BUSINESSEUROPE

NOTE

12 January 2009

SUBJECT: **Information Note: Korea FTA – Action in the European Parliament**

Background

The European Parliament's approval is required for ratification of the Korea-EU Free Trade Agreement. This approval is certainly not guaranteed. This note outlines some arguments of which BUSINESSEUROPE members making the case for the agreement to MEPs should be aware. The approval process for the agreement will consist of two elements, the agreement itself and its implementing and enforcement mechanisms.

Ratification of the Agreement

- The EU-Korea Free Trade Agreement will deliver significant benefits for industry. It should accordingly be adopted by the European Parliament in 2010. BUSINESSEUROPE insists, in addition, that it is accompanied by strong implementing provisions (see below).
- Korea is the EU's 4th largest trading partner outside of Europe – exports of goods and services are just under €33 billion per year.
- The agreement would help expand that trade:
  - It would offer direct savings to European companies of €1.6 billion annually in eliminated tariffs, if goods exports were to remain at the same levels as today.
  - However, greater gains could be envisaged due to new export flows given improved market access. Copenhagen Economics predicts the overall economic gain to the EU to be as much as €19.1 billion.
  - Previous EU FTAs have led to significant benefits for EU companies. For instance, trade with Mexico has jumped by over 120% since an agreement came in to force in 2000 and the EU's trade surplus with Mexico has jumped by 50%.
- Important European industrial sectors will derive benefits from the agreement, particularly our biggest exports including machinery, chemicals, textiles and food & drink.
- The benefits will accrue from the elimination of tariffs but also from the robust tackling of non-tariff barriers:
  - For the electrical and electronic equipment sector that means elimination of duplicative testing requirements
  - For the pharmaceutical sector it means greater transparency in pricing and reimbursement decisions for drugs
  - For the food and drink industry key geographical indications will be protected.

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    - For the automotive sector, all key standards-related barriers will be addressed.
- The agreement provides important new access for European services companies. Important sectors such as communications (telecoms and satellites), financial services and logistics (shipping and express delivery) all see new gains – beyond what the US was able to achieve in its own agreement with Korea.
- Delay of the agreement beyond 2010 would have negative consequences:
    - It would close Korea's market to EU car exports.
        - As of 1 January, Korea has new legislation on emissions standards and diagnostics systems for car maintenance which would in practice exclude most EU car producers from the market.
        - The FTA contains provisions to allow exports to continue. These are being applied provisionally by Korea based on a shared "assumption" that the agreement will enter into force in 2010.
        - If this is not the case – or looks likely not to be the case - Korea could stop EU exports of these products.
    - It could have a negative impact on the FTA's measures for the pharmaceutical industry.
        - Korea is beginning to debate a reform of the mechanisms for reimbursement of pharmaceuticals in its healthcare system.
        - The FTA contains provisions on transparency in pricing and reimbursement decisions by authorities.
        - If the agreement were in place the reform would necessarily go in the right direction for the EU and grant greater scope for European actors to intervene in the debate to build on the FTA commitments.

Implementing measures

- The agreement will only be worthwhile, however, if it implemented in practice. It is therefore crucial that the Commission, Member States and European Parliament ensure strong enforcement mechanisms in parallel to ratification.
- The safeguard regulation, in particular, must be robust. It should be a rapid mechanism which can tackle unfair import surges. The EU institutions should also include elements which will give companies reassurances that it will be used. A right of affected industries to file complaints would address this issue.
- The other enforcement mechanisms linked directly to the agreement, including the duty drawback mechanism need to be put in place as quickly as possible. Industry must be fully engaged in the work of the implementing committees established under the agreement to ensure that any new problems are quickly addressed. This is particularly important for non-tariff barriers.