EU/Korea Free Trade Agreement: bilateral safeguard clause

2010/0032(COD) - 20/10/2017 - Follow-up document

The Commission presents the **5th report** on the implementation of the EU-Korea Free Trade Agreement.

To recall, 1 July 2017 marked the sixth anniversary of application of the Free Trade Agreement (FTA) between the EU and its Member States and the Republic of Korea (in this report referred to as Korea). The FTA has been provisionally applied since July 2011. On 13 December 2015 it entered formally into force after ratification by EU Member States. The Additional Protocol to the FTA to take into account the accession of Croatia to the EU has been provisionally applied since 26 May 2014 and entered into force on 1 January 2016.

The EU-Korea FTA is the first of a new generation of comprehensive FTAs. It is also the EU's first trade deal with an Asian country. It is the most ambitious FTA implemented by the EU so far.

This is the 5th annual report on the implementation of the EU-Korea FTA, prepared in accordance with the provisions of Regulation (EU) No 511/2011 of the European Parliament and of the Council implementing the bilateral safeguard clause of the Free Trade Agreement between the European Union and its Member States and Korea.

The main conclusion of the report stated that the first six years of application show that the EU-Korea FTA has worked very well.

Trade in goods: EU exports to Korea increased by 59.2%, from EUR 28 billion in 2010 to EUR 44.5 billion in 2016. The average increase of EU exports to Korea was 8.1%, the average growth of EU imports from Korea 0.8% per year.

In 2010, the base year before the start of provisional application of the FTA, EU exports to Korea were EUR 28 billion, and imports from Korea were EUR 39.5 billion.

In 2016, EU exports to Korea were EUR 44.5 billion and imports from Korea were EUR 41.4 billion. So the **EU's EUR 11.6 billion trade deficit with Korea in 2010 has turned into a trade surplus of EUR 3.1 billion in 2016**.

The current level of EU exports to Korea would have generated duty payments of approximately EUR 2 billion had the FTA not been in place.

Between 2015 and 2016 **total EU exports to Korea declined by 6.9%.** EU imports from Korea declined by 2.2%. The more pronounced decline of EU exports to Korea is inter alia due to lower sales of machinery, transport equipment, motor vehicle (also related to the diesel engine scandal) and UK oil exports (due to end of Iran sanctions), and lower number of delivery of aircrafts (with more deliveries scheduled for the next years). Vice versa, 2016 showed a fall in EU imports of vessels, LCDs and petrochemicals from Korea.

Imports from Korea represented 2.6% of total imports into the EU in 2010, and 2.4% in 2016, making **Korea the EU's 8th largest import origin in 2016**. EU exports to Korea represented 2% of total EU exports in 2010, and 2.6% in 2016, making the Korea the EU 9th largest export market in 2016.

In terms of **EU exports to Korea**, in 2016 the most important product categories are as follows:

- machinery and appliances accounted for 29.2% of total EU exports to Korea (a decrease of 8.2% compared to 2015);
- transport equipment represented 21.2% of total EU exports to Korea (a decrease of 6.4% compared to 2015);
- chemical products accounted for 13.6% of total EU exports to Korea (an increase of 8.4% compared to 2015);
- mineral products, pearls & precious metals, footwear" and wood have shown a significant increase in EU exports.

As far as **EU imports from Korea** are concerned, in 2016 the main product categories are:

- machinery and appliances accounted for 33.9% of EU imports from Korea (a decrease of 4.9% compared to 2015);
- transport equipment accounted for 26.1% of total EU imports from Korea (also a decrease of 4.9% compared to 2015);
- significant increases were noted in EU imports of chemical products and plastics.

Vehicles and car parts: EU exports of motor vehicles have increased by 244% in value from 2010 to 2016, from EUR 1.68 billion to EUR 5.79 billion, accounting for 13% of total EU exports to Korea.

EU imports from Korea have grown by 53% from EUR 2.48 billion to EUR 4.79 billion. Motor vehicles account for almost 12% of total EU imports from Korea

EU exports of car parts to Korea were around EUR 1.4 billion in 2016. This represents an annual increase of 25% over 2015. EU imports from Korea of car parts were around EUR 3.5 billion in 2016. This represents an annual increase of 9% over 2015.

Climate change: the EU stressed the importance of collaboration between strategic partners and the G20 leadership role with regard to the implementation of the Paris Agreement and the importance of coherent climate policies. Korea and the EU reviewed the ongoing cooperation project on Emission Trading Systems, which was going well, and agreed that the involvement of other Korean ministries would be beneficial to the project.

Pending issues and follow-up actions: the report stated that full and correct implementation of the EU-Korea FTA continues to be of key importance, in order to bring the expected benefits to both sides.

The EU has **serious concerns** in particular in the area of trade and sustainable development, i.e. on insufficient progress on the ratification and implementation of ILO conventions and on protection of **labour rights** in Korea. Other market access and implementation issues relate *inter alia* to electronics, cars and machinery.

The EU has a particular interest in exporting again **beef** to the Korean market which has been closed to all EU imports since January 2001. The acceptance of the principle of regionalisation for animal diseases by Korea is another important topic in the sanitary and phyto-sanitary area.

Effort should be made in the areas of intellectual property and customs procedures.

Lastly, the Commission will pursue exploratory discussions with Korea on a package of amendments to the FTA or its protocols, with the aim of reaching a balanced and mutually agreeable outcome.