EU/Korea Free Trade Agreement: bilateral safeguard clause

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The Commission presents the **2nd Annual Report on the implementation of the Free Trade Agreement between the EU-South Korea** (*for the results of the 1st report, please refer to the summary dated 25/02/2013 included on the same procedure file*).

To recall, 1 July 2013 marked the second anniversary of the Free Trade Agreement (FTA) between the EU and its Member States and the Republic of Korea (South Korea), which has been provisionally applied since July 2011. It is the first of a new generation FTA, characterised by its far-reaching and comprehensive nature. It is also the EU's first trade deal with an Asian country.

Objectives of the report and main findings: the present report has a two-fold objective: (i) to comply with the Regulation on the adoption of the FTA; (ii) present an annual monitoring report on updated statistics on imports from Korea of products in the sensitive sectors and those sectors to which monitoring has been extended.

The main findings from the Commission's analysis may be summarised as follows:

- **a positive outcome for EU exporters**: based on two years of implementation of the FTA, it is clear that in terms of development of bilateral trade, the FTA has worked very well overall **in particular for the EU**. Exports of goods increased by 24% or **EUR 7 billion** in the second year of implementation compared to the year before the FTA was provisionally applied. In comparison, EU exports to the rest of the world increased by 17% during the same period. While imports from Korea decreased by 6%, mainly due to reasons which are not directly linked to the FTA, imports of fully or partially liberalised goods developed positively for both the EU and Korea, increasing more than exports overall;
- **preferential tariffs**: the report stressed that exporters are increasingly making use of the preferential tariffs, with increased utilisation rates in particular on the EU-side, although there is still room for improvement in this area. In reality FTA preferences are not always used by exporters. The preference utilisation rate of EU exports to Korea, i.e. the extent to which preferential tariffs are applied in practice by business, was 66% in the period March-June 2013. This is a slight increase compared with the period September 2012-February 2013 when it was 64%. As for Korean preference utilisation on the EU market, the figure, in the year 2012, was 77%, implying that **Korean exporters are making better use of the FTA compared to the EU exporters**. There are many reasons for this, one being that on the Korean side exporters are often big, export driven, chaebols whereas on the EU side the industry is more fragmented;
- **sensitive sectors: car sector**: the report notes that the focus remains on the proper implementation of the FTA so that exporters can enjoy the benefits they expected from it. Some implementation issues persist, notably in the **sector of motor vehicles and parts**. Discussions on these issues will continue in the context and follow-up of the meetings of the various Committees and Working Groups established by the FTA, with the view to finding mutually acceptable and workable solutions, in line with the letter and the spirit of the FTA.

Imports of cars from Korea into the EU increased by 41% in the first year of implementation of the FTA (July 2011 - June 2012) compared to the year before the FTA was provisionally applied (July 2010 - June 2011). **This increase was followed by a decrease of 13% of imports** in the second year of FTA implementation (July 2012 – June 2013) compared to the previous year. The decreasing trend is valid for

cars with small engines, as well as for cars with medium – large engines. Looking at the long term trends, **the car imports seem to have stabilised at a significantly lower level than that of the July 2007 – June 2008 period**. Car part imports have also stabilised.

In the margins of the EU-Korea Summit in November 2013, the EU and Korea initialled the Additional Protocol amending the FTA in view of Croatia's EU accession. Discussions to amend the FTA further to make it more trade-facilitative, will continue. These amendments are in the interest of both sides and will eventually benefit exporters and consumers in the EU as well as in Korea.