INTERNATIONAL
TRADE
ADMINISTRATION

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

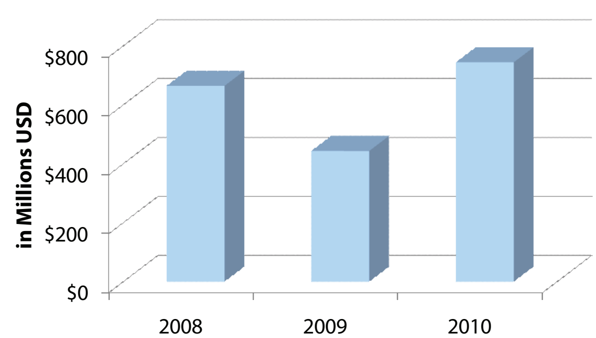
The U.S.-Korea Trade Agreement would provide significant commercial opportunities for U.S. exporters:

- U.S. auto companies and American auto workers would have an opportunity to take advantage of increased market access opportunities in Korea before the reduction of U.S. tariffs on Korean autos.
- The agreement addresses non-tariff barriers that have restricted American automakers' access to the Korean market and increased the cost of producing vehicles for sale in Korea.
- The agreement would strengthen enforcement and protections from sudden harmful import surges, helping to level the playing field for America's auto industry and workers.

Automotive Sector Overview

- The U.S. automotive sector accounted for $617 million in U.S. exports to Korea over 2008-10 (average).[1]
- Top U.S. automotive exports to Korea include miscellaneous auto parts, compression ignition internal combustion engines, rear-view mirrors, gear boxes, brake linings, and automobiles with engine capacity greater than 3,000 CCs.
- The U.S. automotive industry accounts for over 4 percent of U.S. GDP through intricate supply chains that range from raw materials to advanced technology inputs.
- In 2009, U.S. production of automotive products was about $206 billion.[2]
- The U.S. automotive sector employed approximately 666,400 workers in 2009, providing jobs in all 50 states.[3]

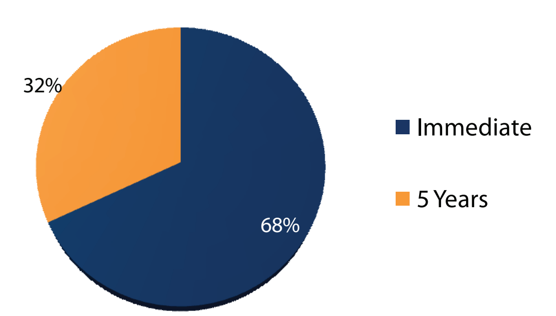
U.S. Automotive Exports to Korea Averaged $617 Million



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

- Korean automotive tariffs average 8.3 percent, ranging from 3 to 10 percent.
- Nearly 68 percent of U.S. automotive exports[4] to Korea would receive duty-free treatment immediately upon implementation of the trade agreement.
- While tariffs on the remaining 32 percent of U.S. automotive exports would be eliminated over 5 years, meaningful reductions to these tariffs occur upon entry into force:
  - Korea's current tariffs of 8 percent on non-electric cars would be reduced to 4 percent upon entry into force of the agreement, and then would be eliminated by year five.
  - Korea's current tariffs of 8 percent on electric cars would be reduced to 4 percent upon entry into force of the agreement, and then would be eliminated in equal cuts through year five.

Nearly 68% of U.S. Automotive Exports to Korea Would be Duty-Free Immediately



[1] Global Trade Atlas. Calculations by the U.S. Department of Commerce based on import data as reported by Korea. The definition for autos in this report, unless otherwise cited, includes products within Harmonized System (HS) Headings 8701, 8702, 8703, 8704, and 8706. The definition for auto parts, unless otherwise cited, includes products within HS Chapters 68, 70, 83, 84, 85, 91, and 94 and HS Headings 8707, 8708, and 8716.
[2] U.S. Department of Commerce, U.S. Census Bureau, within NAICS 336. Shipments used as a best available proxy for production.
[3] U.S. Department of Labor, Bureau of Labor Statistics, within NAICS 336 (non-seasonally adjusted data).
[4] Data based on three-year average for 2008-10.

Selected Sub-Sectors:

- *Autos:* Korea would eliminate tariffs on 100 percent of U.S. autos exports within five years of implementation of the U.S.-Korea Trade Agreement.
- *Auto Parts:* Korea would eliminate tariffs on nearly 100 percent of U.S. auto parts exports immediately upon implementation of the agreement. Tariffs on the remaining less than 0.1 percent of U.S. auto parts exports would be eliminated over three years.

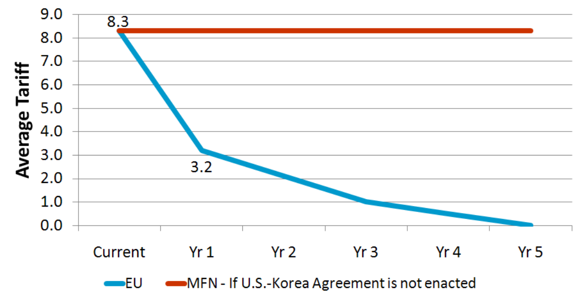
Longer U.S. Tariff Phase-Outs for Autos

- U.S. most favored nation (MFN) tariffs of 25 percent on light trucks would be maintained until year eight after entry into force of the agreement, and then would be eliminated in equal cuts through year 10.
- U.S. MFN tariffs of 2.5 percent on non-electric cars would be maintained until the end of year four after entry into force of the agreement, and then would be cut to zero effective year five.
- U.S. MFN tariffs of 2.5 percent on electric cars would be eliminated in equal cuts through year five after entry into force of the agreement.

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.
- European and Japanese car makers are the primary rivals to U.S. exporters in the Korean market. Australia, Canada, and Mexico are all world class auto-producing countries, as well, and directly compete against U.S. exporters in Korea.
- EU automotive exporters will immediately face an average tariff of 3.2 percent upon entry into force of the EU-Korea FTA, while U.S. exporters will face an average MFN tariff of 8.3 percent until entry into force of the U.S.-Korea Trade Agreement.[5]

EU Automotive Exporters Could Immediately Get a 5 Percentage Point Tariff Advantage in Korea



Key States Exporting to Korea

- Top U.S. states exporting autos and auto parts to Korea include: California, Michigan, New York, South Carolina, New Jersey, Illinois, Maryland, Indiana, Texas, Georgia, and Tennessee.

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

- *Automotive Safety Standards:*
  Under the agreement, in any given year as many as 25,000 cars per U.S. automaker would be considered safety-compliant when imported into Korea provided they meet U.S. federal safety standards.
- *Automotive Environmental Standards:*
  The agreement would allow U.S. autos, already subject to strict American environmental standards, to be considered compliant with new Korean environmental standards on fuel economy and greenhouse gas emissions, developed since the original 2007 agreement, if they achieve targets within 19 percent of those in Korea's new regulations.
- *Taxes:*
  Korea would commit to reduce tax rates for American cars and streamline current taxes based on engine size and apply additional transparency provisions for any future tax changes.
- *Transparency:*
  The agreement would prohibit Korea from adopting new automotive regulations that create unnecessary barriers to trade and establish an early warning system for potential trade barriers. The agreement would also: (1) create a 12-month period between the time a final regulation is issued and the time auto companies must comply with it, giving companies sufficient time to adjust, and (2) require Korea to develop a new review system within 24 months of entry into force of the agreement to make sure that existing auto regulations accomplish their objectives in the least burdensome manner possible.
- *Special Motor Vehicle Safeguard:*
  Korea has committed 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 due to this trade agreement. This safeguard: (1) would be available for 10 years beyond full elimination of tariffs for each Korean auto product; (2) would not require that the U.S. government offer Korea tariff reductions or other compensation – generally required when a safeguard is applied – for up to two years after this particular safeguard is applied; (3) could also be applied more than once per particular auto product if more than one surge causes serious damage to U.S. production of that product (and the higher tariffs could be applied to a particular product for as long as four years, instead of three years as in the agreement's general safeguard); (4) would not require the U.S. to progressively re-lower tariffs while the special motor vehicle safeguard is applied; and (5) would require fewer procedural steps to speed up the application of the safeguard when U.S. workers need faster relief.
- *Enforcement:*
  The agreement would create a tough remedy for the United States to re-impose as much as $200 million in U.S. tariffs (i.e., "snapping back" to pre-agreement levels) on Korean passenger cars if U.S. auto business in Korea is materially affected by Korean violations of the agreement. The 2010 supplemental agreement would substantially increase Korea's obligations in a number of areas subject to this strong enforcement mechanism.

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