



ACEA

European  
Automobile  
Manufacturers  
Association

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## **Free trade agreement with South Korea must follow EU principles of mutual benefit and fair market access**

**The European automotive industry is strongly concerned about the prospective highly unbalanced outcome of the free trade agreement (FTA) with South Korea. The negotiations between the European Commission and South Korea, that have resumed today and are entering into their final phase, do not respect the basic principle of mutual benefit, offering a disproportionate competitive advantage to the Korean auto industry when exporting to the EU. An unbalanced outcome will be at the expense of the automotive manufacturing in the EU. There would, furthermore, be severe implications for upcoming negotiations with other Asian countries, setting a precedent for more one-sided, harmful trade agreements.**

The automotive industry is in favour of further bilateral and multilateral trade liberalisation but insists this has to be based on the principles of mutual benefit and fair market access, covering both import duties and non-tariff barriers (NTBs). The present financial and economic crises make it even more imperative for the EU to negotiate trade agreements that are well balanced and do not further weaken the competitiveness of the European industry.

The European manufacturers demand clear and unconditional market access to South Korea, in return for dismantling the EU tariffs as suggested by the Commission. “There is a huge imbalance in trade between the EU and South Korea that has a fully export-oriented automotive industry, with the EU being its main target”, said Ivan Hodac, Secretary General of the European Automobile Manufacturers’ Association ACEA. EU exports are limited to around 25,000 vehicles per year to a market of more than 1.1 million new vehicles annually. Currently, South Korea annually exports 700,000 vehicles to EU and this number is expected to increase significantly. “We have repeatedly asked the Commission to launch an impact assessment on the consequences of a future FTA with South Korea, but without a proper reply.”

The mandate for the Commission to negotiate with South Korea stipulates that an FTA should contribute to the competitiveness of the EU, and must eliminate existing NTBs during the negotiations. “Regrettably, the Commission seems willing to treat the ‘Engine of Europe’ as a bargaining chip in exchange for the political objective of reaching a deal with South Korea”, said Hodac. South Korea successfully uses trade barriers to insulate its domestic auto market from international competition. This practice includes policies such as the maintenance of a discriminatory specific tax regime for imported vehicles, the frequent introduction of new technical barriers, and direct or indirect actions that reinforce anti-import measures against imported motor vehicles, such as well developed parallel ‘gray’ imports of European vehicles.

The automotive industry urges the EU negotiators to allow vehicles that comply with UN ECE Regulations to be imported into Korea. The country has signed these international standards for vehicle registration, but does not enforce them. “These and other non-tariff barriers, including further regulatory and tax issues known by the EU negotiators, should be addressed and resolved before concluding this FTA. Concessions in this area would set an undesirable precedent for all future bilateral trade negotiations that the EU undertakes”, said Hodac.

Press Release

Concerning the more technical elements of the FTA, the automotive industry:

- Supports the EU offer to provide South Korea a 7-year lead time for the tariff dismantling and does not see any necessity to offer South Korea further compromises on lead time. This period provides a reasonable timeframe to re-adjust EU level of production downwards in a socially acceptable manner. The Korean manufacturers will save an average of €1000 per exported vehicle to the EU.
- Demands a symmetrical linkage between the dismantling period of EU tariffs and the period over which South Korea will abolish non-tariff barriers and implement the UN ECE regulations. If South Korea does not comply with its commitments, the EU should be able to put its tariff dismantling process on hold.
- Is opposed to changes in the preferential Rules of Origin and the Duty Drawback clause. Such concessions have not been granted in other FTAs concluded by the EU, and the requested changes would deteriorate the competitive position of domestic manufacturers in the EU by further increasing financial benefits for Korean vehicle exports. Conceding the Duty Drawback clause would offer an additional average financial benefit of more than €300 for each Korean vehicle exported to the EU, provided this vehicle includes imported parts and components representing no more than 40% of its manufacturing value. To further increase Duty Drawback benefits, South Korea wants the EU lower the Rules of Origin local content obligation from 60% to less than 50%. This would enable Korean manufacturers to increase their foreign purchasing of parts and components in neighbouring countries such as China.

	2005	2006	% CHANGE	% SHARE
<b>Extra EU25</b>	<b>25 052</b>	<b>29 718</b>	<b>18.63%</b>	<b>100.00%</b>
Japan	10 836	11 488	6.02%	38.66%
South Korea	6 145	7 052	14.76%	23.73%
USA	3 202	4 880	52.40%	16.42%
Turkey	2 367	3 140	32.66%	10.57%
Mexico	778	1 325	70.31%	4.46%
Brazil	424	515	21.46%	1.73%
South Africa	402	364	-9.5%	1.22%
India	325	268	-17.54%	0.90%
China	60	188	213.33%	0.63%
Thailand	90	55	-38.89%	0.19%

The European automotive industry is key to the strength and competitiveness of Europe. The ACEA members are BMW Group, DAF Trucks, Daimler, FIAT, Ford of Europe, General Motors Europe, Jaguar Land Rover, MAN Nutzfahrzeuge, Porsche, PSA Peugeot Citroën, Renault, Scania, Toyota Motor Europe, Volkswagen and Volvo. They provide direct employment to more than 2.3 million people and support another 10 million jobs in related sectors. Annually, ACEA members invest €20 billion in R&D, or 4% of turnover.

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