

Brussels, 17 September 2010

## EU-Korea Free Trade Agreement: 10 key benefits for the European Union

*The Foreign Affairs Council on Thursday authorised the signature of the EU-Korea Free Trade Agreement which is a key step towards the provisional application of the deal on 1 July 2011. This agreement is the most ambitious trade agreement ever negotiated by the EU. It breaks new ground in delivering market access for European companies as well as in the way regulatory issues are addressed. The European Commission expects it to double European Union trade with Korea in medium term and to hence boost jobs and growth. The FTA is the EU's first deal with an Asian partner. It is a signal that the EU is open for business.*

### 1. Tariff elimination for EU's exports of industrial and agricultural goods

The EU-Korea Free Trade Agreement (FTA) will **relieve EU exporters of industrial and agricultural goods to Korea from tariffs**. They will save **€ 1.6 billion duties annually**, out of which € 850 million already at the day of entry into force of the Agreement. The comparable figure for Korean exporters is € 1.1 billion. This is the most ambitious tariff elimination achieved in any of the bilateral EU FTAs.

Obviously, potential gains from duty savings will be even higher as trade between the EU and Korea is expected to expand due to the FTA. According to the study entitled "Economic Impact of a Potential Free Trade Agreement between the EU and South Korea" by Copenhagen Economics and Prof. J.F Francois<sup>1</sup>, the FTA will create substantial new trade in goods and services of **€19.1 billion for the EU** compared to €12.8 billion for Korea. The figure is likely to underestimate the benefits for the EU since it does not consider gains due to the elimination of non-tariff barriers (NTBs). According to a more recent study finalised in May 2010<sup>2</sup> the FTA is expected to **more than double** EU-Korea bilateral trade in the next 20 years compared to a scenario without the FTA in place.

For instance, EU exporters of **machineries** would save **€ 450 million duties**, and those of **chemicals** would be relieved from over **€ 150 million duties** each year. The EU **textiles and clothing** sector exporting to Korea would see most of the **€ 60 million duties** eliminated at the entry into force of the FTA.

The EU is a strong **agricultural exporter** into the Korean market with major exports in pork (€ 240 million), whisk(e)y (€ 176 million) and dairy products (€ 99 million). Today only 2% of EU agricultural exports enter Korea duty free. The Korean tariffs on these goods will be eliminated thanks to the FTA and **EU agricultural exporters would save € 380 million** annually. Duties on wine, for instance, will be eliminated at day one. EU's whisk(e)y exports to Korea will be duty free at year 3. Since Korean agricultural tariffs are very high, the figure on duty savings significantly underestimates the benefits, as trade in the agricultural sector is expected to expand significantly once the FTA is in force.

## 2. Improved market access for EU car manufacturers

EU car manufacturers already present in the Korean market as well as those not yet established in Korea will gain from a combination of **elimination of Korean duties and nontariff barriers (NTBs)**. The 8% tariff on EU cars exported to Korea will be removed, which means that for every **car** worth € 25,000 exported to Korea, **€2,000** in duties would be saved. Of even greater significance is the acceptance by Korea of an ambitious NTB package under which Korea accepts equivalence of international or EU standards for all its significant technical regulations. This implies that an EU manufacturer will be able to sell in Korea cars that have been produced in accordance with EU specifications without being subject to additional testing or homologation.

The FTA includes a provision stipulating that there will be **no new unjustified barriers** in the automotive sector erected in the future and establishes regulatory cooperation through a working group. In addition, should such barriers arise, the FTA envisages a special accelerated **dispute settlement mechanism**, which would ensure compliance with the rules negotiated for the car sector. The period foreseen for an arbitration panel ruling will be reduced from 120 under the standard procedures to 75 days. To illustrate what the technical rules of the FTA mean in practice:

- There will be no need to conduct specific expensive tests to show compliance with a wide range of safety standards (e.g. resistance to crash or impact, effectiveness of braking) as the tests conducted in the EU to show compliance with EU standards will be recognised by Korea.
- There will be **no need to comply with specific Korean standards**, for instance, on noise or technical specifications on many car devices and features, from lamps to seats or steering wheels.
- Korea will accept **equivalence of EU standards on On Board Diagnostics (OBD)** for petrol cars once the Euro-6 norm is adopted as well as derogations for EU cars from Korean emission requirements and, pending the entry into force of the Euro-6 norm from OBD requirements.
- The FTA will not only reduce costs and provide new opportunities to expand sales, but also would prevent the situation, in which **some EU car brands currently present in Korea would have to withdraw from the Korean market**, since without the derogations negotiated under the FTA, they would not be able to meet the Korean OBD and emission requirements. Additionally, without the FTA, entry into the Korean market in the future for those EU brands that are not yet present in Korea would be very difficult.

## 3. Tackling non-tariff barriers in electronics, pharmaceutical and medical devices sectors

Currently, EU exporters of consumer electronics and household appliances, from television sets to computers or microwave ovens, mobile phones or telecom equipment, are obliged to **duplicate cumbersome and expensive testing and certification procedures** in order to sell in Korea. Under the FTA, Korea would generally recognise European certificates and test results. Therefore **no duplicative tests or certification will be required**.

The EU exporters of pharmaceuticals and medical devices will benefit from strengthened **transparency and predictability of Korea's pricing decisions** once the FTA enters into force. As in many EU Member States, Korean health authorities set the prices at which drugs are reimbursed. However, there are concerns regarding the lack of transparency of the process under which prices are set. The FTA would address this long-standing concern by introducing detailed **binding rules on transparency regarding decisions on reimbursement** and by stipulating the possibility to have such **pricing decisions reviewed by a court**. The criteria on which the decisions on reimbursement and pricing are based shall be objective and clear. Finally, the FTA provides for regulatory co-operation through a working group.

#### **4. Securing horizontal commitments on transparency**

Lack of transparency of the regulatory environment has often been a concern expressed by European firms doing business in Korea. It is therefore of great significance that this FTA includes strong transparency commitments that apply to all regulations having an impact on matters covered by the FTA. In particular, the horizontal transparency provisions provide for:

- Commitments to **allow interested persons to comment** on proposed new regulatory measures.
- The establishment of **enquiry or contact points** to respond to questions arising from the application of regulations or to seek to resolve problems arising from such regulations.
- **Due process requirements** as regards administrative proceedings, including as regards the review or appeal of administrative actions in areas covered by the FTA.

#### **5. Protection of intellectual property rights**

High level of protection and enforcement of intellectual property rights (IPR) is crucial to European competitiveness. A comprehensive chapter covering inter alia provisions on **copyright, designs, enforcement and geographical indications (GIs)** has been included in the EU-Korea FTA. On **copyright**, for instance, the agreement will facilitate the process of getting **adequate remuneration for EU right holders** for the use in Korea of their music or other artistic works. On enforcement, the agreement includes state of the art provisions that go significantly beyond the provisions of the TRIPs Agreement.

Korean consumers are eager for EU agricultural quality products, notably those protected by EU GIs, such as EU wines, spirits, cheeses or hams have a very good reputation in Korea. The FTA will offer a **high level of protection** for commercially important European GIs and therefore prevent their misuse in the Korean market. To name a few examples, the FTA will protect:

- *Champagne, Scotch or Irish whisk(e)y, Grappa, Ouzo, Polska Wódka*
- *Prosciutto di Parma, Szegedi szalámi or Jambon de Bayonne*
- *Manchego or Parmigiano Reggiano cheese*
- *Vinho Verde or Tokaji wines as well as those from the Bordeaux and Rioja and many other regions like the Murfatlar vineyard*
- *Bayerisches Bier or České pivo*

## 6. Enhanced access to government procurement

The Korea-EU FTA would offer the **opportunity to expand procurement opportunities to public works concessions and "Built-Operate-Transfer" (BOT) contracts** not covered by the WTO Government Procurement Agreement commitments. Such contracts are of **significant commercial interest to European suppliers**, who are recognised global leaders in this area. Guaranteeing the practical and legal accessibility of such tenders to European suppliers would thus secure substantial new tendering opportunities.

## 7. Strong competition rules

The agreement **prohibits and sanctions** certain practices and transactions involving goods and services, which distort competition and trade between the parties. This implies that **anticompetitive practices** such as cartels, abusive behaviour by companies with a dominant market position and anticompetitive mergers, **will not be tolerated by the EU and Korea and be subject to effective enforcement action**, as they lead to consumer harm and higher prices.

The Parties also agreed to remedy or remove distortions of competition caused by subsidies in so far as they affect international trade. The EU-Korea FTA contains **prohibition of certain types of subsidies**, which are considered to be particularly distortive.

According to the **transparency provisions** included in the Agreement, the Parties have to report annually the total amount, types and the sectoral distribution of subsidies. Moreover, parties are obliged to provide further information on subsidy schemes or individual subsidies on request. The rules on subsidies apply to goods (with the exception of agriculture and fisheries) and might be extended to services in the future. To be noted that the issue of subsidies in certain industrial sectors, such as shipbuilding, has been a matter of concern for EU industry.

## 8. Improved market access for EU's services suppliers

The FTA will open several billions worth of new opportunities for EU companies in the **services** sectors. The FTA would not only offer commitments on services on a par with those offered by Korea in the draft FTA with the US, but also go beyond those in sectors of specific EU interest. In practical terms, the FTA would, inter alia:

- allow EU **satellite broadcasters** (telephone and TV) to operate directly cross-border into Korea, thus avoiding the obligation to liaise with a Korean operator.
- allow 100% indirect ownership in the **Korean telecommunication sector, thus ensuring easier operation for EU companies.**
- secure full market access for **EU's shipping firms** and the right of establishment in Korea, as well as non-discriminatory treatment in the use of port services and infrastructure.
- provide substantial access to Korean market to all **EU financial firms**, which will, in particular, be able to freely transfer data from their branches and affiliates to their headquarters, satisfying a long-standing industry request.
- enable access for EU providers of international **express delivery** services to the Korean market.
- allow **European lawyers** to use their home titles such as *Solicitor*, *Avocat*, or *Rechtsanwalt*, to open offices in Korea to advise foreign investors or Korean clients on non-Korean law. Law firms will also be able to form partnerships with Korean firms and recruit Korean lawyers to provide "multi-jurisdictional" services.

## 9. Commitment to sustainable development

The EU-Korea FTA establishes a **framework for cooperation on trade and sustainable development**. It includes **firm commitments** by both sides to **labour and environmental standards**. The agreement also sets up structures to implement and monitor the commitments between the parties through civil society involvement.

On **labour**, the FTA contains a shared commitment to the ILO core labour standards and to the ILO decent work agenda, including a commitment to ratify and effectively implement all conventions identified as up to date by the ILO (i.e. going beyond those conventions relating to the core labour standards). On **environment**, there is a commitment to effectively implement all multilateral environmental agreements to which they are party. The Agreement incorporates a confirmation of the parties' right to regulate, while aiming at a **high level of protection in the fields of environment and labour**, and a commitment to refrain from waiving or derogating from such standards in a manner that affects trade or investment between the parties. The FTA includes strong **monitoring mechanisms**, building on public scrutiny through civil society involvement by both Korea and the EU, and **mechanisms** for settling differences through an independent panel of experts. In addition, the EU-Korea FTA ensures fast tariff dismantlement for **environmentally friendly goods** in order to promote sustainable development through green technologies.

Within 3 years from its entry into force almost 100% of such goods will have duty free access to Korea's and the EU's markets. The FTA includes also far reaching commitments going beyond WTO General Agreement on Trade in Services (GATS) in the environmental sector and secures the liberalisation of access to the respective **environmental services markets**.

## 10. Effective and fast dispute settlement

The EU-Korea FTA includes efficient **dispute settlement** mechanism to ensure the enforceability of commitments taken as well a mediation mechanism to tackle non tariff barriers. The procedures envisaged under the dispute settlement chapter foresee arbitration ruling within 120 days, i.e. much faster than in the WTO.

### Next steps

The European Commission expects to sign the agreement with its Korean partners at the EU-Korea Summit on 6 October in Brussels. The Council has also agreed that the date of provisional application shall be 1 July 2011, provided that the European Parliament has given its consent to the FTA and that the Regulation of the European Parliament and of the Council implementing the bilateral safeguard clause of the EU-Korea FTA is in force.

### For further information

On EU Trade with Korea

<http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/korea/>