SHIN&KIM
법무법인(유) 세종

Korea Customs Service Signals Heightened Scrutiny of Transactions Under the Tariff-Rate Quota Program

2026.11.03

On September 9, 2026, the Korea Customs Service (the "KCS") announced the results of a special enforcement operation targeting illegal practices in the importation and distribution of goods under Korea's Tariff-Rate Quota ("TRQ") program.[1] The operation uncovered violations involving transactions valued at approximately KRW 546.8 billion (approximately USD 407.7 million).[2]

The primary violations identified include: (i) overstatement of declared customs values and excessive overseas remittances by taking advantage of the lower tariff rates available under the TRQ program; (ii) improper acquisition of quota recommendations[3] and allocations through shell companies; and (iii) unlawful long-term stockpiling of goods benefiting from the TRQ program in bonded areas.

This operation is particularly notable for its expanded scope of review. Rather than focusing solely on how the TRQ program was applied, the KCS examined the entire transaction chain—from customs valuation and overseas remittances to the storage of goods in bonded areas and subsequent distribution and sale in the domestic market.

The sections below outline the areas likely to face increased scrutiny across key industries and highlight proactive measures companies should take.

1. Key Findings from the KCS Special Enforcement Operation

The KCS conducted this special enforcement operation from February through August 2026, targeting 21 importers, 10 of which were found to have committed violations. The operation uncovered evasion of customs duties totaling KRW 58.6 billion (approximately USD 43.7 million) and identified 292 metric tons of goods that had been improperly stored in bonded areas for extended periods.

The primary categories of violations identified by the KCS are as follows:

(1) Overstatement of Declared Customs Values and Excessive Overseas Remittances

The KCS identified a banana importer as having exploited reduced duty rates under the TRQ program by overstating the declared customs values of goods purchased from its overseas affiliate and remitting the resulting difference overseas. The KCS shared information relating to potential corporate income tax evasion with the National Tax Service (the "NTS") and imposed administrative fines for foreign exchange transaction violations. Additionally, the KCS announced its intention to launch criminal investigations and seek punishment for intentional overstatements of declared customs values on suspicion of price manipulation.

(2) Improper Acquisition of Additional Quota Allocations Through Shell Companies

The KCS also identified a company that improperly obtained recommendations for additional quota allocations by using entities unrelated to its actual transactions or through fictitious agreements for the assignment of bills of lading. The KCS issued a pre-assessment notice for the unpaid customs duties and other taxes, and announced plans to pursue criminal investigations and seek punishment for intentional violations.

(3) Long-Term Storage of Goods in Bonded Areas

In cases where goods covered by TRQ recommendations remained in bonded areas beyond the prescribed removal period, the KCS recovered customs duties on goods for which the relevant recommendations had been cancelled due to non-compliance with the recommendation conditions. Administrative fines were also imposed for failure to remove the goods following acceptance of import declarations.

Following these findings, the KCS announced plans to strengthen customs investigations and criminal investigations while pursuing institutional reforms, such as restructuring the quota recommendation process to prioritize actual end users.

2. Key Considerations for Importers of Products Affecting Consumer Prices and Household Livelihoods

The results of the special enforcement operation demonstrate that companies benefiting from the TRQ program should review not only the application and allocation process but also their entire supply and distribution chain. In particular, companies importing products that have an impact on consumer prices and household costs of living should prepare for closer scrutiny and potential investigations by the KCS.

Accordingly, businesses in the following industries should proactively review their transactions and internal compliance procedures:

(1) Food Service Franchise Businesses

Since August 2026, the KCS has been conducting its third round of special investigations targeting food service franchise businesses, including hamburger, chicken, and pizza chains, whose operations directly impact household dining expenses.

Franchise operators and related suppliers should comprehensively review:

- Whether the import and supply prices of raw materials (especially those benefiting from the TRQ program) are appropriate and commercially justified;
- Whether all outbound payment procedures comply with the Foreign Exchange Transactions Act; and
- How pricing structures for franchisees relate to final retail prices.

(2) Food and Food Ingredient Importers and Distributors

Compliance risks can arise not only during the quota recommendation and allocation phase, but also in connection with the actual use of allocated quota volumes, timely removal of imported goods from bonded areas, and inventory management.

Importers and distributors should verify:

- The status of quota allocations and the actual usage records;
- Compliance with deadlines for removing goods from bonded areas; and
- The accuracy of their inventory management and tracking systems.

(3) Food and Consumer Goods Manufacturers Trading with Overseas Affiliates

With the KCS actively cracking down on overstated import prices and excessive remittances between related parties, companies handling quota volumes through overseas affiliates should conduct a comprehensive review to ensure consistency among their customs valuation, transfer pricing, corporate income tax filings, and foreign exchange transaction records.

(4) Trading Companies and Large-Scale Importers and Distributors

For companies conducting import and distribution activities through multiple entities or affiliates, the relationship between the actual user and the importer may face scrutiny. These companies must verify that their applications and recommendations for quota allocations to ensure that they accurately reflect the economic substance of the underlying transactions and the actual usage.

3. Proactive Compliance Reviews and Coordinated Risk Management

The issues highlighted in this enforcement operation extend far beyond simple clerical errors in customs declarations. They span across multiple operational functions, including quota allocations, import pricing, overseas remittances, bonded-area management, and domestic distribution.

In light of these findings, companies importing quota-eligible products should, going beyond basic internal reviews, conduct proactive, comprehensive assessments of their transaction structures and operational processes in coordination with specialists.

In particular, companies should carefully assess whether the substance of their transactions is consistent with the relevant documentation, focusing on:

- Whether the application materials submitted during the quota recommendation and allocation process accurately reflect the underlying commercial transactions;
- Whether the declared customs values of imported quota-eligible goods align with the substance of the transactions and the price of transaction with affiliates;
- Ensuring there are no discrepancies among declared import prices, overseas remittances, transfer pricing documentation, and corporate income tax filings;
- Ensuring bonded area removal deadlines and inventory management procedures are properly implemented; and
- Ensuring that the financial benefits of the TRQ program are properly accounted for in pricing policies during domestic distribution and sale of imported goods.

The KCS announced that, in addition to providing the NTS with information concerning potential tax evasion or issuing pre-assessment notices, it intends to pursue criminal customs investigations and seek punishment for intentional violations. When a criminal customs investigation is initiated, representative directors, other officers, and employees may face personal criminal liability alongside the corporation.

Given that complex transaction structures and intercompany pricing require specialized expertise, companies are strongly advised to engage customs specialists, working in coordination with corporate tax, foreign exchange, and transfer pricing experts, to diagnose risks and implement any necessary remedial measures in advance.

How Shin & Kim Can Help

Drawing on its expertise in customs, customs clearance, foreign exchange, and tax matters, Shin & Kim's Customs Group provides comprehensive legal advice to proactively manage export-import and customs-related risks.

Our team advises clients on customs valuation, tariff classification, free trade agreements, the tariff rate quota system, customs duty investigations, criminal customs investigations, foreign exchange transactions, transfer pricing, and related tax matters, taking into account each client's transaction structure and actual operational processes. The Group also provides comprehensive support ranging from proactive risk assessments to assistance in responding to customs duty investigations and criminal customs investigations.

[1] Korea's "TRQ program" is a tariff adjustment mechanism under Article 71 of the Customs Act. Under this program, the Korean government may temporarily apply reduced tariff rates—and, where appropriate, quantitative limits—to designated imports in order to stabilize domestic prices, ensure a stable supply of essential goods, or enhance industrial competitiveness.

[2] Currency Note: USD equivalents are calculated using the USD/KRW exchange rate of KRW 1,341.10 per USD 1 as of September 9, 2026, and

are provided for reference purposes only.

[3] Under Korea's TRQ program, importers may be required to obtain a recommendation from a designated authority to qualify for reduced tariff rates on specified quantities of goods. Recommendations are issued subject to applicable eligibility and allocation requirements and do not, in themselves, guarantee the application of reduced tariff rates.

[Korean version] 관세청, 할당관세제도 악용행위 특별단속 결과 발표 - 할당관세 적용 거래에 대한 관리·감독 및 조사 강화에 대비해야

Key Contacts

Je-Heum Baik
Senior Partner

+82-2-316-4052
jhebaik@shinkim.com

Maria Chang
Senior Foreign Attorney

+82-2-316-4165
mariachang@shinkim.com

Hae-Yeong Paik
Partner

+82-2-316-4106
hypaik@shinkim.com

Dong-Yun Kang
Customs Consultant

+82-2-316-4492
dykang@shinkim.com

Jin Yong Jung
Customs Consultant

+82-2-316-1711
jyojung@shinkim.com

Copyright SHIN & KIM LLC. All rights reserved.