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Testimony before the Committee on Ways and Means, Subcommittee on Trade
on the Status of Negotiations on the United States-Republic of Korea Free Trade
Agreement

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Chairman Levin, ranking member Herger, and members of the Subcommittee, thank you for the invitation to provide testimony today to discuss Ford Motor Company's views on the US-Korea Free Trade Agreement. On behalf of the entire Ford Motor Company I also thank you for the strong commitment you have shown on trade issues that are hugely consequential for the United States automotive industry.

Ford Motor Company is a world leader in the manufacturing and sale of automotive products with 280,000 employees worldwide and over 100,000 employees here in the United States. We have a long and proud history. Founded in 1903, we actively compete in over 200 markets worldwide and our brand is among the most recognized and respected around the globe.

Ford has been operating in South Korea since 1995 and today has 2 dealerships with 16 showrooms and 35 service centers countrywide selling both the Ford and Lincoln brands. The majority of vehicles sold by Ford in Korea are built in the United States. Our number one selling vehicle in Korea is the Ford 500 (soon to be known as the Taurus) assembled at our Chicago assembly plant. We also sell the Ford Explorer, Escape, Mondeo, Freestyle, Mustang and Lincoln models.

South Korea is an important automotive market with annual sales of over 1 million vehicles, ranking it 9th in overall in size just behind Canada and India. For that reason, Ford Motor Company has dedicated sizable resources over the past 12 years to try to expand our presence in this market.

Unfortunately, today after 12 years of continuous effort and investment, Ford Motor Company sells less than 1,700 vehicles a year in South Korea. That is fewer vehicles than we sold a decade ago and equivalent to the number of vehicles we sell in single year in an average dealership in Northern Virginia.

Why is this the case? Is it the quality of imported cars? We have done a comparison of quality among imports and Korean made vehicles and found that most equal or far exceed Korean quality.

Is it the cost? Certainly the Korean tax and tariff structure are specifically designed to make imports more costly, but still this is not enough to explain the low level of imports.

Are Korean consumers so particular that they prefer a different mix or type of vehicle than US, European or Japanese customers? Again, we have done a side-by-side comparison of the major volume vehicles sold in the Korean market today and we found that in every case there is a comparable – and better – non-Korean choice available on the global market.

Or is there something more insidious that is occurring in the Korean market to keep exports out?

Understanding issues like this is one of my responsibilities at Ford. With the able assistance of an international team co-located with Ford's manufacturing presence around the world – and led from Washington, DC, -- my group monitors, analyzes and participates in negotiations involving multilateral, regional and bilateral free trade agreements, and trade preferences. We are closely engaged in negotiations around the world – many of which are between two or more third-party markets and do not involve the United States government.

Let me be clear from the start – Ford Motor Company supports trade liberalization. We have supported every free trade agreement negotiated by the United States government since this process began in the mid-1960s. In fact, our industry provided the original impetus for United States free trade policy when, joined by General Motors and Chrysler, we successfully pushed for the US-Canada Auto Pact in 1965. This free trade agreement, with our close ally and neighbor in Canada, became the foundation for the US-Canada Free Trade Agreement, which itself soon expanded to become the North American Free Trade Agreement. Contrary to popular belief, NAFTA has proven to be a success in expanding trade and investment in the auto sector in all three countries and bolstering the health of automobile manufacturers in Canada, Mexico and the United States.

Beyond NAFTA, it is worth noting that Ford – as well as General Motors and Daimler Chrysler – has endorsed every free trade agreement negotiated by the United States since then. As global companies, it is our confirmed belief that the very best business conditions exist when trade barriers and tariffs are removed – allowing for the free flow of goods and services. These conditions permit the development of a healthy and efficient business, and they are proven to produce a customer base that is gainfully employed, upwardly mobile and able to make rational choices about purchases such as the vehicle they will drive.

Mr. Chairman, as much as the United States automobile industry has supported open, global trade in our products, there are some competitors who are noteworthy exceptions to this rule. The government of Japan for decades kept tight restrictions on those who sought to invest in the Japanese industry, and virtually blocked the entry of imports. While today, with the Japanese industry so well developed that the market is difficult to penetrate for other reasons, the Japanese government still provides large scale assistance to its automotive exporters by keeping the value of the yen deeply discounted to provide price advantage over US built vehicles in our own market.

As bad as Japan's history has been on automotive trade issues however, it does not hold a candle to the record of the Korean government. While I earlier spoke about Ford's lack of market access into the Korea market, we are not alone. Today, Korea ranks 30th out of 30 among the largest automotive markets in terms of import market access. The average import market access among OECD countries is approximately 40%. In 2006, a total of approximately 40,000 import vehicles from manufacturers in all countries entered a Korean market of over one million new sales -- around 3.6% market share for the importers.

Let me emphasize this point. No manufacturer from any country can make significant sales into the Korean market. Not Ford, not General Motors, not Toyota, not Volkswagen -- nobody.

And while total import penetration into Korea remains low, Korean manufacturers freely export 70% of their production around the globe including into the US market.

In 2006 alone, Korean auto producers exported 700,000 vehicles into the US while US auto companies exported 4,000 vehicles into South Korea. As a result, and to no surprise, over 80% of the \$13 billion US trade deficit with South Korea is in automotive products.

The US government has not been disengaged from the issue of auto market access into Korea, in fact far from it. In 1995, in response to objections from the US auto industry about the problems with market access, the US government negotiated and signed a Bilateral Trade Agreement (MOU) with South Korea in an attempt to deal head on with the issue of non-tariff barriers (NTBs). A second auto agreement was negotiated and signed in 1998. The intent of both agreements was clear, to deal with the persistent nature of South Korean NTBs and substantially increase the market access for import vehicles. Unfortunately, despite great attention and effort, the real effects of the agreements were minimal and real market access into South Korea continued to be denied to importers.

Real market access for imported vehicles into Korea is prevented not by price, quality or consumer preference but rather by an elaborate layering and ever changing presence of non-tariff barriers (NTBs) that work to effectively set up barriers to imported products.

Non-tariff barriers in Korea take three forms, regulations and certification, tax structure and, anti-import bias. Korea's automotive safety and environmental regulations and certifications are often non-transparent and out of sync with international standards. Vehicle taxes, while burdensome, are also discriminatory in that they are structured in a way that disproportionately affects US vehicles. And finally, anti-import bias, actively supported by Korea's public and private sector, works to encourage consumers to embrace nationalism and shy away from import products.

Mr. Chairman, I stated at the outset that Ford Motor Company supports free trade, but I suppose we may be old fashioned in one important respect. When our government negotiates a free trade agreement we want the other party in the negotiation to support free trade too. Nothing in Korea's approach to this negotiation – nor to the negotiations in 1995 and 1998 – suggests to the automobile industry that the Korean government has the slightest intention to open their market.

Given Korea's status as a major global automotive player, its closed market to imports and the long history of unsuccessful US efforts to gain import access to the market, the US auto industry believes that these FTA negotiations are our last best chance to achieve real and meaningful results in Korea. At the same time, we will not be satisfied with yet another hollow promise for market access. We need a new approach.

US manufacturers proposed early on in these FTA negotiations, a non-traditional approach to gain real, sustained and meaningful access into the South Korean market. We are convinced that a traditional approach that attempts to negotiate around the edges of current NTBs -- as was the case in 1995 and 1998 -- will not have meaningful results for our industry. That method places the burden on Korea's trading partners to first identify the techniques used to block imports and then to come up with the solutions.

This is like the old arcade game of Wac-a-Mole – new regulations pop up each time we whack one down. I would hope the United States Trade Representative has had enough of that game, and will insist that the Korean government come up with solutions, remove the obstacles to imports, and allow the Korean consumer the same, full range of choices that the American consumer has. In short, the Koreans broke their market, and only they know how to fix it.

Specifically we have proposed that Korea immediately eliminate its 8% auto tariff and eliminate all of its NTB's. Furthermore, preferential tariff reductions into the US for Korean vehicles would occur only after meaningful and sustained market access was achieved in Korea. By tying US market preference to real market access into Korea, we are creating the right incentives for Korea to eliminate, and then not reinstitute, new NTBs.

Earlier this month a letter concerning the US-Korea FTA negotiations was sent to the President by a bipartisan group of 15 members of the House and Senate. Ford Motor Company believes that this letter contains an innovative and thoughtful approach to dealing with the longstanding issue of lack of market access for our products in the Korean market.

While press accounts suggest that automotive trade issues have been put off until the end of this negotiation, the possibility of finding agreement on this vitally important issue does not appear promising. Korean government representatives deny that any steps are taken to impede imports – a statement that on its very face is ludicrous.

Mr. Chairman, the United States automobile industry is in the midst of a difficult restructuring. We have made painful decisions to shed jobs and idle plants in order to become more competitive and restore profitability to our business in the face of tough competition. Yet, you have not heard us ask for protectionist policies to close off opportunity for importers in the US market. To the contrary, all we ask is the same level of access to their markets.

The United States passenger car market is today the most free and open in the world – and anyone can do business here. As a company that operates and competes in 200 markets globally Ford sees the real and tangible benefits of such policies. Free trade lowers transaction costs, improves efficiency and enables us to more cost effectively meet the demands of our customers here in the US and abroad. But free trade must truly be free, not encumbered by the layers of restrictions that are set up only to protect domestic industries. That is why we are hopeful that this negotiation, our last best chance, will result in real and meaningful market access for our products into Korea. If it does not, then it should not be approved.

Thank you