



The U.S.-Korea Trade Agreement: *Opportunities for the U.S. Machinery Sector*

The U.S.-Korea Trade Agreement would provide significant commercial opportunities for U.S. exporters:

- Korea is the **5th largest** market for U.S. machinery exports; failure to pass the U.S.-Korea Trade Agreement could enable exporters from the EU and other countries to gain key advantages over U.S. exporters to Korea.
- Estimated duties paid on exports of U.S. machinery products to Korea were over **\$638 million** from 2008 to 2010. Tariff elimination could allow U.S. firms to reinvest in technology and production improvements.
- **More than 86 percent** of U.S. machinery exports to Korea would receive duty-free treatment within three years of implementation of the U.S.-Korea Trade Agreement; Korean machinery tariffs currently average 7.5 percent, ranging up to 13 percent.

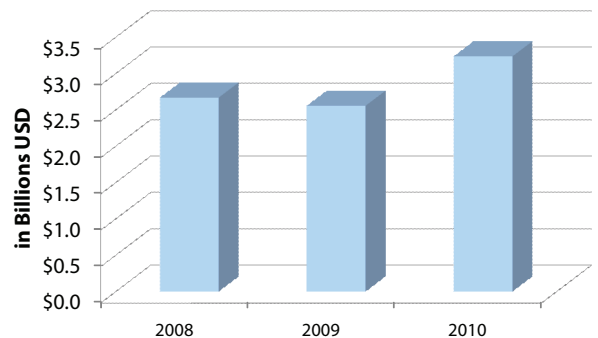
Machinery Sector Overview

- The machinery sector accounted for over \$2.8 billion in U.S. exports to Korea over 2008-10 (average) or over 9 percent of total U.S. industrial exports to Korea.¹
- Top U.S. machinery exports to Korea include pumps, compressors, valves, energy equipment, machine tools, mining machinery, piston engines and engine parts, and machinery for the production of textiles, chemicals, rubber and plastics.
- In 2009, U.S. production of machinery products was over \$293 billion.²
- The U.S. machinery sector employed over 500 thousand workers in 2009.³
- U.S. SMEs exported approximately \$1.8 billion in machinery products to Korea in 2008 and made up an estimated 83 percent of all U.S. firms in the sector exporting to Korea in 2008.⁴
- Korea's manufacturing industry is expected to see increased investments in plants and equipment in the near future, particularly in the semiconductor and automotive industries. Furthermore, the Korean market offers areas of opportunity for U.S. exporters due to increased public and private spending on infrastructure and public works projects.⁵

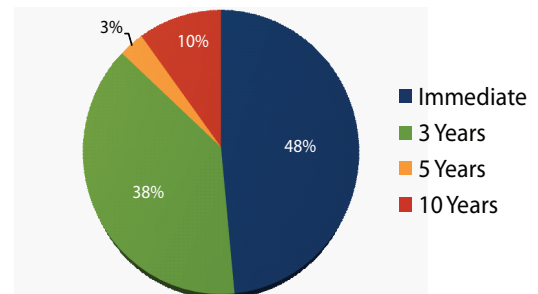
Improved Market Access for U.S. Machinery Exporters to Korea

- Korean machinery tariffs average 7.5 percent, ranging from zero to 13 percent.

U.S. Machinery Exports to Korea Averaged \$2.8 Billion



More than 86% of U.S. Machinery Exports to Korea Would be Duty-Free Within Three Years



¹ Global Trade Atlas. Calculations by the U.S. Department of Commerce based on import data as reported by Korea. The definition for machinery used in this report, unless otherwise cited, is based on products within Harmonized System (HS) Chapters 73, 82-85, 87, and 89-91.

² U.S. Department of Commerce, U.S. Census Bureau, within NAICS 331-335. Shipments used as a best available proxy for production.

³ U.S. Department of Labor, Bureau of Labor Statistics, within NAICS 331-335 (non-seasonally adjusted data).

⁴ U.S. Department of Commerce, U.S. Census Bureau, NAICS 333.

⁵ U.S. Department of Commerce, U.S. & Foreign Commercial Service, including from the 2010 Country Commercial Guide for Korea.

⁶ Data based on three-year average for 2008-2010. Totals do not equal 100 percent due to rounding.

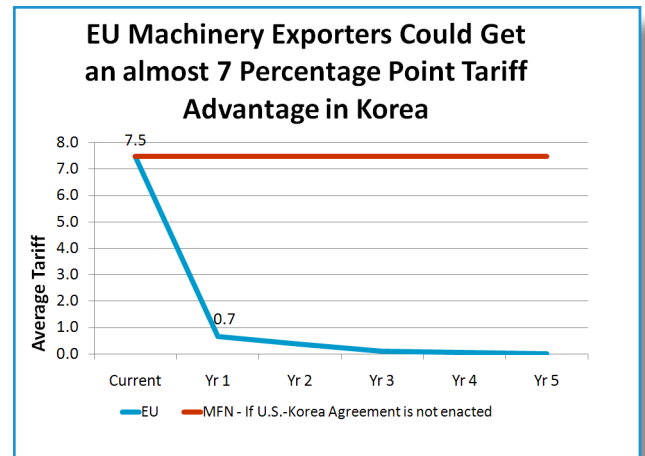
- Over 48 percent of U.S. machinery exports⁶ to Korea would receive duty-free treatment immediately upon implementation of the trade agreement.
- Tariffs on an additional 38 percent of machinery exports to Korea would be eliminated over three years and tariffs on nearly 3 percent of machinery exports would be eliminated over five years.
- Tariffs on the remaining 10 percent of U.S. machinery exports would be eliminated in equal cuts over ten years.

Selected Sub-Sectors:

- **Energy Equipment:** Korea would eliminate tariffs on 53 percent of U.S. energy equipment exports immediately upon implementation of the trade agreement, and duties on 45 percent of exports would be eliminated over three years. Tariffs on the remaining 2 percent would be eliminated within 10 years.
- **Tools:** Korea would eliminate tariffs on 66 percent of U.S. tools exports immediately upon implementation of the trade agreement, and tariffs on 29 percent of exports would be eliminated over three years. Tariffs on the remaining 5 percent would be eliminated over 5 years.

Foreign Competition in the Korean Market

- Korea signed a trade agreement with the EU in 2009, which is scheduled to enter into force in July 2011. It also recently signed an FTA with Peru, which is also scheduled to enter into force this year. Korea presently has FTAs in force with ASEAN, Chile, India, Singapore, and EFTA. In addition, Korea is negotiating new agreements with Australia, Canada, Colombia, New Zealand, and Turkey; is considering launching FTA negotiations with China; and is exploring re-launching its stalled negotiations with Japan.
- EU machinery exporters will immediately enjoy an average tariff of 0.7 percent upon entry into force of the EU-Korea FTA, while U.S. exporters will face an average most favored nation (MFN) tariff of 7.5 percent until entry into force of the U.S.-Korea Trade Agreement.⁷



Key States Exporting to Korea

- Top U.S. states exporting machinery to Korea include: California, New York, Texas, Pennsylvania, Ohio, Illinois, Connecticut, Michigan, Indiana, and North Carolina.

Other Key U.S.-Korea Trade Agreement Commitments for the Machinery Sector

- **Rules of Origin:** The U.S.-Korea Trade Agreement rules of origin allow only products that are produced in the United States and Korea to receive preferences under the Agreement. The trade agreement rules of origin provide clear requirements for a good to be considered originating, including that a good must be wholly obtained or produced entirely in the territory of the United States or Korea as well as requirements on materials that are used in the production of the good. Importers may claim preferences under the trade agreement based on a certification by the importer, exporter, or producer or based on the importer's knowledge that the good is originating, but certifications need not be in a prescribed format.
- **Investment:** The U.S.-Korea Trade Agreement establishes a stable legal framework for U.S. investors and investments in Korea, backed by a transparent, binding international arbitration mechanism. All forms of investment are protected under the Agreement. With few exceptions, U.S. investors would be treated as well as Korean investors (or investors of any other country) in the establishment, acquisition, and operation of investments in Korea.
- **Government Procurement:** Korea and the United States are members of the WTO Agreement on Government Procurement and already enjoy open and transparent access to each other's government procurement markets. The U.S.-Korea Trade Agreement enhances this relationship by increasing the procurements to which U.S. suppliers will be ensured non-discriminatory access by reducing the goods and services threshold to \$100,000 from \$203,000 for central government entities. The Agreement also incorporates important improvements that reflect the emerging practices in procurement, such as reducing the tendering period for "off-the-shelf" goods and services and encouraging the use of electronic tendering.

⁷ U.S. Department of Commerce calculations based on EU-Korea FTA and U.S.-Korea Trade Agreement tariff commitments.

KORUS Opportunity Stories

Examples of Specific Companies in the Machinery Sector that will Benefit from KORUS

AA-EDM (Michigan): AA-EDM, located in Ann Arbor, Michigan, designs, builds and maintains electrical discharge machinery that machines micro holes for diesel and gasoline fuel injectors. The company was founded in 2009 by John MacGregor, president, George Barbulescu, vice president of manufacturing and Nicky Borcea, vice president of marketing, three engineers with many years of experience in the machine tool industry. The group had worked several years for a well-known machine tool manufacturer who decided to shut his doors and sold the business to this group of entrepreneurs.

The group has aggressively pursued international business and it used the U.S. Commercial Service's Gold Key program to find a buyer in South Korea. In 2010, the company made a sale valued at \$200 thousand to Daeshin Engineering and has signed three representatives in South Korea.

[The company supports the U.S.-Korea Trade Agreement because reduced tariffs will, hopefully, give the company a competitive edge against foreign competition in that market and this will be important for future sales in South Korea.](#)

MOGAS Industries (Texas): MOGAS Industries is a family-owned manufacturer of metal-sealed ball valves designed to address severe-service challenges in a number of businesses, including power, oil and gas, petrochemical and refining. The company was founded in 1973 by current Chairman Louis Mogas and currently employs 200 workers in the Houston area.

MOGAS relies on international markets, which represent a substantial percentage of the company's total sales. Asia accounts for 20 percent of MOGAS's exports, with Korea an increasingly important market. MOGAS has been doing business in Korea since 1986 and sees significant growth opportunities as Korea's refineries transition from sweet to heavy crude oil, the latter of which requires the use of high-end severe-service ball valves.

[MOGAS strongly supports the U.S.-Korea Trade Agreement \(KORUS Agreement\), which would eliminate the 8 percent tariffs currently applied to MOGAS's exports of valves to Korea. Additionally, MOGAS would benefit from provisions under the agreement that simplify customs procedures for the timely and efficient release of goods \(i.e., within 48 hours of the arrival of goods in Korea, to the extent possible\), reduce delays in customs clearance, and expedite customs procedures for express shipments.](#)

According to Matt Mogas, President and CEO of MOGAS Industries, ["the phasing out of tariffs would enable MOGAS to compete with exporters from the EU and Canada and would increase U.S. revenues and support the creation of jobs. Furthermore, the agreement's customs provisions could allow us to get products in the hands of our customers quicker and more efficiently, which is absolutely critical in our industry."](#)

Pipe Line Development Company (PLIDCO) (Ohio): Pipe Line Development Company (PLIDCO), a Cleveland, Ohio-based manufacturer of pipeline repair and maintenance fittings, was founded in 1949 and currently employs approximately 100 employees. PLIDCO's products are used worldwide to repair leakage in piping systems for onshore and offshore oil and gas transmissions, refinery, chemical, petrochemical, power generation, and other energy pipe-related requirements. International markets and sales comprise 74 percent of PLIDCO's export revenue and include Korea and other Asian markets, such as Japan, China, Thailand, Indonesia, and Malaysia.

[PLIDCO, which has supplied pipe repair fittings to gas and oil companies in Korea and several diameters of Split+Sleeves to Korea Industrial Gases in Seoul, currently faces tariffs of up to 8 percent on its exports to the country. These tariffs would be eliminated immediately upon implementation of the KORUS Agreement, enabling PLIDCO to compete with other top exporters to Korea, including those from the EU and Iran.](#)