



EU-SOUTH KOREA FREE TRADE AGREEMENT
10 KEY BENEFITS FOR THE EUROPEAN UNION
JUNE 2011

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

The EU-South Korea Free Trade Agreement (FTA) will **relieve EU exporters of industrial and agricultural goods to South Korea from paying tariffs**. Once the agreement is up and running, exporters will save **€ 1.6 billion annually** from not paying import duties. Even on day 1, exporters will already save €850 million.

For instance, EU **machinery** exporters will save **€450 million duties** each year, and **chemical** exporters will be relieved of over **€150 million duties**. The EU **textiles and clothing** sector will see most of the **€60 million duties** eliminated on day one of the FTA.

The EU has a strong **agricultural** presence in the Korean market with major exports in pork (worth €240 million), whisky (€176 million) and dairy products (€99 million). Today only 2% of EU agricultural exports enter South Korea duty free and the agricultural import tariffs are very high. The Korean tariffs on these goods will be eliminated thanks to the FTA. Import duties on wine, for instance, will be eliminated on day one and those on whisky at year 3. **EU agricultural exporters will save at least €380 million annually**.

Overall, this is the most ambitious tariff elimination achieved in any of the EU's bilateral trade agreements.

In fact the gains from duty savings will be even higher as trade between the EU and South Korea is expected to expand due to the FTA. According to a study¹, the FTA will create new trade in goods and services worth **€19.1 billion for the EU** compared to €12.8 billion for South Korea. The figure in fact underestimates the benefits for the EU since it does not consider the gains due to the elimination of non-tariff barriers (NTBs). According to a more recent study from May 2010² the FTA is expected to **more than double** EU-South Korea bilateral trade in the next 20 years compared to a scenario without the FTA.

2. Improved market access for EU's services suppliers

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

- allow EU **satellite broadcasters** to operate directly cross-border into South Korea, thus avoiding the obligation to liaise with a Korean operator.

¹ "Economic Impact of a Potential Free Trade Agreement between the EU and South Korea" by Copenhagen Economics and Prof. J.F Francois:
http://trade.ec.europa.eu/doclib/docs/2007/march/tradoc_134017.pdf

² "The Economic Impact of the Free Trade Agreement (FTA) between the European Union and Korea" by consortium CEPII/ATLASS:
http://trade.ec.europa.eu/doclib/docs/2010/may/tradoc_146174.pdf

- 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 South 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 South 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.

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 South Korea. Under the FTA, South Korea will 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 South 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 will 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. **Improved market access for EU car manufacturers**

EU car manufacturers will gain from a combination of **elimination of South Korean duties and non-tariff barriers (NTBs).** The 8% tariff on EU cars exported to South Korea will be removed, which means that for every **car** worth € 25,000 exported to South Korea, **€2,000** in duties will be saved. Of even greater significance is the ambitious NTB package under which South 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 cars in South Korea that have been produced in accordance with EU specifications without being subject to additional testing or homologation.

The FTA stipulates that there will be **no new unjustified barriers** in the automotive sector erected in the future and establishes regulatory cooperation through a working group. Should such barriers arise, the FTA envisages a special accelerated **dispute settlement mechanism**, which will 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.

In practice, the technical rules of the FTA mean that:

- 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 South 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.
- South 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 will prevent the situation in which **some EU car brands currently present in South Korea would have to withdraw from the Korean market**. Without the derogations negotiated under the FTA, some car brands would not be able to meet the Korean OBD and emission requirements. Additionally, future entry into the Korean market for those EU brands that are not yet present in South Korea would be very difficult without the FTA.

5. Enhanced access to government procurement

The EU-South Korea FTA will 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 will thus secure substantial new tendering opportunities.

6. Protection of intellectual property rights

A high level of protection and enforcement of intellectual property rights (IPR) is crucial to European competitiveness. A comprehensive chapter covering provisions on **copyright, designs, enforcement and geographical indications (GIs)** has been included in the EU-South Korea FTA. On **copyright**, for instance, the agreement will facilitate the process of getting **adequate remuneration for EU right holders** for the use in South 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 which have a very good reputation in South 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 and 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 and České pivo*

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 **anti-competitive practices** such as cartels, abusive behaviour by companies with a dominant market position and anticompetitive mergers, **will not be tolerated by the EU and South Korea and be subject to effective enforcement action**, as they lead to consumer harm and higher prices.

The FTA will also remedy or remove distortions of competition caused by subsidies in so far as they affect international trade. The EU-South 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 to the FTA will report annually on the total amount, types and the sectoral distribution of subsidies. Moreover, there is an obligation 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. The issue of subsidies in certain industrial sectors, such as shipbuilding, has been a matter of concern for EU industry.

8. Securing horizontal commitments on transparency

The lack of transparency of the regulatory environment has often been a concern expressed by European firms doing business in South Korea. It is therefore significant that this FTA includes strong transparency commitments that apply to all regulations having an impact on matters covered by the FTA. 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.

9. Commitment to sustainable development

The EU-South 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 South Korea and the EU, and **mechanisms** for settling differences through an independent panel of experts.

In addition, the EU-South 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 South 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-South 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.