



KORUS FTA vs. Korea-EU FTA: Why the Differences?

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The Korea-U.S. Free Trade Agreement (KORUS FTA) and the Korea-European Union Free Trade Agreement (Korea-EU FTA) are the major FTAs for the Korean economy. Although both FTAs share many similarities, there exist various differences between these FTAs. The objective of this paper is to identify the differences in the KORUS and Korea-EU FTAs in the areas of access to the Korean market in agriculture, fisheries, manufacturing, and services. This paper also compares the treatment of the Kaesong industrial complex (KIC) in both FTAs. The main finding of this paper is that, although the United States and the EU treat services and the KIC similarly, the United States was able to negotiate more advantageous terms in animal and vegetable products and transportation. Meanwhile the EU received more favorable treatment in the areas of processed foodstuffs, fishery products, chemicals, machinery, and electronics. This paper provides an explanation of these differences and derives implications for U.S. exporters from the delay of the implementation of the KORUS FTA.

Introduction

The KORUS FTA and the Korea-EU FTA epitomize the change in the trade policy of Korea. The Korean economy has benefited from the multilateral trading system and has been a longtime supporter of multilateralism. As regionalism emerged as a new axis of the global trade system in the 1990s, however, Korea began to engage in establishing FTAs. Since the inauguration of the Korea-Chile FTA in April 2004, Korean FTAs with Singapore, the European Free Trade Association (EFTA), and the Association of Southeast Asian Nations (ASEAN) have entered into force. But the KORUS FTA and the Korea-EU FTA are the FTAs that Korea concluded with major trade partners with advanced economies.

The United States is the fourth-largest importing and the third-largest exporting partner for Korea. U.S. exports to

Korea currently face an average tariff of 12.2 percent—49 percent for agricultural products and 6.6 percent for nonagricultural products. Nearly 95 percent of bilateral trade in consumer and industrial products will become duty-free within three years of the implementation of the KORUS FTA. Most remaining tariffs will be eliminated within 10 years. **Only for some highly sensitive products** will the tariff phase-out last for up to 20 years. Agricultural products, by value almost two-thirds of Korea's imports from the United States, will become duty-free immediately after the FTA's entry into force.¹

The Korea-EU FTA is the world's biggest free trade deal since 1994. In total, the 27 EU countries are the third-largest importing and the second-largest exporting partners of Korea. Like the KORUS FTA, the Korea-EU FTA is very comprehensive. It will reduce and eliminate tariffs as well as other trade barriers in agriculture, manufacturing, and services. It also covers trade-related activities such as government procurement, intellectual rights, labor rights, and environmental issues. Once enacted, 98.7 percent of EU-Korea commerce will be tariff-free within five years.²

The KORUS FTA and the Korea-EU FTA have similarities and differences. Even though both are comprehensive agreements and in many aspects are similar, some differences exist. For example, the percentage of Korean tariffs that will be eliminated in three years after the enforcement is 92 percent in the Korea-EU FTA while it is 94.5 percent in the KORUS FTA. The objective of this paper is to identify the differences in the KORUS and Korea-EU FTAs from the perspective of Korean market access and to provide an explanation of the differences of these two from the perspective of trade structure and bargaining power of each party exercised in the FTA negotiations.

For this purpose, the next section compares the Korean tariff schedules in two FTAs in the areas of agriculture, fisheries, and manufacturing and also addresses how Korea agreed to further

Dr. Song's paper is the forty third in KEI's Academic Paper Series. As part of this program, KEI commissions and distributes 10 papers per year on original subjects of current interest to over 3,000 Korea watchers, government officials, think tank experts, and scholars around the United States and the world. A public discussion at KEI with the author generally follows in conjunction with distribution. At the end of the year, these papers are compiled and published in *On Korea*. Volume 4 of *On Korea* was published in March 2011. For more information, please visit www.keia.org/paper_series.php.

liberalize its services markets. The treatments of the KIC in both agreements are compared.³ The main finding of this paper is that the United States has more favorable negotiations in animal and vegetable products and in the transportation sector, while the EU has more favorable results in processed food, fisheries, chemicals and allied industries, and in the machinery and electrical sectors. This paper also derives implications for U.S. exporters from the delay of the implementation of the KORUS FTA.

KORUS FTA Compared with the Korea-EU FTA

Korea's tariff schedules in both FTAs are described on the basis of the Harmonized System of Republic of Korea (HSK). The HSK is the Korean version of the Harmonized Commodity Description and Coding System (HS) of tariff nomenclature, which is an internationally standardized system of names and numbers for classifying traded products developed and maintained by the World Customs Organization. The HS sets forth all international nomenclature

through a six-digit-level system. The HSK adds subdivisions, and it assigns four more digits to the HS, for a total of 10 at the tariff-rate line.

The HS is organized into 21 sections and 96 chapters.⁴ The system begins by assigning goods to categories of crude and natural products and from there proceeds to categories with increasing complexity. For the purpose of this paper, the 21 sections are regrouped into 16 categories, as shown in **Table 1**. The agriculture sector consists of the categories of animal and animal products, vegetable products, and foodstuffs. The fishery sector is represented by the category of fish and crustaceans. Finally, the manufacturing sector is subdivided into 12 categories of mineral products; chemical and allied industries; plastic and rubber; raw hides, skins, leather, and fur; wood and wood products; textiles; footwear and headgear; stone and glass; metals; machinery and electrical goods; transportation; and miscellaneous.

The fourth column of Table 1 reports the percentage of items in each category that Korea promises to import duty-free immedi-

Table 1: Korea's Proposed Tariff Reductions in the KORUS FTA and the Korea-EU FTA

HS code¹	Descriptions	Percentage of items that differ when KORUS FTA and Korea-EU FTA are compared	Percentage of items that Korea will import duty-free after FTAs enter into force
01, 02, 04, 05	Animal and animal products	24.0	27.7
03	Fish and crustaceans	50.5	5.1
06–15	Vegetable products	21.2	36.3
16–24	Foodstuffs	25.1	18.5
25–27	Mineral products	6.4	91.6
28–38	Chemicals and allied industries	7.7	88.0
39–40	Plastics and rubber	20.3	75.7
41–43	Raw hides, skins, leather, and furs	12.3	87.3
44–49	Wood and wood products	17.7	61.1
50–63	Textiles	2.5	97.5
64–67	Footwear and headgear	1.9	98.1
68–71	Stone and glass	17.0	81.5
72–83	Metals	8.3	90.4
84–85	Machinery and electrical	11.9	83.9
86–89	Transportation	23.4	75.7
90–97	Miscellaneous	10.8	83.1

Source: Author calculations that are based on Korean tariff schedules in both FTAs.

1 HS code = Harmonized Commodity Description and Coding System.

ately after the FTAs enter into force. This percentage represents the sensitivity of products as conceived by the Korean government. The fishery sector has the lowest immediate tariff reduction level, followed by the agriculture sector. This reaffirms the sensitivity of the fishery and agriculture sectors in Korea. Wood and wood products are the most sensitive among categories in the manufacturing sector.

The third column of Table 1 shows the percentage of items in each category that would be subject to different tariff reduction schedules set up by Korea in the KORUS FTA and the Korea-EU FTA. The Korean tariff liberalization schedules are most different in the fishery sector. The agriculture sector also shows many differences in Korea's tariff reduction schedules for each FTA. Combining the percentages in the third and fourth columns of Table 1, we are able to identify which products are sensitive in Korea and how they were negotiated in the KORUS FTA and the Korea-EU FTA. The fishery and agriculture sectors are very sensitive in Korea, and that fact led to a high number of different outcomes in both FTAs. In the manufacturing sector, transportation, plastics and rubber, and wood and wood products were products that were negotiated with high sensitivity. The least sensitive products include textiles, footwear and headgear, mineral products, and metals.

Table 1 provides a broad picture of how products were negotiated in the KORUS and Korea-EU FTAs. Now we will take each sector separately and identify differences in the FTAs. Then we will provide an analysis of whether the EU achieved a more favorable outcome than the United States in each sector. In doing so, we devise a number that we call the "total score." This number is the result of summing up the one-year difference for each item⁵ in each of the 16 categories found in Korea's tariff schedule in both the KORUS and Korea-EU FTAs. The total score is a way to represent how the sensitivity of Korean markets was considered in the Korea-EU FTA. A negative total score means that the EU had a favorable outcome in the sector. Other than tariffs, agricultural safeguard measures (ASG) and tariff rate quotas (TRQ) were also utilized in both FTA negotiations to protect the Korean market, especially in the agriculture and fishery sectors. To calculate the total score, we need to assign a number for each item that is covered by ASG, TRQ, or both. The number 1 is assigned if the EU had a less favorable result than the United States and a minus 1 otherwise.

Agriculture Sector

Agriculture has been the most sensitive sector in FTA negotiations in Korea. **Table 2** provides a list of the most sensitive items in this sector and compares the negotiation results of the KORUS FTA with those of the Korea-EU FTA. The comparison shows that most sensitive items were treated similarly in both FTAs. However, the United States receives more favorable treatment in items such as maize and some categories of barley, beans, and pork.

Since most sensitive items in the agriculture sector are covered by ASG and TRQ, we need to compare how some specific items are protected by these measures in both FTAs and decide whether the EU achieves a favorable outcome. In doing so, we are able to assign a number to those items in order to calculate the total score that represents an assessment of the Korea-EU FTA negotiations.

Animal and animal products. This is a category of products that is highly protected in Korea. Most Korean tariff rates on goods in this category are more than 20 percent and, in some cases, reach 243 percent (for natural honey). Meat and dairy products are the main items in this category. Both the KORUS FTA and the Korea-EU FTA took similar approaches to provide liberalization schedules of the Korean market. For the case of meat products, ASG combined with tariffs supplement the protection of Korean markets. Meanwhile TRQ were widely utilized for dairy products. In this category, Korea provided more favorable market access to the United States than the EU.

Beef. Korea's duty on beef is currently 40 percent.⁶ This rate will be phased out over 15 years for the United States and over 16 years for the EU. In addition, ASG will protect the Korean beef market from U.S. imports for 15 years and from EU imports for 16 years. However, the trigger level for the safeguard measure is more favorable to the United States. The first-year trigger point is, for example, 279,000 metric tons for the United States while it is 9,900 metric tons for the EU. The difference in trigger points reflects the beef trade volumes between Korea and United States and between Korea and the EU. In 2009, for instance, Korean beef imports from the United States were \$273 million while beef from EU amounted to less than \$3,000.

Pork. Pork, like beef, is also a sensitive item in Korea. Korea's duties on pork are 22.5 percent for fresh and chilled pork and 25 percent for frozen pork. The Korean liberalization schedule for pork is also more favorable to the United States. For fresh and chilled pork, 22.5 percent of the Korean duty will be phased out over 10 years for U.S. pork exports and over 11 years for EU pork exports.⁷ These phase-out periods will be supplemented by ASG in both the KORUS and the Korea-EU FTAs. However, the trigger level is much more favorable to the United States. For example, the first-year trigger level for fresh pork imports is 8,250 metric tons for the United States compared with 163 metric tons for the EU. Also, although the 25 percent duty on the belly part of frozen pork from the EU will be phased out over 11 years, the duty on U.S. exports will be completely eliminated beginning on 1 January 2014.⁸ For fresh pork, the favorable trigger points in ASG for U.S. exports reflect the fact that U.S. exports of pork to Korea total more than \$19 million compared with EU exports of less than \$8 million in 2009. In the case of frozen pork, however, it seems that the lesser amount of U.S. exports led to a more favorable outcome in Korea.

Milk and cream powder products. These dairy products are highly protected in Korea.⁹ The current duty rates are either 89 percent or 176 percent, depending on product subclassification. Products in this category are subject to the TRQ, which

Table 2: Comparison of Sensitive Products in Korea’s Agriculture Tariff Reduction Schedules

Product		KORUS FTA	Korea-EU FTA
Rice		Excluded	Excluded
Barley	Malt (269%) and malting barley (513%)	15 year + ASG + TRQ	16 year + ASG + TRQ
	Unhulled (324%) and naked (299.7%)	15 year + ASG + TRQ	Tariff remains
Maize	Popcorn (630%)	7 year + ASG	14 year
	For feeding (328%)	Immediate	6 year
Beans (urd, adzuki, mung) (420.8%, 607.5%)		15 year + ASG + TRQ	16 years
Beef (40%)		15 year + ASG	16 year + ASG
Pork	Fresh or chilled (22.5%)	10 year + ASG	11 year + ASG
	Frozen (25%)	2016.1.1	11 year
Milk products	Milk powder (176%) and evaporated milk and buttermilk (89%)	Tariff remains + TRQ	Tariff remains + TRQ
	Food whey (49.5%)	10 year +TRQ	11 year + TRQ
Cheese	Cheddar (36%)	10 year + TRQ	10 year + TRQ
	Others (36%)	15 year + TRQ	16 year + TRQ
Butter (89%)		10 year + TRQ	11 year + TRQ
Natural honey (243%)		Tariff remains + TRQ	Tariff remains + TRQ
Orange (50%)		Seasonal tariff + TRQ	Seasonal tariff + TRQ
Grape (46%)		Seasonal tariff	Seasonal tariff
Pepper	Fresh, chilled, or dried (270%)	15 year + ASG	Tariff remains
	Frozen (27%)	15 year	15 year
Garlic	Fresh, chilled, or dried (360%)	15 year + ASG	Tariff remains
	Frozen (27%)	15 year	16 year
Onion	Fresh, chilled, or dried (136%)	15 year + ASG	Tariff remains
	Frozen (27%)	12 year	13 year

Source: Korean tariff schedules in both FTAs.

Note: ASG = agricultural safeguard measures; TRQ = tariff rate quotas.

is favorable to the United States. The aggregate 5,000 metric tons of goods originating in the United States in this category will be permitted to enter the Korean market free of customs duty beginning the first year when the KORUS FTA enters into force. The in-quota quantity increases by approximately 3 percent per year and reaches 5,628 metric tons in year five. After year five, it increases by 3 percent per year, compounded annually. This implies that, eventually, products in this category will enter into the Korean market free of duty.

In comparison, the aggregate 1,000 metric tons of goods in this category originating from the EU will enter the Korean market free of duty. This in-quota quantity will steadily in-

crease up to 1,512 metric tons in year 16. After that, in contrast with the U.S. case, it remains the same as the quantity in year 16. Duties on goods entered in aggregate quantities in excess of the quantities will remain at base rates in both FTAs. U.S. exports in this category were \$0.7 and \$0.9 million in 2008 and 2009, respectively. Meanwhile the corresponding values for EU exports were \$8.5 million in 2008 and \$4.4 million in 2009. These figures show that U.S. milk and cream powder products were negotiated more favorably than the same products supplied by the EU.

Butter. More butter has been exported to Korea from the EU than from the United States.¹⁰ In 2009, Korea imported \$2.3 million in butter products from the EU, whereas it imported \$0.7

million of butter products from the United States. This fact is reflected the slightly more favorable in-quota quantity for the EU in TRQ. An aggregate 350 metric tons of originating goods from the EU in this category will be permitted to enter the Korean market duty-free from the first year. The in-quota quantity for the EU will increase gradually, and after 10 years every good in this category will be duty-free.

In the case of the United States, the in-quantity for the first year is 200 metric tons, and it will increase by approximately 3 percent annually. After nine years, an unlimited quantity is eligible for duty-free import. The Korean duty of 89 percent on goods entered in excess of the quantities will be phased out gradually in both FTAs. It will be completely eliminated over 11 years in the case of the Korea-EU FTA and from 1 January of year 10 in the case of the KORUS FTA. Given the import asymmetry from the United States and the EU, the Korean liberalization schedules seem more favorable to the United States.

Cheese products. Cheese will also be subject to TRQ in both FTAs.¹¹ In the first year of KORUS FTA enforcement, U.S. cheese products will be imported duty-free up to 7,000 metric tons. This in-quota quantity increases annually to 10,280 metric tons in year 14, and after that there will be no limit in in-quota quantity. Meanwhile, cheddar cheese from the United States will no longer be subject to a TRQ beginning in year 10. Cheese products from the EU also will receive similar treatment, but with less in-quota quantity and a one-year-longer extension in limitation of in-quota quantity, including the case of cheddar cheese. The in-quota quantity of EU cheese products will be 4,560 metric tons in the first year and 6,696 metric tons as far out as the 15th year. Cheese goods entered in excess of the in-quota quantity will be duty-free from 1 January of year 15 in the case of the KORUS FTA and after 16 years in the case of the EU. Thirty-six percent of Korea's duty on these products will be eliminated gradually over 15 years in the case of the KORUS FTA and 16 years in the case of the Korea-EU FTA. Even though the Korean import value of the products from the United States is higher than that from the EU, it is less than twice as large.¹² Therefore, it is fair to say that U.S. cheese products received more favorable treatment than EU products in the FTA negotiations.

Natural honey. Natural honey is a product that is highly protected in Korea.¹³ Even though its current tariff rate is 243 percent in Korea, U.S. exports of natural honey totaled more than \$1.2 million in 2009, while the corresponding value is less than \$100,000 for EU exports. The United States had a more favorable FTA negotiation in the area of natural honey than the EU. The first year in-quota quantity of the product will be 200 metric tons for the United States and 50 metric tons for the EU. Also, under the KORUS FTA the in-quota quantity reaches 225 metric ton in year five and after that increases by 3 percent per year, compounded annually. The in-quota quantity for the EU will increase annually up to 75 metric tons in year 16, and after that it will remain the same

as the quantity of year 16. The Korean duty on natural honey in excess of the in-quota quantities will remain at base rates in both FTAs.

Vegetable products. This category consists of products that are considered in Korea as containing the most sensitive items. Products in this category include edible vegetables, fruits, nuts, coffee, tea, cereals, and flours. Some Korean tariffs imposed on these products are amazingly high. For example, Korea imposes an 800.3 percent duty on some categories of cereals and a 754.3 percent duty on red ginseng. Most Korean tariffs imposed on products in this category are higher than 25 percent and even higher than 100 percent in many cases. Several sensitive items are subject to TRQ and ASG, but there is a wide difference in terms of coverage of the KORUS FTA and the Korea-EU FTA. For example, oranges, malt, and malting barley are the only items that are subject to TRQ in the Korea-EU FTA. The KORUS FTA, however, includes fresh potatoes, barley, maize starch, soybean, ginseng, and fodder as additional items subject to TRQ. In the area of ASG, the KORUS FTA includes a much wider range of items than the Korea-EU FTA.

The wide differences in the treatment of TRQ and ASG in the FTAs are the result of trade asymmetry of U.S. exports and EU exports to the Korean market in certain categories. The United States exports approximately 10 times more vegetable products than the EU. In 2009, for example, the value of U.S. vegetable products exported to Korea was more than \$2,524 million, while the value of similar products exported by the EU to Korea was \$272 million. Therefore, more U.S. vegetable products are subject to TRQ and ASG than EU products. In the case of oranges, the in-quota quantity in the first year is 2,500 metric tons in the KORUS FTA compared with merely 20 metric tons in the Korea-EU FTA. The quantity will reach 2,814 metric tons in year five, and after that it will increase by 3 percent per year, compounded annually, in the KORUS FTA. Meanwhile, the in-quota quantity will be 60 metric tons in year 12, and after that it will remain the same as the quantity of year 12 in the Korea-EU FTA. This difference also reflects the fact that recent annual orange exports of the United States and the EU to Korea were \$73 million and \$0.4 million, respectively. Other than that, most products in this category, including fresh grapes and apples, show similar Korean liberalization schedules in both FTAs.

Foodstuffs. The foodstuffs category consists of prepared meat, fish, vegetables, fruits, nuts, cereals, sugar, cocoa, beverages, spirits, vinegar, sugar, tobaccos. Korea has retained tariffs exceeding 20 percent on prepared foods, beverages, spirits, vinegar, and tobacco products. Around 25 percent of foodstuff items do not have similar Korean tariff reduction schedules in both FTAs. Except for some preserved fish and crustacean products, the United States will face a relatively slow tariff reduction schedule in Korea. For example, Korean tariffs on maple syrup (HSK 1702.20.2000) and noodle (HSK 1902.19.1000) will be eliminated immediately after the Korea-EU FTA enters into force, but elimination will take more than five years in the KORUS FTA. In the case of beverages of fruit juice (HSK.

2202.90.2000), the Korean tariff will be eliminated immediately under the Korea-EU FTA, but over 10 years in the KORUS FTA. Meanwhile the United States received more favorable treatment than the EU in the products of preserved or prepared mackerel, anchovies, and other fish.

Overall assessment of the agriculture sector. Agriculture is the sector liberalizing the Korean market vis-à-vis the United States and the EU, and agricultural products show many differences under these FTAs. Overall, the EU seems to have achieved less in immediately opening the Korean agricultural market. The analysis of Korea's tariff schedules in the KORUS FTA and the Korea-EU FTA shows that the negotiating efforts of the EU were concentrated in the area of foodstuffs.

Table 3 shows that the Korean tariff elimination schedule for EU agricultural exports is less favorable than the schedule for U.S. exports. The percentage of immediate Korean tariff elimination is much lower for the EU than the United States by value, even though the reverse is true by item. Even after three years, the duty elimination schedule for EU agricultural exports is far behind that for the U.S. agricultural exports.

More detailed analysis, however, shows that there exist wide differences for each sector in opening the Korean market; see *Table 4*. The total scores are 38 and 4 in animal and animal products and in vegetable products, respectively. These results lead us to conclude that the EU had a less favorable outcome in both categories, especially in the category of animal and animal products. However, EU negotiators gained more in opening the Korean market in the area of foodstuffs. The total score in this area is -253, which shows a strong tendency to favor the EU exports more than the U.S. exports.

Animal and animal products are products for which the EU reached favorable tariff reduction outcomes in the Korean market in the Korea-EU FTA negotiations. EU exports of live animals such as ducks (HSK 0105.19.000), horses (HSK 0101.10.0000), and rabbits and hares (HSK 0106.19.2000) are subject to immediate tariff elimination in the Korean market after the Korea-EU FTA goes into force. Meanwhile meat products are the area in which the EU had less favorable negotiation outcomes. The tariff on the belly part of frozen pork (HSK 0203.29.1000), for example, will be phased out over 11 years for EU exports but from 1 January 2016 for U.S. exports. Given the small value of EU live animal exports to Korea and the huge

Table 3: Comparison of Overall Agriculture Tariff Reduction Schedules in the KORUS FTA and the Korea-EU FTA, percentage of reduction

Time frame	KORUS FTA		Korea-EU FTA	
	Item	Value	Item	Value
Immediate	38.1	55.2	42.1	19.5
Within 3 years	38.5	55.4	43.3	37.4
Within 5 years	59.2	67.0	62.5	65.3

Source: "The Detailed Explanation of Korea-EU FTA [in Korean]," Ministry of Foreign Affairs and Trade, Republic of Korea.

Table 4: Comparison of KORUS FTA and Korea-EU FTA in Agriculture

HS code ¹	Descriptions	Number of items favorable to United States	Number of items favorable to European Union	Total score ²
01, 02, 04, 05	Animals and animal products	50	11	38
06-15	Vegetable products	81	46	4
16-24	Foodstuffs	41	75	-253

Source: Calculated from Korean tariff schedules in both FTAs.

1 HS code = Harmonized Commodity Description and Coding System.

2 Total score is calculated by summing up the year difference for each item in each of the 16 categories found in the tariff schedules for Korea in both the KORUS FTA and the Korea-EU FTA. The negative total score means that the EU had a favorable outcome in the sector.

amount of EU exports of the belly part of frozen pork to Korea, these results seem more to represent the Korea-EU FTA negotiating position of the Korean government.¹⁴

Trade data also support the claim that the EU achieved a more favorable outcome in foodstuffs but a less favorable outcome in both animal and animal products and vegetable products. It is plausible to think that when two countries that have similar levels of exports to an importing third country negotiate tariff reduction schedules with the importing third country, the efforts of the negotiators of the exporting countries determine the outcome. This hypothesis and the fact that the exports of the United States and the EU to Korea are similar in both animal and animal products and foodstuffs, as shown in *Table 5*, lead to the conclusion that the EU negotiators put greater effort into opening the Korean market in foodstuffs and less effort into the area of animal and animal products. In the case of jams, jellies, and marmalades other than citrus fruit (HS 2007.99), the EU received more favorable treatment than the United States, even though it exports more of the product to Korea than the United States does.

Fishery Sector

The fishery sector was a highly sensitive one in both FTAs. Only 5 percent of items in this category are subject to

immediate duty-free Korean market access. When we compare Korean tariff reduction schedules of both FTAs to find out which country gained more favorable access to the Korean market, the analysis would be inconclusive, as shown in *Table 6*. By value, the immediate tariff reduction rate is higher in the Korea-EU FTA. In three years, however, U.S. products are expected to receive more favorable treatment in the Korean market. The situation again reverses in five years.

The calculated total score for this sector favors the EU. *Table 7* also shows that the sum of the number of tariff items that favor only the United States or the EU is more than 100, which is more than half of the fishery items in Korea's tariff schedule. Combining this result with the fact that more than half of the tariff items were negotiated differently in the KORUS FTA and the Korea-EU FTA, as shown in Table 1, we can conclude that the wide variety in Korean fishery tariff schedules in both FTAs is the result of the large number of different sensitive items in each FTA negotiation.

Table 8 shows the large asymmetry between U.S. and EU fishery exports: the EU exports fishery goods five times less than the United States. This implies that the commercial interests of the EU in the fishery sector are less strong than in the United States. From the perspective of Korea, this means that, overall, the Korean fishery market is less sensitive to imports from the EU than to imports from the United States. Therefore, Korean

Table 5: Comparison of Korea's Agricultural Imports from the United States and the European Union, 2007–09, average, in U.S. dollars

HS code ¹	Descriptions	United States	European Union
01, 02, 04, 05	Animals and animal products	561,337,591	458,369,253
06–15	Vegetable products	3,077,305,784	231,743,749
16–24	Foodstuffs	782,020,177	772,843,427

Source: United Nations Commodity Trade Statistics Database (UN Comtrade), access date: 12 April 2011.

1 HS code = Harmonized Commodity Description and Coding System.

Table 6: Comparison of Overall Fishery Tariff Reduction Schedules in the KORUS FTA and the Korea-EU FTA

Time frame	KORUS FTA		Korea-EU FTA	
	Item	Value	Item	Value
Immediate	14.2	1.5	12.3	6.8
Within 3 years	54.9	38.9	44.2	27.1
Within 5 years	62.5	64.8	67.2	78.0

Source: "The Detailed Explanation of Korea-EU FTA [in Korean]," Ministry of Foreign Affairs and Trade, Republic of Korea.

Table 7: Comparison of KORUS FTA and Korea-EU FTA in Fishery

HS code ¹	Descriptions	Number of items favorable to United States	Number of items favorable to European Union	Total score ²
03	Fish and crustaceans	55	53	-55

Source: Calculated from Korean tariff schedules in both FTAs.

1 HS code = Harmonized Commodity Description and Coding System.

2 Total score is calculated by summing up the year difference for each item in each of the 16 categories found in the tariff schedules for Korea in both the KORUS FTA and the Korea-EU FTA. The negative total score means that the EU had a favorable outcome in the sector.

negotiators might have more room to provide fishery tariff reduction schedules to EU counterparts with less worry about domestic resistance.

Manufacturing Sector

Even though the agriculture and fishery sectors are the most sensitive for Korea in both FTA negotiations, the dominant sector in Korean trade with the United States as well as the EU is manufacturing. This sector, however, is relatively less protected in Korea, and there are only a few sensitive items in manufacturing in both FTA negotiations. Among them, the most noticeable is automobiles. The United States and the EU have many interests in Korea's auto market, and, as a result, Korea agreed to reform its domestic system as well as lower its tariffs in this sector.

Automobiles. The automotive trade has been a major contentious issue in Korea's trade relations with the EU as well as with the United States, as South Korea has become a major producer and exporter of cars, especially smaller cars, and has attained expanding shares of the U.S. and European markets for passenger cars. Most of the changes in the new KORUS FTA of 2010 affect bilateral trade in autos and light trucks. Overall, FTA negotiations in this sector slightly favor the U.S. side rather than the EU side. This may reflect the stronger U.S. political pressures for better auto market access in Korea.

Tariff reductions. Both the first KORUS FTA and the revised KORUS FTA provide a tariff reduction schedule that

favors the United States by a little (**Table 9**). Compared with the six-year elimination schedule for the EU, for the United States the Korean tariff of 8 percent on U.S. passenger cars, including electric cars and plug-in hybrid cars, will be reduced to 4 percent immediately. But the 4 percent tariff will remain fixed until year five, when it is completely eliminated. Because the Korea-EU FTA is scheduled to go into provisional effect in July 2011, U.S. auto exporters will gain additional tariff advantage over European exporters the earlier the KORUS FTA enters into force.

U.S. exporters would have benefited more by the 2007 KORUS FTA, which would have eliminated the Korean tariff on passenger cars immediately. The new KORUS FTA slows down tariff liberalization in both Korea and the United States. The United States has slowed its own tariff schedule on Korean passenger car exports and provides duty-free access for Korean autos beginning in year five. The EU provides a similar tariff liberalization schedule on passenger cars to Korea: its 10 percent tariff will be phased out over four or six years, depending on engine size. For light trucks, the United States also has a more favorable schedule: Korea provides immediate elimination of its 10 percent tariff for the United States but not for several EU truck exports.

Korean auto taxation. Taxes levied by Korea on autos is another area that Korea agreed to reform in the KORUS FTA. In addition to tariff liberalization, the Korean government agreed to revamp its engine displacement taxation system in the KORUS FTA, so that larger vehicles will not have to pay higher taxes. When the FTA goes into force, the special consumption tax on vehicles

Table 8: Comparison of Korea's Fishery Imports from the United States and the European Union, 2007–09, average, in U.S. dollars

HS code ¹	Descriptions	United States	European Union
03	Fish and crustaceans	112,272,909	21,930,179

Source: United Nations Commodity Trade Statistics Database (UN Comtrade), access date: 12 April 2011.

1 HS code = Harmonized Commodity Description and Coding System.

Table 9: Comparison of KORUS FTA and Korea-EU FTA in Automobile Tariff Reductions

Type of vehicle	KORUS FTA	Korea-EU FTA
Passenger cars (HS 8703)	Reduce from 8% to 4% immediately and fully eliminate in year 5	Eliminate over 6 years
Electric cars; plug-in hybrids	Reduce from 8% to 4% immediately and fully eliminate in year 5	Eliminate over 6 years
Light trucks	Eliminate immediately	Eliminate immediately or over 4 or 6 years, depending on size of engine in light trucks

Source: Calculated from Korean tariff schedules in both FTAs.

with engines of more than 2,000 cubic centimeters (cc) will be taxed at 8 percent instead of the current 10 percent. The rate, which is the same as the vehicles with engines of more than 1,000 cc, will be reduced to 5 percent within three years of the agreement going into force. Korea also agreed to amend its annual vehicle tax so that automobiles with engines of more than 1,600 cc are taxed at a single rate. This agreement is also applied to the Korea-EU FTA.

Safety standards. Safety standards were renegotiated between Korea and the United States in 2010. The new KORUS FTA accepts U.S. safety regulations for imported U.S. cars up to 25,000 vehicles per each U.S. automaker. Therefore U.S. exporters can sell annually in South Korea up to 25,000 vehicles built to U.S. safety standards without any additional modification. This limit is four times the level of 6,500 units permitted in the original FTA. This provision effectively grants mutual recognition to U.S. standards, since annual U.S. exports to Korea from all companies have averaged 5,000 to 7,000 cars.¹⁵ Meanwhile, the Korea-EU FTA takes a regulatory convergence approach based on the United Nations Economic Commission for Europe (UNECE) standards. It recognizes the World Forum for Harmonization of Vehicle Regulations within the framework of the UNECE as the relevant international standard-setting

body for auto products and includes provisions in which both countries commit to harmonization of regulatory standards.

Fuel economy and greenhouse gas emission regulation.

These environmental provisions made up another contentious area. In December 2010, the Korean government agreed that U.S. imports would comply with fuel economy and emissions standards if the cars did not exceed 119 percent of current Korean emissions limits from 2012 to 2015. By 2015, Korea will require automakers to reduce greenhouse gas emissions to 140 grams per kilometer and improve fuel economy to 17 kilometers per liter, which translates into an effective standard of 40 miles per gallon. Meanwhile, the U.S. standard will require automakers to achieve fleet averages of 36 miles per gallon by 2016.¹⁶ This agreement is also applied to the Korea-EU FTA through the most-favored nation (MFN) clause in the Korea-EU FTA.

Overall assessment of the manufacturing sector. Overall, the United States achieved more favorable FTA negotiation outcomes with Korea in the manufacturing sector in terms of immediate tariff reduction. As shown in **Table 10**, 81 percent of the U.S. manufacturing exports, compared with 70 percent of EU manufacturing exports, are subject to duty-free access to the Korean market once the KORUS FTA is enacted. After a five-year FTA enacting period, however, slightly more of the

Table 10: Comparison of Overall Manufacturing Tariff Reduction Schedules in the KORUS FTA and the Korea-EU FTA

Time frame	KORUS FTA		Korea-EU FTA	
	Item	Value	Item	Value
Immediate	89.9	81.0	90.7	69.4
Within 3 years	96.2	94.3	95.8	91.8
Within 5 years	98.1	95.8	99.5	98.7

Source: “The Detailed Explanation of Korea-EU FTA [in Korean],” Ministry of Foreign Affairs and Trade, Republic of Korea.

EU manufacturing exports will be permitted to enter into Korea free of customs duties.

Item-by-item analysis reveals a wide variety of favorable treatments among subsectors of manufacturing. **Table 11** shows that the EU carried out a more favorable FTA negotiation in the areas of chemicals and allied industries, plastics and rubber, wood and wood products, textiles, and machinery and electrical products. The United States achieved a more favorable tariff reduction schedule in the areas of raw hides, skins, leather, furs, and transportation.

Chemicals and allied industries have a high absolute value in total score (see Table 11) and similar export values for both the United States and the EU, as shown in **Table 12**. This implies that the different Korean tariff reduction schedules in this category would be the result of strong EU interest in the Korea-EU FTA negotiations in this category. This is also true in the areas of plastics and rubber, textiles, and machinery and electrical products. Meanwhile, the EU has a less favorable tariff reduction schedule in the areas of raw hides, skins, leather, and furs, and in transportation. Those are the sectors that show little difference in the export values of the U.S. and the EU goods to Korea. Therefore, we can conclude that the Korean sensitivity in these sectors is reflected in the Korea-EU FTA.

Services Sector

Korea provides significant improvements in several of the services sectors in both FTAs. These sectors include legal services, accounting services, taxation services,

telecommunications, audiovisual services, and financial services. Although most Korean services sector liberalization schedules were treated similarly in both FTAs, audiovisual services are excluded in the Korea-EU FTA. Meanwhile the EU has more favorable results in the areas of environmental services and cross-border supply of television and radio signals transmission services through satellite facilities.

Professional services. Among professional services, *legal services* are one of the important areas in which Korea agreed to expand market access for U.S. service providers. Korea prohibits foreign law firms from opening offices in Korea, **forming partnerships** with Korean law firms, and recruiting Korean lawyers to provide so-called multijurisdictional services. No later than the date the KORUS FTA enters into force, Korea will allow U.S. law firms to establish representative offices in Korea and provide legal advisory services. No later than two years after that, Korea agreed to allow U.S. law firms to enter into specific cooperative agreements with Korean law firms in order to be able to jointly deal with cases where domestic and foreign legal issues are mixed and to share profits derived from such cases. No later than five years after the date the agreement enters into force, Korea will allow U.S. law firms to establish joint venture firms with Korean law firms and employ Korea-licensed lawyers as partners or associates. This commitment was also provided to EU law firms in the Korea-EU FTA. The agreement to open Korean markets to *accounting and taxation services* was set up similarly to legal services in both FTAs.

Telecommunications. Korea provided important commitments that will ensure expanded access for U.S. service providers to the Korean telecommunication market. Currently a Korean law

Table 11: Comparison of KORUS FTA and Korea-EU FTA in Manufacturing

HS code ¹	Descriptions	Number of items favorable to the United States	Number of items favorable to the European Union	Total score ²
25–27	Mineral products	14	8	1
28–38	Chemicals and allied industries	30	142	-453
39–40	Plastics and rubber	34	42	-84
41–43	Raw hides, skins, leather, furs	29	1	77
44–49	Wood and wood products	42	73	-201
50–63	Textiles	5	28	-93
64–67	Footwear and headgear	2	0	8
68–71	Stone and glass	36	32	23
72–83	Metals	36	39	26
84–85	Machinery and electrical	45	177	-562
86–89	Transportation	71	11	269
90–97	Miscellaneous	33	41	-34

Source: Calculated from Korean tariff schedules in both FTAs.

1 HS code = Harmonized Commodity Description and Coding System.

2 Total score is calculated by summing up the year difference for each item in each of the 16 categories found in the tariff schedules for Korea in both the KORUS FTA and the Korea-EU FTA. The negative total score means that the EU had a favorable outcome in the sector.

Table 12: Comparison of Korea's Manufacturing Imports from the United States and the European Union, 2007–09, average, in U.S. dollars

HS code ¹	Descriptions	United States	European Union
25-27	Mineral products	1,511,323,441	484,346,776
28-38	Chemicals and allied industries	4,215,848,702	4,898,201,118
39-40	Plastics and rubber	1,119,128,771	1,013,627,000
41-43	Raw hides, skins, leather, and furs	367,621,202	446,857,653
44-49	Wood and wood products	1,016,230,166	494,895,988
50-63	Textiles	353,663,536	779,287,875
64-67	Footwear and headgear	12,819,791	95,334,590
68-71	Stone and glass	505,188,049	583,866,802
72-83	Metals	3,146,606,792	3,159,701,990
84-85	Machinery and electrical	12,236,397,110	13,082,248,618
86-89	Transportation	2,333,665,543	3,004,896,468
90-97	Miscellaneous	3,674,044,209	2,415,056,053

Source: United Nations Commodity Trade Statistics Database (UN Comtrade), access date: 12 April 2011.

¹ HS code = Harmonized Commodity Description and Coding System.

allows foreign ownership of up to 49 percent of total voting shares. **In the KORUS FTA, Korea relaxed the foreign ownership requirements and allowed 100 percent indirect ownership** two years after the entry into force of the FTA, except for the ownership of two major Korean telecommunication service providers, KT and SK Telecom Co., Ltd. (SK Telecom). This commitment was also included in the Korea-EU FTA for EU telecommunication service providers.

Audiovisual services. Before entering the FTA negotiation with the United States, Korea cut by half the screen quota—to 73 days per year at each screen—that is applicable to the theatrical exhibition of U.S. motion pictures. The KORUS FTA also contains Korea's commitments to decrease the domestic content quotas applicable to the broadcast of films and animation programming. It also increases the U.S. quota applicable to single-country sources of foreign content broadcast in Korea. More than that, no later than three years after this agreement enters into force, Korea will permit 100 percent foreign ownership of a program provider that is not engaged in multi-genre programming, news reporting, or home shopping. The Korea-EU FTA does not have any provisions on audiovisual services.

Overall assessment of the services sector. Korea agreed to open its market substantively in the areas of professional services, telecommunications, audiovisual services, and financial services. In the area of *financial services*, all financial firms from the United States and the EU will be able to freely transfer data from their branches and affiliates to their

headquarters. The United States and the EU have similar FTA preferences in each FTA negotiation with Korea.

In the case of audiovisual services, the lack of interest by the EU was reflected in the FTA negotiations. The sectors in which the EU made progress in opening the Korean market compared with U.S. progress are environmental services and satellite broadcasting services. In *environmental services*, Korea received commitments on the treatment of nonindustrial wastewater: no later than five years after the Korea-EU FTA enters into force, Korea will grant nondiscriminatory treatment to EU service suppliers in competition procedures for management contracts. In addition, Korea will permit EU service providers to supply cross-border *television and radio signal transmission services through satellite facilities* without commercial arrangements with Korean suppliers no later than two years after the Korea-EU FTA enters into force.

Kaesong Industrial Complex

The Kaesong industrial complex (KIC) is the result of the Sunshine Policy of previous South Korean administrations. The KIC is located in North Korea but is only a one-hour drive from Seoul. It opened in 2004 after the pilot phase of construction was completed in June 2004. The KIC is run by a South Korean committee that has a 50-year lease that began in 2004.¹⁷

Unlike the previous FTAs that Korea concluded, including with Singapore, EFTA, ASEAN, and India, the KORUS FTA and the Korea-EU FTA do not provide preferential treatment for products

made in the KIC.¹⁸ Instead, both agreements took a similar approach by establishing procedures for future consideration of trade preferences to apply to goods produced in the KIC. Both FTAs establish a Committee on Outward Processing Zones (OPZs) on the Korean Peninsula. The committee will review whether conditions on the Korean Peninsula are appropriate for further economic development through the establishment and development of OPZs. Specifically, the committee will (1) identify geographic areas that may be designated OPZs, (2) establish criteria that must be met before goods from any OPZ may be considered originating goods for both agreements, (3) determine whether any such OPZ has met the criteria established by the committee, and (4) establish a maximum threshold for the value of the total input of the originating final good that may be added within the geographic area of the OPZ.

Although the Korea-EU FTA is mute about the criteria for evaluating whether goods produced in OPZs are eligible for FTA preferences, the KORUS FTA provides some examples of them. Those include progress toward the denuclearization of the Korean Peninsula and the impact of the OPZs on (1) intra-Korean relations, (2) environmental standards, (3) labor standards and practices, (4) wage practices, and (5) business and management practices prevailing in the OPZs, with due reference to the situation prevailing elsewhere in the local economy. The criteria also include the relevant international norms.

In the KORUS FTA, however, the committee decisions regarding extending FTA preferences to OPZs are not self-executing. FTA eligibility for goods produced in OPZs would require amendments to the agreement, which are subject to legislative approval in both countries. Meanwhile the Korea-EU FTA does not have provisions that explicitly require legislative approval in providing FTA eligibility for goods produced in OPZs.

Conclusions

The prospect of ratification of the KORUS FTA in the U.S. Congress is still unclear. Given that the Korea-EU FTA will take effect from 1 July 2011, this dim prospect provides fading and lost opportunities for the U.S. exporters to Korea. The Korean tariff reduction schedules for U.S. exporters are more favorable in the areas of animal and vegetable products and transportation. But these advantages will fade as the enforcement of the KORUS FTA is delayed. Meanwhile, disadvantages for U.S. exporters in the areas of foodstuffs, chemicals, machinery, and electronics will increase. The more delay the KORUS FTA experiences, the more the opportunities will fade for U.S. exporters. Also, because there is no way that the KORUS FTA will be enacted before the Korea-EU FTA, there are already lost opportunities for U.S. investors. In services and investment, the KORUS FTA provides MFN treatments for any developments in the future. U.S. investors might have had MFN treatment in the areas of environmental services and television and radio

signals transmission services through satellite facilities, but this opportunity is surely lost.

In conclusion, the United States has more favorable treatment in meat and vegetable products and transportation, while the EU has better treatment in processed foods, chemicals, and machinery. The large difference in outcomes in animal and animal products between the KORUS FTA and the Korea-EU FTA can be ascribed to the reflection of greater sensitivity of the Korean market in this sector in the Korea-EU FTA compared with the KORUS FTA. Therefore the EU received a less favorable tariff reduction schedule than the United States in this area. This is true in the areas of raw hides, skins, leather, and furs, and transportation.

We have the opposite case, however, in the foodstuff sector: the many differences in Korean tariff liberalization schedules in the U.S. and European FTAs could be a result of the reflection of the EU positions, which preferred earlier tariff eliminations on many items in the Korea-EU FTA. This is also true in the manufacturing sectors such as chemicals and allied industries, plastics and rubber, textiles, and machinery and electrical products.

In vegetable products, the large difference in Korean tariff schedules when both FTAs are compared would be due to the asymmetry that exists in the exports of the United States and the EU. Therefore, the U.S. and EU exports of many different vegetable products to Korea are reflected in the differences between these FTA negotiations. The same is also true for the fishery and manufacturing sectors in categories such as mineral products, footwear and headgear, stone and glass, metals, and miscellaneous.

Despite these agreements being very similar, the specific differences highlighted in this paper demonstrate the different approaches toward market access in Korea in certain trade areas. Yet the overall differences could change with the delay of ratifying the KORUS FTA. Thus, it is necessary to focus on the differences from the perspective of market access in Korea, illustrating the priorities for the United States and the EU when dealing with South Korea.

Endnotes

1. Detailed explanations of the KORUS FTA can be found at “Korea-U.S. FTA,” Korea Ministry of Foreign Affairs and Trade, www.mofat.go.kr/english/econtrade/fta/Concluded/US/index.jsp; and at “Korea-U.S. Free Trade Agreement,” Office of the United States Trade Representative, www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta.
2. Detailed explanations of the Korea-EU FTA can be found at “Korea-EU FTA,” Korea Ministry of Foreign Affairs and Trade, www.mofat.go.kr/english/econtrade/fta/Concluded/EU/index.jsp; and at “EU-Korea Free Trade Agreement Online, European Commission, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=443>.
3. There are not many studies on the comparison between the KORUS FTA and the Korea-EU FTA. As far as I know, William H. Cooper, Remy Jurenas, Michaela D. Platzer, and Mark E. Manyin, *The EU–South Korea Free Trade Agreement and Its Implications for the United States*, Report no. R41534 (Washington, D.C.: Congressional Research Service, 5 January 2011), is the only one that provides a comparison between them. But, unlike this study, it focuses only on some specific items.
4. Chapter 97 is the last one; Chapter 77 is reserved for future international use.
5. In doing so, it is assumed that the KORUS FTA is enacted one year later than the Korea-EU FTA.
6. Beef in this category is covered as follows: HSK (HS code of Republic of Korea) provisions 0201.10.0000, 0201.20.0000, 0201.30.0000, 0202.10.0000, 0202.20.0000, and 0202.30.0000.
7. Pork in this category is covered as follows: HSK provisions 0203.19.1000 and 0203.19.9000.
8. For other parts of frozen pork, Korean tariffs will be phased out over six years for EU exports and completely eliminated beginning 1 January 2016 for U.S. exports.
9. Milk and cream powder products in this category are covered as follows: HSK provisions 0402.10.1010, 0402.10.1090, 0402.10.9000, 0402.21.1000, 0402.21.9000, 0402.29.0000, 0402.91.1000, 0402.91.9000, 0402.99.1000, 0402.99.9000, and 0403.90.1000.
10. Butter products in this category are covered as follows: HSK provisions 0405.10.0000, and 0405.90.0000.
11. Cheese products in this category are covered as follows: HSK provisions 0406.10.1000, 0406.20.0000, 0406.30.0000, and 0406.90.0000 (which includes cheddar cheese).
12. In 2009, Korea imported \$37.5 million in cheese products from the United States and \$32.2 million in cheese products from the EU.
13. HSK provision for this product is 0409.00.0000.
14. This item is the single largest export to Korea in the agriculture sector, and the EU export value of this item to Korea was more than \$225 million in 2009.
15. Jeffrey J. Schott, *KORUS FTA 2.0: Assessing the Changes*, Policy Brief no. PB10-28 (Washington, D.C.: Peterson Institute for International Economics, December 2010).
16. Ibid.
17. Mark E. Manyin and Dick K. Nanto, *The Kaesong North-South Korean Industrial Complex*, Report no. RL34093 (Washington, D.C.: Congressional Research Service, 18 April 2011), 11.
18. Previous FTAs provided preferential treatment to some products made in the KIC, subject to different qualifications.

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