Trade Facts

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FACT SHEET ON AUTO-RELATED PROVISIONS IN THE U.S.-KOREA FREE TRADE AGREEMENT

The agreement contains a comprehensive package of unprecedented provisions that will ensure the Korean market is open to U.S. automobile manufacturers:

Tariffs

- Korea and the United States will eliminate duties on key priority passenger vehicles immediately; duties on other cars will be phased out over a three-year period. Imports of trucks with a 25 percent tariff rate will be phased out over a 10-year period.

Engine displacement taxes

- Korea will eliminate the discriminating aspects of Korea's Special Consumption and Vehicle Taxes, and will reduce existing tax rates.
- Korea will not impose any new engine displacement taxes and will maintain non-discriminatory application of these taxes.
- The agreement includes a commitment by Korea to publicize the availability of an 80 percent refund of subway/regional bond for purchasers of new automobiles.

Special expedited dispute settlement with "snapback"

- The agreement contains an innovative process for settling disputes on auto-related measures within six months. If panel finds a violation of an auto-related commitment or the nullification/impairment of expected benefits, the complaining Party may suspend its tariff concessions on passenger cars and assess duties at the prevailing MFN rate (i.e., "snap-back" any tariff reductions provided by the FTA). This will serve as a powerful deterrent against any violations of FTA commitments.

Auto-related non-tariff barriers

- K-ULEV (Ultra Low Emissions Vehicle). Under the agreement, Korea agreed not to apply the (ULEV) standard to motor vehicles produced by a manufacturer that sells 4,500 or fewer units in Korea. For those manufacturers selling between 4,501 and

10,000 units, the agreement provides for the application of a special ULEV rate used in California for small volume manufacturers. For manufacturers selling more than 10,000 units, Korea committed not to apply a standard that is more stringent than California for motor vehicle type. Korea will use the California Fleet Averaging System methodology to determine whether a manufacturer meets the standard.

- <u>OBD II (Onboard Diagnostics)</u>. The agreement provides a grace period until December 31, 2008, for manufacturers that sell 10,000 or fewer units per year in Korea.
- <u>Self-certification</u>. The agreement provides a grace period for imported motor vehicles for at least two years after Korean safety standards are issued. If issued, only apply to a model that is subject to a government-mandated recall, and motor vehicles produced by a manufacturer selling 6,500 or fewer units will be deemed to be in compliance if they meet U.S. standards.

Autos Working Group. The agreement includes a provision to create an Autos Working Group, which will provide a specialized "early warning system" to address regulatory issues that may develop in the future. When Korea is developing new regulatory measures, it must provide information to the working group as soon as that information is provided to stakeholders. The working group will analyze potential new regulations and provide views to the Korean government, in order to promote good regulatory practices.

Other autos-specific commitments on non-tariff barriers. Korea agreed not to adopt technical regulations that create unnecessary barriers to trade, and to cooperate to harmonize standards.

Anti-import bias. Korea and the United States committed that it is not policy to discourage the purchase or use of goods or services of the other Party.