

## **The EU is negotiating an FTA with South Korea – Facts and figures**

Negotiations between the EU and South Korea to sign a free trade agreement (FTA) are in a decisive stage. The European vehicle industry is worried about the content of the FTA and insists the EU only signs a balanced agreement. So far, a number of important obstacles have not been solved.

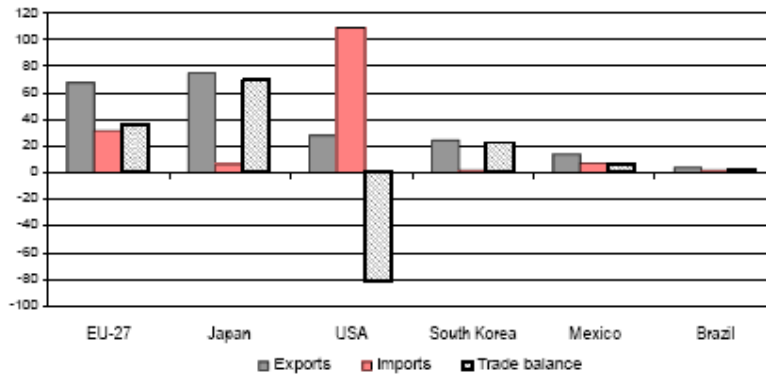
- The agreement would give South Korean vehicle manufacturers full market access to the European market without a tangible improvement in export conditions to South Korea.
- In particular, the agreement would fail to secure the use of existing international vehicle standards when entering the Korean market, which constitutes an important non-tariff barrier to trade.
- The agreement would set a precedent for EU FTAs with other countries, notably in Asia, leading to further uneven competition.
- In particular, this concerns an increased import of low-cost parts from neighbouring countries, plus the drawback of duties on these parts. This issue is relevant for automotive as well as other sectors.
  
- **Automotive is a key part of the trade deal:**
  - Automotive is the largest single component in the EU/ South Korea trade relationship
  - Automotive represents 14% of the total EU/South Korea trade volume
  - 17% of all Korean exports to the EU exists of cars; EU car exports represent 4% of total exports to South Korea
  - The EU27 has consistently had a trade deficit with Korea: €14.8 billion in 2007, €19.9 in 2006, €14.2 in 2005, €12.7 in 2004
  - Of the trade deficit, 40% stems from the huge disequilibrium in automotive trade
  
- **For South Korea, automotive is the centre piece of the FTA:**
  - Autos are the most important export product of the South Korean economy
  - The South Korean car industry is focussed on exports
    - Production of 3.5 million cars per year, of which 2.5 million (73%) are exported
  - The EU is a key target market,
    - with 700,000 cars in 2007, or 20% of all EU car imports
    - An average 10% annual growth between 2000 and 2007.
  
- **South Korean competitiveness is expected to jump:**
  - The FTA represents a transfer volume of at least 1 billion euro per year
    - Tariffs will drop from 10 to 0% in 3-5 years; a cost advantage of 700,000 times €1,000
    - South Korean imports of car parts from neighbouring low-cost countries will strongly increase → *Duty Drawback* of up to 40% (or €320 per car), plus a weakening of the *Rules of Origin* to 40%+
    - The EU enables South Korean manufacturers to offset the rise in production costs in their home country
      - At the expense of fair competition for EU manufacturers
      - At the expense of South Korean production in the EU
  - The FTA delivers a huge competitive advantage to South Korea; without anything tangible in return

- **EU access to the Korean car market will remain severely capped:**
  - A problem of NTBs (non-tariff barriers)
    - South Korea does not fully acknowledge international test cycles and standards and applies its own unique rules
    - An approved and tested EU car cannot be sold in South Korea; costly modifications are required
  - In 2007, the EU exported just 28,000 cars to South Korea
  - South Korean manufactured cars control more than 94% of the Korean market;
    - South Korea has the lowest level of import penetration of any developed country
  
- **The European car industry is essential for the EU economy:**
  - Automotive is the engine of the manufacturing industries in Europe
  - The EU must safeguard its manufacturing base as the foundation of a knowledge based economy
  - The European car market is the largest in the world (16 million in 2007), just before the US
  - 80% of cars produced in the EU are also registered in the EU
  
- **Principles of a balanced deal:**
  - **Market access:**
    - cars that can be sold in the EU must be allowed on the South Korean market
    - 100% of the tariff and non-tariff barriers need to be resolved
  
  - **Reciprocity:** both sides must gain from an agreement
  
  - **Level playing field:** acceptance of *duty drawback* and weakening of the *rules of origin* create severe disadvantages for EU manufacturers
  
  - **Lead-time:** abolishing of tariffs should take at least 7 years
  
  - **Global perspective:**
    - Special concessions to South Korea set a precedent for similar FTAs with other countries (ASEAN, India, Japan)
    - Provisions on *duty drawback* and *rules of origin* have not been granted in trade arrangements with other developed countries (Mexico, South Africa, Chile) and are not covered by WTO standards

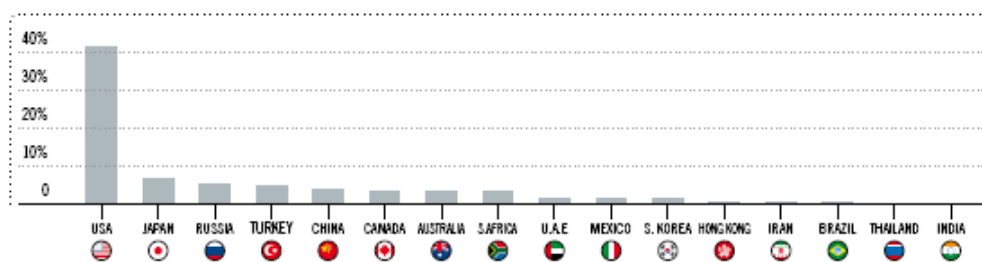
### General Background:

- South Korea represents 2.8% of total EU imports, and 2% of total EU exports
- In 2007, the European Union 27 exported a total of €24.8 billion to Korea (11<sup>th</sup> largest) and imported €9.6 billion (8<sup>th</sup> largest).
- The South Korean market (1 million new cars annually) is a potential growth market, with a car density of 237 per 1,000 inhabitants
- With a motorisation rate of 466 cars per 1,000 inhabitants, the EU is a mature, replacement market, not a growth market

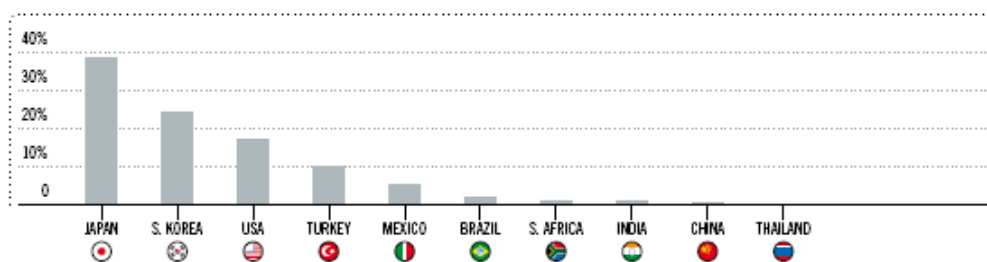
Figure 1: EU and other major players in international motor cars trade in 2006 (EUR billion)



Destination of EU25 Passenger Car Exports | 2006



Origin of EU25 Passenger Car Imports | 2006



Market Size and Growth

New Car Registrations (units)

	2007	2003	% CHANGE
South Korea	1 049 403	1 024 543	2.43%
+  ASEAN	1 118 970	810 528	38.05%
India	1 509 330	838 495	80.00%
Ukraine	514 100	75 000	585.47%
Russia	2 471 045	1 045 936	136.25%
+  Mercosur	2 875 741	1 494 988	92.36%

Examples of Import Duties (bound rates) | 2006

	PARTS	PASSENGER CARS	LIGHT COMMERCIAL VEHICLES	TRUCKS
Korea	8%	8%	10%	10%
Thailand	30% (CKD*=30%)	80% (CKD*= 30%)	40%	40%
Malaysia	25% (CKD*=10%)	30% (CKD*= 10%)	30% (CKD*= 10%)	30%
Indonesia	15% (CKD*= 25%)	65,7 or 45% (CKD*= 20%)	40% (CKD*= 40%)	80%
India	13.5%	101%	13.5%	13.5%
Ukraine	0	25%	20%	20%
Russia	0	25%	10%	15%
+  Mercosur	18%	35%	35%	35%

EU Bound Tariffs

Cars and Light Commercial Vehicles	10%
Trucks	22%
Buses	16%

NOTE: MARKET ACCESS database

\* CKD - Completely Knocked Down: tariffs applied to packages of original vehicle components used for assembling at local plant