Statement by Ambassador Demetrios Marantis
Deputy United States Trade Representative

House Committee on Ways and Means
Subcommittee on Trade

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Good morning Chairman Brady, Ranking Member McDermott, Members of the Committee, it is an honor and a pleasure to testify today about the U.S.-Korea trade agreement (KORUS).

We are here at a unique moment in our nation's history, presented with a unique opportunity. Our economy is recovering, and for six straight quarters American exports have been driving our economic growth. GDP is up nearly three percent, and exports of goods and services are up 17 percent. This export growth already has supported hundreds of thousands of additional American jobs.

At this moment, Congress has the singular opportunity to pass and implement the most economically significant trade agreement the United States has negotiated in nearly two decades. The U.S.-Korea trade agreement will strengthen our trade and investment ties to Korea's $1 trillion economy. It will bind a key strategic ally closer to us, anchor our economy to the dynamic Asia-Pacific, and help us keep our edge over international competition. It is a key element in our economic strategy in the region. Most importantly, the U.S.-Korea trade agreement will create substantial export opportunities, establish strong enforcement provisions, and support new export-related jobs.

Many of you – as well as the Administration – had serious concerns about the trade agreement signed in 2007. We heard you, and we took action. After extensive consultation with members of this Committee and others, as well as a wide range of labor, business, and other stakeholders, the United States and Korea agreed, last December, to a new set of commitments that will generate additional tangible benefits for the American economy.

We agreed to five central elements that taken together will help make Korea's auto market more open, fair, and transparent.

First, we tackled Korea's unique auto safety and environmental standards that pose a costly and unfair non-tariff barrier to U.S. auto exporters. Korea's safety standards are no more stringent than the U.S. standards, and Korea's standards offer no more vehicle safety than U.S. standards. However, because several of Korea's safety standards are unique, they have served as a significant non-tariff barrier to U.S. auto exports. No car that rolls off a U.S. assembly line can be certified for sale in Korea as is. Instead, in order to export that car to Korea, the automaker must modify the vehicle and run additional tests to show it meets Korea's unique standards.

These modifications and additional testing – which do nothing to increase the safety level of the vehicle – add significant costs for U.S. automakers. This is especially true when automakers are selling just a few vehicles. Per unit modification and testing costs can be so high that our automakers question whether exporting to Korea is worth the investment.

In response to these challenges, in December, the United States and Korea agreed that vehicles produced by automakers which sell fewer than 25,000 U.S.-made cars per year in Korea will be deemed to comply with Korean auto safety regulations if the automaker certifies that they meet U.S. federal safety standards, which are among the most stringent in the world. This number is neither a quota nor a ceiling on sales**.** Automakers will be free to sell additional vehicles into the Korea market beyond this 25,000 threshold.

The non-tariff barriers posed by unique Korean automotive environmental standards have been similarly challenging, and the 2007 agreement addressed an important concern in this area. Since then, however, both the United States and Korea have promulgated standards to strengthen vehicle emissions standards to combat climate change. Nothing in this agreement changes these policies or their effect. We acted to make sure the new Korean standards do not stand as unnecessary non-tariff barriers to U.S. automakers. As part of the outcome of the negotiations, Korea agreed to include a small-volume manufacturer provision as its new fuel economy regulations phase in, a typical provision in regulations of this type to take into account the special circumstances faced by small volume manufacturers. As the new Korean fuel economy regulations come into effect, automakers that sold fewer than 4,500 autos in Korea in 2009 (which includes all U.S. automakers) will comply if the fleet they sell in Korea comes within 19 percent of the Korean target. This provision helps American automakers sell their cars affordably in Korea without undermining Korea's environmental objectives. In addition, both countries agreed to take into account improvements in manufacturers' fuel economy and greenhouse gas emissions performance and international standards when developing future regulations in this area.

Second, in December we also negotiated a tariff structure that will give American auto companies and their workers a chance to build up more business in Korea before U.S. tariffs come down. Specifically, our agreement keeps the U.S. 2.5 percent auto tariff in place until the fifth year of the U.S.-Korea trade agreement. At the same time, Korea will immediately cut its 8 percent tariff on U.S. auto imports in half (from 8 percent to 4 percent), and fully eliminate that tariff in the fifth year. The United States may also maintain its 25 percent truck tariff until the eighth year and then phase it out by the tenth year. Korea agreed to eliminate its 10 percent tariff on U.S. trucks immediately. We also agreed to encourage green technologies by immediately cutting in half Korea's tariffs on electric car exports and eliminating both of our tariffs on these cars within five years – five years earlier than under the 2007 agreement.

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Third, in addition to market-opening tariff and non-tariff barrier provisions, in December, we also agreed to protect U.S. auto companies and their workers from potential harmful surges in Korean auto imports by establishing a new special motor vehicle safeguard. While the 2007 agreement contained a general safeguard for all products, it did not include a safeguard specific to the U.S. auto industry. We knew we could do better, and in December, we agreed to add a special safeguard for motor vehicles to ensure that the American auto industry does not suffer from any harmful surges in Korean auto imports. This special safeguard incorporates additional procedural improvements to make the motor vehicle safeguard easier to use and longer lasting than our general U.S.-Korea trade agreement safeguard.

Fourth, we pushed for more transparency in the Korean market. The 2007 agreement prohibits Korea from adopting new automotive regulations that create unnecessary barriers to trade and establishes an early warning system for regulations that may serve as potential trade barriers. Through our domestic consultations, we heard that enhanced transparency would be helpful, and in December, negotiated two important additions. First, we agreed on a 12-month period between the time a final significant motor vehicle-related regulation is issued and the time auto companies must comply with it, giving companies sufficient time to adjust. Second, Korea agreed to begin a review process within 24 months of entry into force of the U.S.-Korea trade agreement to ensure that existing significant motor vehicle-related regulations accomplish their objectives in the least burdensome manner possible.

Fifth, in the 2007 agreement, Korea committed to reduce tax rates for American cars and to streamline current taxes based on engine size, which have tended to raise the cost of the typically larger-sized American vehicles sold in Korea. In December, we went further by getting agreement from Korea that any future automotive taxes based on fuel economy or greenhouse gas emissions will be adopted in a manner consistent with certain general transparency obligations.

These commitments build on the extensive set of provisions in the 2007 agreement. Taken together, they offer significant economic benefits to the United States. We all know the significant tariff cutting benefits in this agreement. Immediately upon entry into force, the U.S.-Korea trade agreement eliminates tariffs on two-thirds of “Grown in America” agricultural exports to Korea, including the fruits, nuts, vegetables, and soybeans your constituents produce. Korea is already our fifth-largest agricultural export market, and the Department of Agriculture projects that Korea will purchase an estimated $6.21 billion of U.S. agricultural products during fiscal year 2011. This agreement builds on this export success to the benefit of our farmers and ranchers.

Within five years of entry into force, the U.S.-Korea trade agreement removes tariffs on over 95 percent of “Made in America” industrial and consumer good exports to the benefit of your districts’ aerospace, automotive, electrical equipment, and environmental goods companies and workers. Manufactured goods account for 80 percent of exports to Korea – reaching a record $32 billion in 2010. The tariff reductions and other provisions in this agreement put our manufacturing sector on course to set and break new export records.

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The U.S.-Korea trade agreement also provides significant new access for our services industries – information and communications technology, wholesale and retail distribution, and express delivery services –to Korea's $580 billion services sector. Korea is a major market in this area – the world's 8th largest importer of services – and Korean imports of services have grown 40 percent faster than the rest of the world over the past decade. In fact, total U.S. sales of private commercial services to Korea through cross-border and affiliate channels is estimated to have exceeded $24 billion in 2009. New opportunities in Korea's expanding market have great potential to translate into additional export-supported jobs here at home.

Underpinning these new export opportunities are the U.S.-Korea trade agreement's state of the art provisions to help protect and enforce intellectual property rights, reduce red tape, and eliminate unwarranted regulatory barriers to U.S. exports. This agreement contains the highest standards for protecting labor rights, promoting the environment, and ensuring that key domestic labor and environmental laws are enforced, combined with strong remedies for non-compliance.

We also know that taken together, these additional export opportunities and stronger and better rules mean one thing – more jobs for Americans. The tariff reductions on goods exports alone will lead to significant increases in U.S. exports to Korea that will directly support over 70,000 additional American jobs. And that is a conservative number, since it does not include services liberalization and removal of non-tariff barriers. More services exports to Korea will support tens of thousands of additional jobs. And fewer non-tariff barriers and stronger rules will support even more.

We remain committed to further opening beef markets across Asia, including Korea, consistent with international science. In the meantime, when implemented, the U.S.-Korea trade agreement will progressively reduce Korea's 40 percent beef tariff and enable America's beef producers to build on the strong growth in exports to Korea they are now experiencing.

Finally, we are here today not just because of what is in the U.S.-Korea trade agreement, but also because of who is behind it. A broad, bipartisan coalition of unions, businesses, farmers, ranchers, auto workers, and many of you support the U.S.-Korea trade agreement.

Working with you, this Administration addressed outstanding concerns with the U.S.-Korea trade agreement. Working with you, we made significant improvements that build on an historic agreement that will have real benefits to our auto industry, its workers, and our economy. And working with you, with these improvements we can now move forward. Now is the time to pass this agreement so American families can realize the many benefits of the U.S.-Korea trade agreement. Working together, let's get the U.S.-Korea trade agreement done now.

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