AUTOMOTIVE

U.S. ADOPTS U.S.-KOREA FREE TRADE AGREEMENT, OPENS UP AUTO MARKETS, OTHERS

by Mark R. High
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On October 21, 2011, President Obama signed the Korea, Panama, and Columbia Free Trade Agreements. The U.S.-Korea trade deal is the largest bilateral free trade agreement ever negotiated by the U.S. Experts have estimated that it will increase U.S. exports to South Korea by $11 billion and help support up to 70,000 American jobs. The agreement is wide-ranging, affecting many specific industries and services, and addresses a multitude of topics in addition to the standard trade and tariff matters, including immigration procedures, labor standards, intellectual property protections, and environmental matters.

The U.S-Korea FTA dramatically cuts tariffs across many sectors of the economy. In particular, once ratified in the Republic of Korea (expected to happen quickly), the South Korean market will be opened up to U.S. automotive manufacturers, both OEMs and suppliers. As reported by the Industry Trade Advisory Committee on Automotive Equipment and Capital Goods (the "Advisory Committee"), the FTA does more than just slash import duties. It also addresses many important non-tariff import issues, such as how hybrid vehicles are to be classified, and at least simplifying taxes now targeted at vehicles with larger displacement engines (which disproportionately affect U.S. imports).

For parts manufacturers, the tariff reductions will generally be effective immediately, although some parts will see the reductions phased in, generally over a 2 to 3 year period. It also treats new and remanufactured parts equally. These changes should allow domestic parts makers to open a new front in their sales efforts, as they will eliminate a large cost burden hanging over U.S. products.

Some non-tariff automotive issues were left to be addressed after the fact. For example, Ford submitted an "assessment" as part of the Advisory Committee report, saying the FTA does not go far enough, for example, in trying to harmonize the Korean crash test and emission standards with those of the U.S. Lower tariffs do not help if U.S. vehicles are excluded from the market by non-economic regulations. Currently, the Korean regulatory standards appear to be a mixture of the European and California standards. This can require the OEMs to go through an expensive homologation process before their vehicles will be eligible to be sold in Korea. OEMs want Korea to use one of the existing standards. The FTA says they will talk about it. Clearly, however, eliminating the current 8% tariff on auto imports will result in significant cost savings for those U.S. vehicles which are able to be exported to South Korea.

As indicated above, there are other industries that will benefit from the FTA. These include agriculture, textiles and apparel, medical devices, non-automotive manufacturing (especially electrical equipment manufacturers), even legal and financial services. With a population approaching 50 million people and a per capita GDP that has almost doubled in the last 10 years (approaching the level of Japan), the U.S.-Korea FTA could provide an opportunity for export-minded businesses, large and small, to expand into a new market. More broadly, the agreement may provide impetus to negotiations on a trans-Pacific free trade area already in process, which could include the U.S., Australia, Chile, and Viet Nam.

For further information regarding the U.S.-Korea FTA and other international trade matters, please contact a member of Dickinson Wright's International or Automotive practice groups.

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