EU/Korea Free Trade Agreement

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This document lays down the provisions of the Free Trade Agreement (FTA) between the European Union and its Member States, on the one part, and Korea, on the other.

In April 2007, the Member States of the EU mandated the European Commission to negotiate an ambitious and wide-ranging FTA with South Korea. After eight series of formal negotiations, the two parties reached an agreement which should generate a substantial volume of new trade in goods and services. The FTA should, furthermore, strengthen the position of European suppliers on the Korean market thanks to its trade chapter.

The main aspects of the Agreement may be summarised as follows:

Purpose: the FTA seeks to set in place a gradual and reciprocal liberalisation in trade in goods and services and to lay down the rules concerning this trade.

Trade Chapter: the EU-Korea FTA provides for a series of measures establishing a **free trade area** in accordance with Article XXIV of the General Agreement on Tariffs and trade 1994 ("GATT 1994"). It provides for, in particular:

- **an end to trade barriers**: the Agreement provides for the elimination of significant non-tariff barriers in all sectors, some of which are essential for the European economy such as cars, medicines or consumer electronics. Sectoral annexes on pharmaceutical products and medical devices, as well as chemical products were negotiated with a view to dismantling non-tariff barriers. Korea will consider a raft of European standards as equivalent and will recognise European certification, thus eliminating bureaucratic burdens which, up to now, have represented a barrier to trade and were a disincentive to trade;
- **an end to customs duties**: the two parties will eliminate 98.7% of customs duties in terms of trade value, both for industrial and agricultural sectors in the five years that follow the entry into force of the Agreement. The remaining portion of tariffs will be eliminated almost fully over longer transitional periods, with exception of a limited number of agricultural products (such as rice or garlic). The FTA will quickly eliminate EUR 1.6 billion worth of Korean import duties annually for EU exporters of industrial and agricultural products. The EU will eliminate around EUR 1.1 billion of duties, which will benefit EU consumers and businesses. European machinery exporters will save EUR 450 million annually in duty payments. EU agricultural exporters will save EUR 380 million annually on duties for agricultural products for which Korean duties are currently relatively high. Wine and cheese will enjoy duty free and tariff-free quotas respectively from day one;
- **new trade**: the Agreement should generate substantial volumes in new trade in goods and services (up to EUR 19 billion for European exporters). It should also offer new opportunities in many services sectors, where the EU is highly competitive. These include telecommunications, environmental services, shipping, financial and legal services.

The FTA also contains separate chapters dealing with:

- sanitary and phytosanitary measures,
- customs regimes,
- trade facilitation;
- services,
- rules of establishment
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electronic commerce (along with lists of undertakings in the area which go far beyond the commitments of each of the parties under the General Agreement on Trade in Services (GATS) and which comply with the provisions of Article V of the GATS),
- current payments,
- capital movements.

Competition and respect for trade regulations: the FTA provides for far reaching commitments in area of competition including i) state aid, ii) intellectual property (including enforcement) and public procurement.

- **intellectual property**: the FTA will offer transparency and predictability on regulatory issues such as the protection of intellectual property (including through strengthened enforcement); improved market access in government procurement; as well as a new approach on trade and sustainable development involving civil society in the monitoring of commitments;
- **geographical indications**: the FTA will offer a high level of protection for EU Geographical indications such as Champagne, Prosciutto di Parma, Feta cheese, Rioja or Tokaji wine or Scotch whisky, etc.

Enhanced and binding horizontal provisions on regulatory transparency in areas relevant for mutual trade and investment have been also incorporated into the agreement.

Additional protocols: the FTA comprises several protocols:

- **rules of origin**: rules have been simplified and made more business friendly. At the same time, strict rules apply in sensitive sectors. For instance, for cars, the agreement would only moderately increase the levels of permissible foreign content from 40% to 45%. For textiles, agricultural and fisheries, the EU standard rules of origin will be maintained with only a small number of derogations applying. On duty drawback, the EU and Korea maintain the right to refund duties on imports on parts, in accordance with WTO rules. However, in case of a significant increase of sourcing from countries that have not concluded an FTA with Korea, i.e. where most favoured nation (MFN) duties still apply, a special clause allows for a cap of the refundable duties at a level of 5% ;
- **administrative assistance on customs matters**: on arrangements for cooperation between customs authorities.
- **cultural cooperation:** this sets a framework to engage in policy dialogue and cooperate in facilitating exchanges regarding cultural activities.

Trade and Sustainable Development Chapter: this covers both social and environmental dimensions. It includes cooperation provisions and establishes novel monitoring mechanism involving civil society through a **Civil Society Forum**.

Safeguard clause: the FTA will offer protection via a general safeguard clause . This would allow the re-establishment of so-called "Most Favoured Nation" duties for up to four years in case of a sudden surge in imports. The Commission will monitor closely the evolution of the market in sensitive sectors.

Institutional Chapter: the institutional provisions foresee establishment of a Trade Committee to supervise the implementation of the FTA and consider ways to further enhance trade relations between the Parties. An efficient **dispute settlement mechanism** is included to ensure enforceability of commitments (arbitration ruling within 160 days, which is faster than in the WTO). The Trade Committee shall be composed of representatives of the European Union and of Korea. The Trade Committee shall report to the Joint Committee established under the updated Framework Agreement on its activities and those of its specialised committees, working groups and other bodies.

Provisional application: pending the entry into force of the FTA, the Agreement foresees the provisional application of the Agreement.