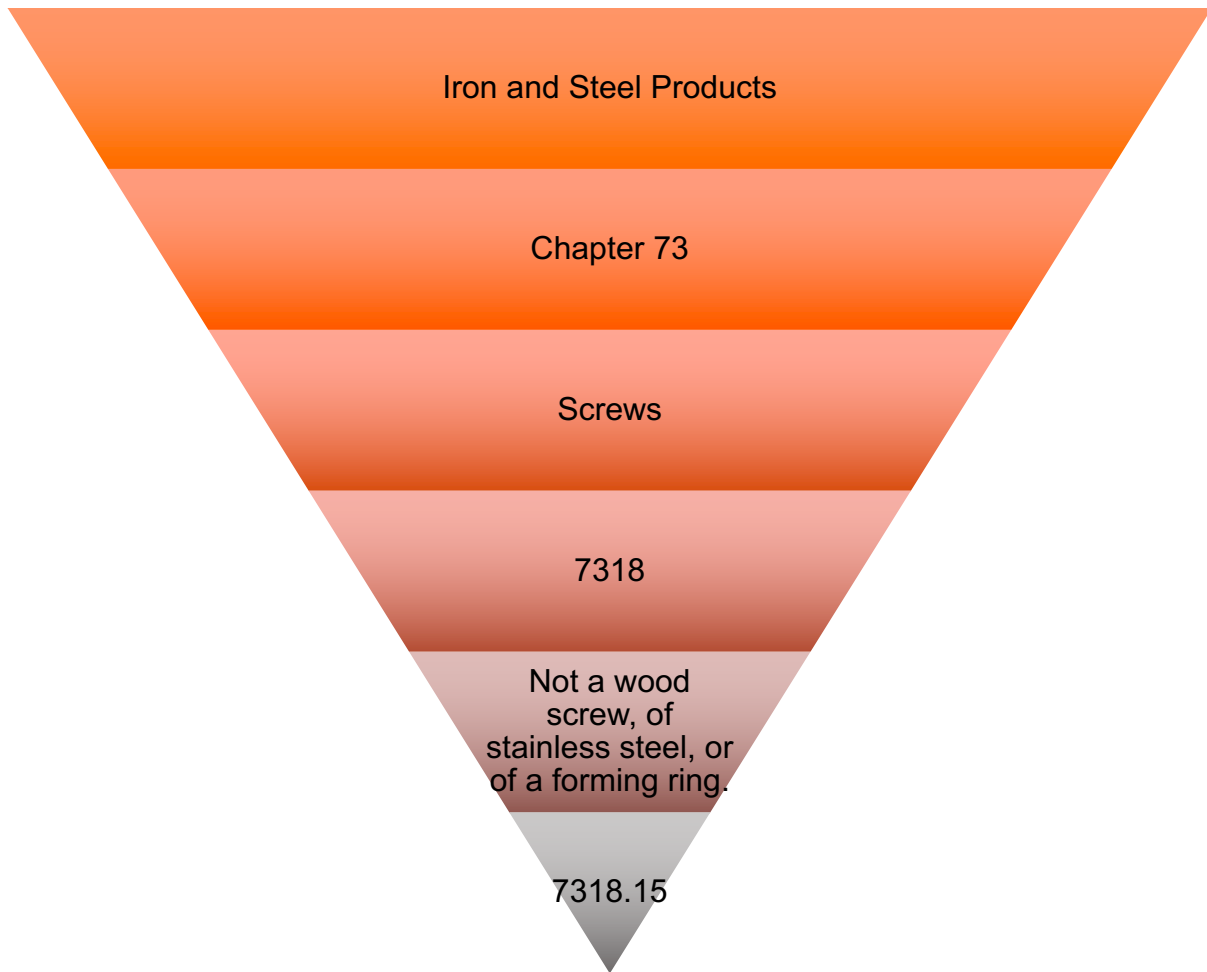


This is just reading left to right. In the above HTS Code, the chapter is chapter 39; the heading is 26; and the subheading is 90. Chapter 39 deals with plastics; heading 26, taken as the whole 3926, handles other articles of plastic; and subheading 90, taken as the whole 3296.90, relates to further “other articles of plastic.” These layers are adding details, and these details are already found in your finished good. On that note, you will notice that the final point of detail in this scenario is “other” articles of plastic. You will see this often in the HTS Codes. Sometimes the level of most detail is an “other”. This is because “other” is often used as a catchall phrase for the HTS. This does not mean that you should automatically fall into that category, but it is something worth noting.

Also, we remarked above that a portion of the HTS Code is required, and another is helpful. U.S. Customs will require that you write those first six digits, thus the “required” qualification. However, the additional details can be exceptionally helpful for two reasons. First, as we mentioned, each two digits adds another layer of detail. Therefore, when going to that level of depth in classifying, you ensure that you are correctly categorizing the finished good. Secondly, this added level of detail signals to U.S. Customs that you have taken a greater level of care in classifying your good. So, while we hope that U.S. Customs never calls you seeking clarification, it is extremely helpful to know your product to that length. In other words, it allows you to “show your work” to the U.S. Customs agent.

HTS Classifications

Now, let's show you another example. Again, this is just a process of scrolling down the code lists until you find your product. The following example truly illustrates the simplicity of this task. Let's say you have a steel screw with certain other characteristics. First, you look at the chapter in the HTS that covers iron and steel products. You will find that the only Chapter dealing with this subject matter is Chapter 73. Second, you will find the heading that talks about screws; this is 7318. Third, you continue scrolling down and see that your screw is not a wood screw, nor is it made of stainless steel or forming a ring. This brings you to 7318.15, which covers screws not mentioned elsewhere in the section.



This concludes your work on HTS Classifications, thus meaning you can put your HTS number directly into the sheet! Congratulations on finishing this first step!

Origination

Rules of Origin

This section will cover the remaining 5 steps required to complete your importation form. At its heart, the Rules of Origin ask, “where was this product produced?” There are certain rules within that general question, but that is still the central idea. We will go over each of these rules below as it pertains to the box on your form.

Producer

Did you produce the final good? If yes, you get to check the box with a yes, if no, then a no. It really is that easy.

Preference Criterion

For final, finished goods produced in South Korea and/or the United States, the good is automatically considered eligible under the trade agreement. This includes each material that comprises that good. So, say you have a plastic clip with a rubber seal. Here, the resin, the rubber, and the clip itself all must be produced in the U.S. and/or South Korea. Therefore, if this condition is satisfied, you can put Origin Criteria C in your box.

However, let's say you have a part that is produced in South Korea or the United States, but the materials come from other nations. In this scenario, you have to check three different things.

- Was there a change in tariff?
- Is the RVC requirement satisfied?
- Does the non-originating material qualify for de minimis?

If you have to check these three items, you will classify under B1, B2, or as ineligible (if classification criteria cannot be met). The differences between B1 and B2 are slight, but are as follows:

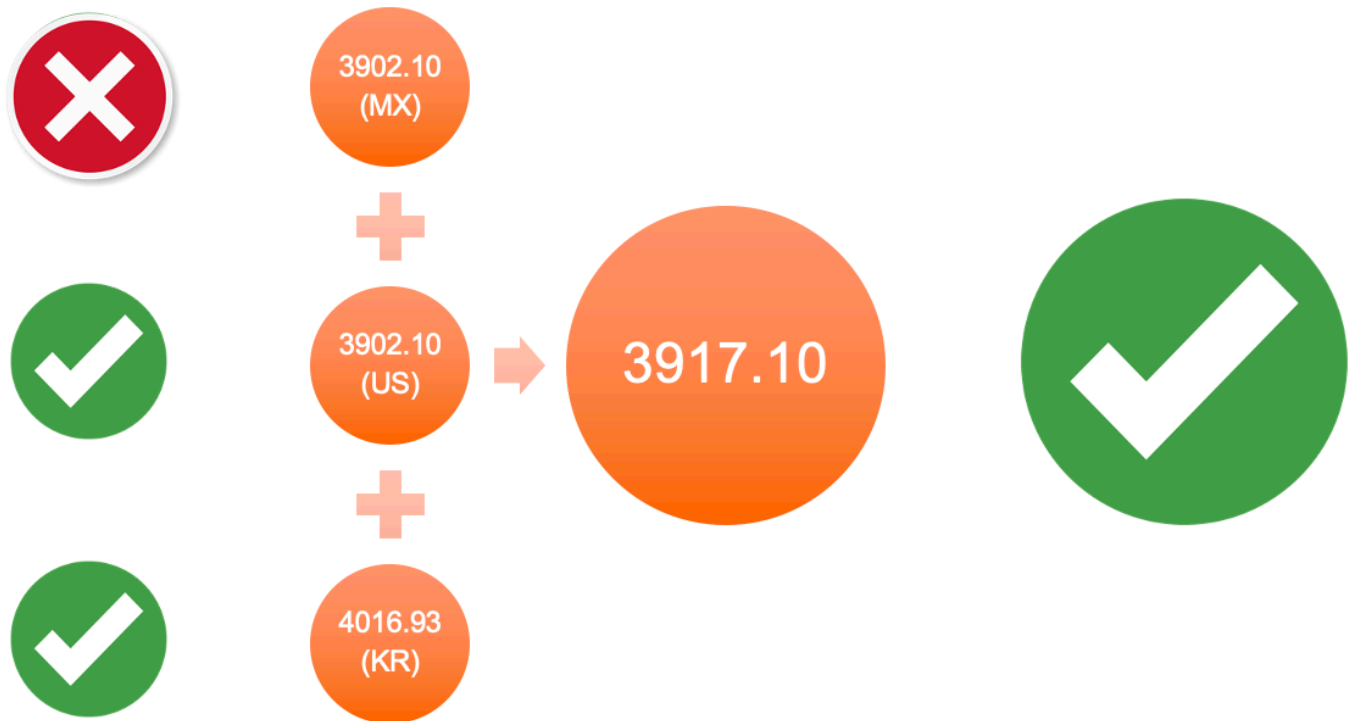
- B1: Your non-originating materials met a tariff shift requirement.
- B2: Your non-originating materials met the requirements for RVC or de minimis.

This process will also require understanding the product specific rules for each part. In essence, some HTS Codes receive preferences, or are packaged with certain requirements. For example, a product under 9616 will only qualify for a tariff shift if the heading is changed. Meanwhile, a product contained within 9617 will only qualify for a tariff shift if the chapter is altered. This also has applicability for RVC requirements, so just be on the lookout for what parts you have, as classified from your bill of material (BOM) and move onward from there.

Origination

Change in Tariff

A change in tariff is a rather simple idea. You are just checking the product specific rules, which are noted here (**INSERT**). Then, with these in hand, you have to see whether your product met those rules. This step requires looking at your BOM and classifying those components and learning their country of origin. When you have that information handy, you look at each material produced outside South Korea or the United States. Then, once again, you look at the product specific rules. For example, let's say that you must have a chapter change. If you remember, a chapter change is a change to the first two numbers. Therefore, if you have a plastic clip in 3926.90, as long as the non-originating materials come from chapters outside of 39, then you can claim eligibility. See another example below to clarify this a bit more.



Origination

RVC

Just as with the change in tariff above, each product has its own set of particular rules when it comes to RVC, or Regional Value Content. This is a more formulaic approach to gaining eligibility when you have a final good containing non-originating materials. The equation for this is as follows:

$$RVC = \frac{AV - VNM}{AV} \times 100$$

RVC: Regional Value Content

AV: Adjusted Value

- This is the final good minus the packaging, tool kits, and some other excluded materials. The full list is included below.

VNM: Value of the Non-Originating Materials

- This is the value of any good not from South Korea or the United States. Again, remember to take out any excluded material from this list.

Pretty easy, right? You are just doing some quick math with information you already have in your possession, as this is included in your BOM. So, you are just plugging-and-chugging the numbers into a calculator.

We would like to mention, however, that there is one additional consideration. There is something called de minimis that can be applied here. While it has its own separate section, and deserves elaboration on its own, you can also apply it in your RVC calculus.

De Minimis

Here, you take all the non-originating materials and add them up. If they comprise less than 10 percent of the value for your final good, then you qualify. Remember, you can do this with the numbers you just found for your RVC calculation. So, if your final good is \$1 U.S. dollar, and the non-originating material comprising only \$0.10 of that dollar, then you qualify.

Origination

Goods Not to Include

As promised above, here is the complete, exhaustive list of all the materials that should not be included in your calculations for a change in tariff, RVC, or de minimis.

- Goods used in the production, testing or inspection of another good;
- Fuel and energy;
- Tools, dies and molds;
- Spare parts and materials used in the maintenance of equipment or buildings;
- Gloves, glasses, footwear, clothing, safety equipment and supplies;
- Equipment, devices and supplies used for testing or inspecting the good;
- Catalysts and solvents; and
- Any other good that is not incorporated into the other good but the use of which in the production of the other good can reasonably be demonstrated to be part of that production.

Country of Origin

You have already done all the leg work for this section. All you are doing here is checking to see what country the good originated in. If the good is entirely produced in South Korea, then the good is South Korean. However, if the good is produced in another nation, then you put that nation down. Much of this is just looking at your final good and comparing it to your BOM, while also keeping in mind the information you have already examined and provided. If a good qualifies for a change in tariff, RVC, or de minimis, you will list the country that produced that final good. If not, then you name the country that gave that product its essential character. In other words, 90 percent of a final good is made in the United States, and 10 percent is then assembled in South Korea, then you are going to list South Korea as the country of origin. However, if South Korea molds the good, or provides its essential function, then you would classify it as originating from that country.