



Working group on Automotive Industry

Minutes of the breakfast debate of Wednesday 17 March 2010 on

*"The EU trade policy – How to guarantee fair competition for the European automobile industry –
The EU-South Korea FTA case"*

Chaired by Jorgo Chatzimarkakis MEP

Introduction by

- Jorgo CHATZIMARKAKIS MEP, Liberal, Member of the Industry Committee at the European Parliament

Speakers:

- David O'SULLIVAN, Director General, DG Trade, European Commission
- Pablo ZALBA BIDEgain MEP, EPP-ED Group, Member of the International Trade Committee at the European Parliament
- Ivan HODAC, Secretary General of ACEA, the European Automobile Manufacturers Association

1. Introduction

- *Jorgo Chatzimarkakis MEP, Chairman of the Kangaroo Group Automotive*

Mr Chatzimarkakis introduced the subject of the breakfast debate, namely how to guarantee fair competition for the European automobile industry when negotiated trade agreements, explaining that the Commission adopted its Global Strategy in 2007 to complement the trade negotiations carried out in the Doha Round. The Commission received a mandate from the Council in April 2007 to launch negotiations with South Korea. The trade talks were completed in July 2009 and the text initialled in October of that year. The Commission hopes for a ratification of the agreement in 2010, envisaging at least a provisional application of the deal this year. Mr Chatzimarkakis also pointed out the stronger role of the EP in ratifying trade agreements with the entry into force of the Lisbon Treaty.

2. Presentation by David O'Sullivan

- *Director General, DG Trade, European Commission*

David O'Sullivan first explained the rationale of the EC Global Strategy, i.e. the importance for the EU to be more present on the global scene when its main competitors are moving fast. This encompassed Korea, India and ASEAN. As far as ASEAN is concerned, the preferred block-to-block approach proved impossible for now, the Commission is moving ahead with bilateral negotiations. O'Sullivan pointed out that although South Korea was not a big market, it was a key one, in term of opening Asia to Europe. With the US working on KORUS, it was crucial for the EU to negotiate too to ensure a level playing field for EU operators.

Mr O'Sullivan highlighted the benefits of the FTA, not only in term of increased trade flows with gains of several billion euros on both sides, but also in term of regulatory issues where breakthroughs have been made, in term of competition, intellectual property including GIs and enforcement mechanisms. All Member States, he pointed out, support the agreement, with Italy having some hesitations. EU industry in general is also supporting the agreement.



Focusing on the automobile sector, he pointed out that the EU market was much bigger and that a trade imbalance between EU and South Korea was therefore a given. The FTA would not eliminate the trade deficit resulting from this but it would establish a level playing field. He stressed that the auto segments most at risk from competition would be protected longer (5 years rather than 3) and that EU negotiators had addressed all NTB issues raised by the auto industry: South Korea would for example recognise UNECE 1958 Regulations but also OBD and Euro VI standards. A mechanism would be put in place to settle disagreements in case new NTBs appeared. South Korean manufacturers would have to comply with EU standards.

Mr O'Sullivan also pointed out that the EU car market was not only influenced by trade policies. Sales of Korean cars were increasing in the EU whilst imports from Korea were declining. South Korean manufacturers are increasingly producing in the EU. In addition, the EU is increasingly importing cars from other destinations than Korea.

On the rules of origin, he explained that a foreign sourcing of 45% (currently 40%) would now be allowed but he downplayed the impact of the change, indicating that South Korean manufacturers imports much less of parts and components from 3rd countries (about 10%).

On duty drawback, David O'Sullivan reminded the audience that South Korea and the EU both use duty drawback and that conceding it to South Korea does not offer its manufacturers additional benefits, quoting a less than €100 benefit for a €10,000 car. He also pointed out that the US had not challenged duty drawback either. Moreover a specific safeguard clause would allow the EU to cap duty drawback at 5% in case of abuse. Finally the Commission has also proposed a bilateral safeguard clause that can be triggered on threat of injury and can apply to specific segments of the market. The Commission was willing to discuss modalities further.

Summing up, Mr O'Sullivan repeated that the FTA was a good deal for Europe and for the automobile industry, providing a level playing field. The agreement will not solve the structural problems of the industry in Europe and not signing it would not stop competition from South Korean cars, already produced in Europe. With the US delaying ratification of KORUS, the EU has also the chance to gain first mover advantage.

3. Presentation by Pablo Zalba Bidegain MEP

- *Member of the International Trade Committee in the European Parliament, Rapporteur on the bilateral safeguard clause*

Mr Zalba Bidegain first stressed the strong support and commitment of his political group to free trade, which especially in time of crisis opens up new opportunities for businesses and sends a positive sign to the world. He asked however for balanced agreements offering equal opportunities to the trading partners. EU companies must compete on the same terms as Korean ones. While he recognised much good in the FTA and benefits to be ripen, he also stressed that some sectors (textile, steel, automobile) had raised concerns which must be heard.

Worried about the impact of duty drawback, he called for a constructive role for the EP notably in working on the bilateral safeguard clause. This clause should be used to minimise the concern of the industry and make the deal as attractive as possible. To that end the clause will have to be applicable and efficient. Mr Zalba Bidegain highlighted what he saw as the main flows of the proposal, namely the scope of application, the definitions, the absence of possibility for the industry itself to ask for an investigation and the time-frame foreseen which should be reduced. He would also like to see a link between the bilateral safeguard clause and the duty drawback one.

Concluding, Mr Zalba Bidegain stressed that this FTA with South Korea was the first of a new generation of FTAs and that as a result it was of utmost importance to obtain the best possible results.



4. Presentation by Ivan Hodac

- *Secretary General of ACEA, the European Automobile Manufacturers Association*

Ivan Hodac first stressed that the automobile industry is in favour of free trade. It supports a swift conclusion of the Doha Round as well as numerous FTAs (India, Mercosur) but ask for balanced deals. Agreements must provide market access but also not create unfair competition in the EU. Hodac then stressed the importance of the automobile sector for South Korea during the negotiations.

Mr Hodac questioned the level playing field supposedly achieved by the FTA. While he recognised the important progress made on NTBs, he argued that the change in rules of origin and duty drawback – never granted to an OECD country before and setting a dangerous precedent for negotiations with India, Canada, etc. – undermine the level playing field on the EU market. He challenged the figure given by David O’Sullivan, pointing out that an independent study from Credit Suisse estimated gains of €300 to €500 per cars with the duty drawback.

Mr Hodac also highlighted that the Korean market was extremely closed and would remain so. Korean manufacturers lead aggressive export policies thereby solving overcapacity issues in South Korea without massive unemployment.

Mr Hodac repeated that the auto industry was not the principle of a deal with South Korea but against the content for the auto sector. He reminded the audience that the deal was expected to lead to 60 million euros saving for the EU auto industry to export cars to South Korea but to 600 million savings for their Korean counterparts, giving them more chance to invest and remain competitive. He also pointed out that the US refused to ratify an unbalanced deal for its auto and beef sectors.

Concluding, Mr Hodac called on the EP, Commission and Member States to look at ways to improve the agreement, stressing that South Korea was likely to introduce new NTBs (CO2 legislation) against which the EU would be unable to react. He reminded the audience that despite the signing of two memorandum of understanding with the US, South Korea had never respected its side of the bargain and called therefore for watertight guarantees for the EU industry.

During the discussion that followed, the Commission was asked whether the agreement had a mechanism to prevent insidious and therefore hard to tackle NTBs, common in South Korea. The auto industry was traded-off, it was claimed. On the contrary the US was more vigorous in defending its auto industry (including duty drawback, back on the agenda of the USTR). As Ron Kirk would be visiting the EU shortly, would the Commission be willing to sit together with its US counterparts to discuss ways to work together to open the South Korean market?

The tyre industry which is not concerned by duty drawback welcomed the agreement, stressing that South Korea’s recognition of the UNECE 1958 Regulations was setting a crucial precedent. The industry did not expect to increase its sales in that country much though as it expected the market to remain closed to foreigners.

There seems to be little research on duty drawback and its consequences it was said. Yet conceding it would establish a precedent for future agreements. Isn’t it a disguised free trade agreement with China or India? The safeguard clause will have to be efficient to keep production in the EU. Concerns were also raised about consumers. What would be the impact on them?



David O'Sullivan pointed out that the car sector had not been sacrificed. 60% of Korean imports into the EU enter duty free today already under MFN regime and that it was logical that Korea looked at the elimination of the remaining 40% where there are still duties. Following the Uruguay Round, the only remaining high tariffs at EU borders were for autos and electronics, explaining Korea's interest in the sector. He stressed again that the imbalance was normal due to the different market sizes and that the Commission had obtained the best level playing field possible. He repeated that a settlement mechanism would be in place in case of new NTBs. Concerning duty drawback, he assured that it would not be conceded to all trading partners but analysed on a case-by-case basis. He also assured that the Commission would be monitoring Korean imports from day one to make sure that the safeguard clauses could apply if necessary. Regarding KORUS, he expressed doubts about the willingness of USTR to go back to Korea on duty draw back. He further noted that Member States and industry had been closely kept in the loop throughout the negotiations, that the package had been supported also by the College, and that he saw no margin to re-open texts as this would unravel the entire package.

Mr O'Sullivan found the suggestion to work with the US on South Korea naïve, arguing that the US stance had more to do with latent protectionism than with a desire to save its auto industry. Summing up he reiterated that the deal was the best possible, satisfying the Commission but also the Member States. There was no room for manoeuvre or possibility to renegotiate without endangering other sectors. The EU auto industry will suffer from severe competition from China and India in 15 to 20 years. The Commission cannot do more than provide a level playing field. The Commission will work with the industry to get efficient safeguard clauses. The EU auto industry has a chance to enter the Korean market, it should grasp it.

Pablo Zalba Bidegain wondered why KORUS had sparked numerous protests in South Korea whereas the EU FTA had led to little complaints.

Ivan Hodac wondered why if the duty drawback has such little impact on a car's price it was a red line for Korean negotiators. Although he understands the difficulties to reopen the negotiations he stressed again that the deal must be corrected otherwise the imbalances would be reproduced in future FTAs. In response to David O'Sullivan he pointed out that the best level playing field the Commission could obtain was not necessarily a level playing field. Talking about consumers he warned that although there might be good and cheap Korean cars for sale on the EU market as a result of the deal, consumers who would lose their jobs when plants would close would not be able to afford them.

Wrapping up the debate, Jorgo Chatzimarkakis stressed again the importance of free trade and benefits of exports but asked for cautiousness when negotiating trade deals, fearing that the EU was trying to be good with partners at the detriment of its own interests. He wondered how on the one hand the Commission was determined to have a strong industrial base in Europe while on the other it negotiated agreements dealing a blow to its own industry on the EU market. The auto industry provides jobs in Europe. Consumers will not reap many benefits if they lose their jobs. Finally while he agreed that the EU should not be naïve when dealing with the US, it should not be naïve when dealing with Koreans either.

Céline DOMEQO, March 2010