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RECOMMENDATION

on the draft Council decision on the conclusion of the Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part
(08505/2010 – C7-0320/2010 – 2010/0075(NLE))

Committee on International Trade

Rapporteur: Robert Sturdy

Symbols for procedures

- * Consultation procedure
- *** Consent procedure
- ***I Ordinary legislative procedure (first reading)
- ***II Ordinary legislative procedure (second reading)
- ***III Ordinary legislative procedure (third reading)

(The type of procedure depends on the legal basis proposed by the draft act.)

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DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION

**on the draft Council decision on the conclusion of the Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part
(08505/2010 – C7-0320/2010 – 2010/0075(NLE))**

(Consent)

The European Parliament,

- having regard to the draft Council decision (08505/2010),
 - having regard to the Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part (08530/2010),
 - having regard to the request for consent submitted by the Council in accordance with Articles 91, Article 100(2), Article 167(3), Article 207 and Article 218(6), second subparagraph, point (a)(v) of the Treaty on the Functioning of the European Union (C7-0320/2010),
 - having regard to Rules 81 and 90(8) of its Rules of Procedure,
 - having regard to the recommendation of the Committee on International Trade and the opinion of the Committee on Industry, Research and Energy (A7-0034/2011),
1. Consents to the conclusion of the agreement;
 2. Instructs its President to forward its position to the Council, the Commission and the governments and parliaments of the Member States and of the Republic of Korea.

EXPLANATORY STATEMENT

I. Introduction

The Free Trade Agreement between the EU-27 as a whole, on the one hand, and the Republic of Korea (South Korea), on the other hand, hereinafter the 'FTA' or 'Agreement', draws on the objectives of the Commission's 'Global Europe' trade policy strategy adopted on 3 October 2006¹, and approved by the European Parliament in its resolution of 19 February 2008 on the EU's Strategy to deliver market access for European companies² and on the European Parliament's report on Economic and trade relations with South Korea³.

The FTA is designed to provide EU businesses in a wide variety of economic sectors with extensive and comprehensive access to the South Korean market through a series of unprecedented tariff liberalisations. The FTA is compatible with Article XXIV of the GATT and Article V of the GATS. It guarantees WTO-plus disciplines in the case of geographic indicators (GIs), government procurement (GPA-plus) and provisions on the transparency of state aid. Moreover, it also provides WTO-plus and TRIPS-plus disciplines in terms of the effective enforcement of intellectual property rights.

Being the first step in a new generation of bilateral FTAs, the Agreement contains important innovations such as a chapter on sustainable development which commits both parties to respect core ILO labour standards and creates a peer review based system to deal with complaints for non-compliance as well as the establishment of several working groups and monitoring committees to ensure quality implementation and conciliation. The Rapporteur underlines the importance of the inclusion of civil society within the Domestic Advisory Group

While the many advantages are both immediate and conspicuous (some of which are listed in section II of this statement), the Rapporteur welcomes the fact that the FTA has an effective bilateral safeguard mechanism built in (see report Zalba Bidegain C7-0025/2010) that allows the EU to restore MFN duty rates should it be proven that liberalisation resulting from this particular FTA has led to, or threatens to cause serious injury to, EU domestic industry.

The aim of this non-legislative report is not to provide detailed recommendations to the Commission's proposal, or to assess the technical provisions of the Bilateral Safeguard Clause but rather to assess whether we, the European Parliament under the recommendation of the International Trade Committee, should grant final consent to the Agreement as a whole. For this reason, it is essential that the benefits to EU industry across the board are considered

II. Benefits of the FTA

The South Korean market place offers significant new opportunities for EU goods and services but until now has remained relatively closed off due to high tariff levies and costly

¹ See report by Daniel Caspary on Global Europe – external aspects of competitiveness (2006/2292(INI)).

² See INTA resolution by Ignasi Guardans Cambó on the EU's Strategy to deliver market access for European companies (2007/2185(INI)).

³ See report by David Martin on Economic and trade relations with Korea (INI/2007/2186)

non-tariff barriers (NTBs). The FTA will quickly remove €1.6 billion worth of EU export duties levied annually on EU exporters of industrial and agricultural products with the comparable figure for South Korean exporters standing at € 1.1 billion. Examples of the sectors set for immediate and substantial savings include, among others, chemicals (€175m), pharmaceuticals (€50m in duties alone), auto parts, industrial machinery, shoes, spirits (€40m), medical equipment, non-ferrous metals, iron and steel, leather and fur, wood, ceramics and glass. It is also worth noting that the figures quoted are duty savings and will be even higher as trade between the EU and South Korea is expected to expand due to the FTA.

The Rapporteur welcomes that for the agricultural and services sectors the advantages are particularly impressive. Korea is currently among the more valuable export markets globally for EU farmers, with annual sales of over €1 billion. The FTA will fully liberalise nearly all EU agricultural exports, saving the agricultural industry €380 million Euros. For the EU services sector (including financial services, telecommunications, environmental services, shipping, financial and legal services) the benefits are just as striking, with an expected 70% rise in trade volume, the most for any EU sector.

Exports are thus an important source of growth for the EU. They contribute to wealth and employment for European businesses and their employees, and will act as one of the most important factors in stimulating EU economic recovery. But the benefits of this Agreement go well beyond short term gains of tariff line reductions.

The Rapporteur is pleased that, in accordance with the recommendations of the European Parliament's report and resolution from 2007 (INI/2007/2186) and 2008 (2007/2185(INI) respectively, the Agreement addresses investment opportunities, competition policy, transparency in government procurement and regulatory practices, and trade facilitation. Under the FTA, Korea will consider European standards as equivalent to their own, and recognize European certificates, thus eliminating red tape which has done much to impede access to the South Korean market.

However, the Rapporteur admits that the FTA will not provide immediate, across the board benefits for all sectors and subsectors of EU industry for this reason the Rapporteur welcomes that the Agreement recognizes the vulnerability of certain sectors and has established strict dispute, safeguard and monitoring procedures to offer EU businesses of all sectors adequate security as they adapt to the changing trading relationship with South Korea.

III. Removing and Preventing Technical Barriers

One of the key objectives of this FTA is to dismantle South Korean technical barriers to trade (TBTs), thus opening markets and creating new opportunities for European companies to compete in a free and fair business environment. Achieving this goal is important to all EU economic sectors, and vital for the three most affected sectors on the EU side, that is automobiles, consumer electronics, and textiles, in which Korea enjoys a comparative advantage over the EU:

1) Automobiles

South Korean trade balance gains are mainly expected in the area of small and medium-sized

cars. Previously, EU producers have struggled to penetrate this market segment in South Korea, achieving only modest successes with exports of luxury cars. This comparative advantage is, however, expected to crumble proportionally to the decrease of car imports from Korea, which are being gradually replaced by an increase of South Korean car production within the EU (in automobile plants in the Czech Republic and Slovakia)¹.

EU car manufacturers already present in the South Korean market as well as those not yet established in Korea will gain from a combination of the elimination of South Korean duties and nontariff barriers (NTBs). The 8% tariff on EU cars exported to Korea will be removed, which means that for every car worth € 25,000 exported to Korea, € 2,000 in duties would be saved². Of even greater significance is the acceptance by South Korea of an ambitious NTB package under which it accepts equivalence of international or EU standards for all its significant technical regulations. This implies that an EU manufacturer will be able to sell in Korea cars that have been produced in accordance with EU specifications without being subject to additional testing and to bear related costs.

The FTA establishes a working group/monitoring committee to avoid hidden protectionism through new technical barriers to trade in the future (e.g. through new South Korean technical regulations such as on CO2 emissions standards). Pending adoption of the Korean CO2 regulation, the Rapporteur cannot assess how much of an overt or hidden protectionism it will imply. Therefore, the Rapporteur reserves itself the right to amend this section at plenary level.

The Rapporteur strongly supports the Commission commitment to closely monitor the implementation by Korea of its commitments on regulatory issues, including in particular the commitments relating to technical regulations in the car sector, and that this monitoring will include all aspects of non-tariff barriers, and that all of its results shall be documented and reported to the European Parliament and the Council

2) Consumer Electronics

EU exporters of consumer electronics and household appliances such as television sets, computers, microwave ovens, mobile phones and telecoms equipment face significant obstacles impeding their access to the South Korean market, predominantly in the form of costly testing and certification procedures. The Agreement has removed these barriers to trade by eradicating all duplicative requirements, a step enthusiastically welcomed by the majority of European industry and the Rapporteur.

The South Korean electronics sector assisted by government support became a leading global player over the past decades with exceptionally high value growth in consumer electronics that is explained by the production and manufacture of middle-edge electronics products and

¹ On November 2008, following an investment of over 1 billion euros and over two years of construction, Hyundai opened its European plant in Nošovice, Czech Republic. This plant, which mainly manufactures the i30 for the European market, has an annual capacity of 200,000 cars. The new Hyundai on the Czech territory is just 90 kilometers north of Kia Motors' Žilina Plant in Slovakia.

² See Commission brief, "EU-Korea Free Trade Agreement - 10 Key Benefits for the European Union," December 2009, pg. 1

components at affordable prices. Lately though this sector has shifted to producing innovative products in the area of digital imaging, eco-design and wireless handsets, which aim at the same consumers' segment as the EU electronics sector with high-added value products.

The global economic crisis has seriously affected current and future growth forecasts for the electronics sector in general. Therefore, the recognition of European IT standards by South Korea as part of this FTA together with elimination of export tariffs and technical barriers to trade (TBTs) will enable European producers of electronics to access the South Korean market finally on a level playing field. Accordingly, the Rapporteur welcomes the focused monitoring of this sector and its inclusion within the bilateral safeguard clause.

3) Textiles

Given that South Korean textile and clothing tariffs currently stand as high as 10.06%, a liberalised South Korean market is considered as an excellent prospect for European firms in terms of investment and opportunities. The Agreement foresees the immediate elimination of much of the €60 million duties levied annually on EU exporters, granting greater access and incentive for EU businesses to invest in the South Korean market directly or as part of joint ventures.

Moreover, the IPR chapter within the FTA will bolster the industry's interests by providing for the vital protection of EU trade marks, which will be applicable to both registered and unregistered designs. The demand for high quality, branded EU products is growing in the South Korean market and these provisions will help ensure free and fair competition for EU firms.

However, some European firms have expressed concerns regarding the Rules of Origin and Duty Drawback aspects of the Agreement, which they believe will grant South Korean manufacturers the ability to import large quantities of raw materials and semi-products from neighbouring countries for further processing before export to the EU, without equivalent provisions for EU manufacturers.

Importantly, the general safeguard clause will also apply to the textile and clothing sector from entry into force of the Agreement. In case of proven injury, or threat thereof, the EU can unilaterally reintroduce tariffs at the original MFN levels for up to 4 years after entry into force.

While the Commission believes that because South Korean companies currently import less than 1% of overall textiles and clothing products to the EU market that it remains unlikely that the safeguard clause would have to be invoked, the Rapporteur strongly supports the continual monitoring in accordance with Article 4.5 of the Agreement and recognises the sector as one of the three most sensitive industries in relation to the impact of this FTA.

IV. Sustainable Development

Importantly, the FTA contains a chapter¹ on sustainable development, broad in scope,

¹ See Chapter 13 of the Agreement.

containing comprehensive commitments regarding labour standards and environmental agreements, including an innovative monitoring mechanism¹ with strong civil society involvement², as well as framework for close future cooperation, dialogue and engagement between the EU and South Korea.

With regards to labour rights, the FTA outlines a shared undertaking that goes beyond core ILO labour standards, committing the parties to make continued and sustained efforts towards ratifying the fundamental ILO conventions as well as the other Conventions that fall within the ILO's "up-to-date" rubric³.

Environmentally both South Korea and the EU have recognised the value of international environmental governance and agreements and have reaffirmed their commitment to reaching the ultimate objective of the Kyoto Agreement and to the future development of the international climate change framework in accordance with the Bali Action Plan⁴.

The Rapporteur welcomes the European Commission's formal statement on its commitment to monitor the effective implementation of labour and environment standards of Chapter 13 of the FTA, including a formal pledge to regularly report its findings to the European Parliament and the Council.

The FTA is thus for both the EU and South Korea also an opportunity to step up mutual cooperation and technology transfer in the area of 'green' technologies and innovation to combat the effects of climate change.

V. Employment Impact

The global effect of the FTA on Union's net employment is expected to be minimal. Nevertheless, to prevent eventual shifts or displacement of workers resulting directly from increased competition in the three most affected sectors, assistance should be provided from EU structural funds and EIB loans and initiatives, and at last resort, from the European Globalisation Adjustment Fund, to promote restructuring and modernization of the sectors most likely to face additional challenges as a result of the FTA.

Furthermore, the Rapporteur points out that under Article 4.5 of the Agreement job losses are counted as a relevant factor for the Commission when it considers implementing the Agreement's safeguard clause, meaning that should any significant harm arrive on a particular workforce as a result of the FTA then safeguard measures could be applied.

VI. Duty Draw Back

The agreement encompasses mechanisms for a general safeguard in case of an import surge

¹ Article 13.12.

² Article 13.13.

³ Article 13.4 .

⁴ Article 13.5 of the FTA outlines the efforts that both parties have agreed to make to facilitate trade and investment in environmental good and services through addressing related non tariff barriers, a step that will lead to increased technological innovation and development.

from Korea occurs at a pace which causes, or threatens to cause, injury to an EU domestic industry. The most contentious provision within this Agreement is the Duty Drawback Clause (DDB). Under the Duty Drawback system, the duties paid on parts and components used for the production of a final product are refunded when that final product is exported. Both the EU and Korea currently make use of duty drawbacks and the DDB in this Agreement is compatible with the WTO Subsidies Agreement.

While the Commission considers that the impact of the DDB on the competitive situation of EU companies is likely to be minimal, sensitive European sectors including the European car and textile sectors believe that this mechanism will grant South Korea significant market advantages over European industries. For example, South Korea already holds a strong cost-competitive advantage over European small car manufacturers.

For this reason the Rapporteur supports the inclusion of a proposed special safeguard clause on duty drawback to address potential future increases of foreign sourcing by South Korean manufacturers. In the event of a significant increase in foreign sourcing (and therefore an impact on the total cost of production for one of the parties), the FTA foresees, after 5 years from entry into force of the Agreement, a special clause, which can result in a limitation of the duties on parts that can be refunded to a maximum of 5%.

If foreign sourcing by Korea increases in any significant way, the clause will be activated and DDB will be subject to limitations. Strict time limits are set from the moment the safeguard clause is invoked until the implementation of the limitations on duty drawback and the Commission is committed to activate the clause and to monitor closely the relevant statistical data

The Rapporteur expresses disappointment that a more EU favourable concession was not obtained from Korea by the EU negotiators, and urges the Commission to fully assess the impact on the use of the DBB mechanisms as a result of the FTA.

VII. Rules of Origin

Rules of origin play an important role in all preferential trade agreements. They determine the duties applicable to products traded between the parties. The European Parliament requested "an improvement and simplification of EC rules of origin" in the Agreement with Korea.

The FTA with Korea provides for the definitions of 'originating products', on the territorial requirements, on 'Duty Drawback', on the 'proofs of origin' and on arrangements for administrative cooperation.

Following consultation with EU industry, the Rules of Origin within the framework of this Agreement were significantly simplified and special consideration was given to sectors including agriculture, fisheries, non-ferrous metals, textiles and clothing while a 45% limit has been set for sensitive consumer electronic items. European manufacturing associations have expressed support for the reformed RoO text as South Korean parts are currently imported on a de facto MFN basis and do not face any restriction as to the permissible level of foreign content.

For the car sector a 5% increase from the standard EU levels of 40 to 45% was agreed for levels of foreign content. While the Rapporteur regrets this slight depreciation, he point out that this is the result of a lengthy and at times challenging negotiation process that necessarily involves compromises. The Commission views this as a "moderate increase", (Korea had wanted a much higher limit), as foreign sourcing in the South Korean car industry is relatively low and any significant increase in foreign sourcing would lead to the application of limits on duty drawback safeguard clause.

VIII. Conclusions

The text put before the European Parliament and its Committee on International Trade is the most comprehensive FTA ever negotiated by the EU. If agreed, this Agreement will give substance to the EU's repeated rhetoric of fighting protectionism while placing the EU at an advantage compared to its most forceful competitors such as the USA or China. The European Parliament acknowledges that the timely ratification of this agreement will send a clear signal to our partners and competitors worldwide and will be the first stepping stone in a series of trade agreements which will do much to benefit EU citizens by providing growth opportunities to EU domestic industry as a whole.

The Rapporteur together with Parliament strongly supports a well provisioned and effective safeguard mechanism in the interests of sensitive EU industries and fair business competition worldwide. The Rapporteur therefore welcomes the close scrutiny to which the Commission's proposal on the bilateral safeguard clause was subjected by Members of the International Trade Committee.

To sum up, the FTA will lead to fairer trade partnership, shared prosperity and mutual development of the two counterparties. This is the start of a long and fruitful cooperation and friendship between the peoples of South Korea and the Member States of the European Union, contributing equally to strengthening EU's position in Eastern Asia and South Korea's position in the regional economic and political landscape.

26.10.2010

OPINION OF THE COMMITTEE ON INDUSTRY, RESEARCH AND ENERGY

for the Committee on International Trade

on the draft Council decision on the conclusion of the Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea (COM(2010)0137 – C7-0320/2010 – 2010/0075(NLE))

Rapporteur: Daniel Caspary

SHORT JUSTIFICATION

On 23 April 2007 the Council authorised the Commission to open negotiations with the Republic of Korea with a view to concluding an EU-Korea Free Trade Agreement. The agreement was initialled on 15 October 2009.

Under the Lisbon Treaty, the European Parliament has been granted with new responsibilities on Free Trade Agreements (FTA). The KOREU Agreement, negotiated between the Republic of Korea and the EU, will be the first one to be adopted under the new rules of the consent procedure.

International Trade and exports are an important source of growth and employment in the European economy, making up around 10% of GDP and supporting millions of jobs. The FTA strengthens EU competitiveness and creates opportunities for EU businesses in a highly dynamic region.

The Rapporteur is of the opinion that, in a time of a global financial and economical crisis, the conclusion of the KOREU FTA is a clear signal of commitment to free and fair trade and against protectionism.

Furthermore, the KOREU is the most comprehensive FTA ever negotiated by the EU and the flagship of the Global Europe Strategy, including dismantling of high tariffs, the elimination of Non-tariff barriers to trade, better market access for goods and services, recognition of international and European standards, protection of geographical indications, as well as commitments for sustainable development.

Moreover, several studies concluded to crucial benefits for both the European and Korean

economies:

- GDP within the EU and in Korea will rise significantly;
- EU exports to Korea will rise up to 82,6% and Korean exports up to 38,4% to the EU due to the elimination of tariffs and Non Tariff Barriers;
- exporters of industrial and agricultural goods to Korea will be relieved from duties up to € 1.6 billion per year;
- substantial new trade in goods and services will be created up to 19.1 billion for the EU,

The Rapporteur acknowledges that the Commission took the negotiation recommendations expressed by the European Parliament in the INTA Korea Report from 2008 fully into account. On its side, the EP took statements by many European business organizations, industries, companies and trade unions fully into account.

The civil society representatives were involved throughout the process of negotiations of the EU-Korea FTA for example via the civil society dialogue meetings and the consultation process that led to preparation of the Trade Sustainability Impact Assessment of the EU-Korea FTA. The FTA even sets up institutional structures to implement and monitor the commitments between the parties, including through civil society involvement. Each side will set up a civil society advisory group (so called Domestic Advisory Group), including a balanced representation of environment, labour and business organisations.

Finally, the Rapporteur took note of the serious concerns expressed by some European industries, especially in the automotive sector which, in his opinion, will be addressed by the European Parliament within the safeguard regulation. This bilateral safeguard clause provides for the possibility of reimposing the most-favoured-nation (MFN) rate when, as a result of trade liberalisation, imports increase to such an extent – in absolute terms or in relation to domestic production – and take place under such conditions as to cause, or threaten to cause, serious injury to the EU industry producing a similar or directly competing product.

The Committee on Industry, Research and Energy calls on the Committee on International Trade, as the committee responsible, to propose that Parliament give its consent.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	26.10.2010
Result of final vote	+: 43 -: 3 0: 2
Members present for the final vote	Jean-Pierre Audy, Ivo Belet, Bendt Bendtsen, Jan Březina, Maria Da Graça Carvalho, Giles Chichester, Pilar del Castillo Vera, Lena Ek, Ioan Enciu, Gaston Franco, Adam Gierek, Norbert Glante, Jacky Hénin, Edit Herczog, Romana Jordan Cizelj, Arturs Krišjānis Kariņš, Lena Kolarska-Bobińska, Bogdan Kazimierz Marcinkiewicz, Angelika Niebler, Jaroslav Paška, Anni Podimata, Miloslav Ransdorf, Herbert Reul, Teresa Riera Madurell, Jens Rohde, Paul Rübig, Amalia Sartori, Francisco Sosa Wagner, Konrad Szymański, Britta Thomsen, Patrizia Toia, Evžen Tošenovský, Claude Turmes, Niki Tzavela, Marita Ulvskog, Vladimir Urutchev, Adina-Ioana Vălean, Kathleen Van Brempt, Alejo Vidal-Quadras
Substitute(s) present for the final vote	Antonio Cancian, Matthias Groote, Jolanta Emilia Hibner, Yannick Jadot, Oriol Junqueras Vies, Silvana Koch-Mehrin, Bernd Lange, Markus Pieper, Mario Pirillo

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	7.2.2011
Result of final vote	+: 21 -: 4 0: 0
Members present for the final vote	William (The Earl of) Dartmouth, David Campbell Bannerman, Daniel Caspary, Marielle De Sarnez, Christofer Fjellner, Yannick Jadot, Metin Kazak, Emilio Menéndez del Valle, Vital Moreira, Godelieve Quisthoudt-Rowohl, Tokia Saïfi, Helmut Scholz, Robert Sturdy, Gianluca Susta, Keith Taylor, Iuliu Winkler, Pablo Zalba Bidegain
Substitute(s) present for the final vote	Josefa Andrés Barea, José Bové, George Sabin Cutaş, Béla Glattfelder, Salvatore Iacolino, Elisabeth Köstinger, Jörg Leichtfried, Jarosław Leszek Wałęsa
Substitute(s) under Rule 187(2) present for the final vote	Marietje Schaake