Citizens Trade Campaign

*working **together** for **social** and **environmental** justice in trade policy*

The Korea-U.S. Free Trade Agreement's Inadequate Auto Provisions Threaten American Jobs

South Korea is the world's 12th largest economy, and one of America's largest trading partners. Much of the focus regarding the Korea-U.S. Free Trade Agreement has been on the auto sector, and rightly so. The sector is of vital importance to the more than 9,000 American businesses and over 800,000 workers that the Bureau of Labor Statistics reports are involved in the manufacture of automobiles and light trucks, with the majority in the supply chain, producing the glass, tires, steel, plastics, electrical equipment and countless other products that go into American-made vehicles.

The U.S. trade imbalance with South Korea in motor vehicles and parts has been longstanding and deep. Imports of Korean autos and parts currently exceed exports by more than 12-to-1. Much has been made of the newly-negotiated auto provisions in the Korea-U.S. Free Trade Agreement, but these new provisions are not expected to improve this imbalance. Rather, the FTA as a whole is still likely to make it worse.

Trade negotiators from the United States were reportedly able to secure an annual waiver from some of Korea's environmental and safety standards for 25,000 non-compliant cars per each American automaker, as well as a delay in some U.S. tariff reductions. While certainly an improvement upon what had initially been negotiated in 2007, these new provisions far from guarantee balanced trade in the automotive sector or the security of American automotive jobs.

- **The U.S. International Trade Commission finding that the Korea FTA will increase the U.S. trade deficit in motor vehicles and parts by $531 – 708 million still holds.** This finding strongly suggests that the U.S. would lose auto sector jobs as a result of the FTA. The USITC model looks at the change in trade flows once tariffs are fully phased out. The reported tariff schedule change and regulatory waivers in the 2010 supplemental agreement thus do not alter the ITC's findings.

- **The Korea FTA enables "Korean" cars sold in the United States to be made in third-party countries.** The Rule of Origin in the Korea FTA was negotiated at a paltry 35%, meaning that 65% of a Korean car's value can be in parts made in even lower-wage nations like China, Vietnam and elsewhere. This creates an incentive for Korean automakers to offshore their production throughout Asia, undercutting the American sector more than the simple imbalance with South Korea alone. This also puts pressure on American manufacturers to further reduce their costs, incentivizing further offshoring of the American supply chain to third-party nations. It is one reason why unions involved in the auto parts sector, such as the United Steelworkers, International Association of Machinists and International Brotherhood of Electrical Workers, remain strongly opposed to the Korea FTA, as do their South Korean counterparts.

- **The Korea FTA fails to include language preventing duty drawback.** Nothing in the agreement prevents the Korean government from refunding duties paid by Korean automakers on parts imported from third-party nations like China. This compounds the Rule of Origin problem, enabling Korean automakers to avoid Korean tariffs after offshoring their supply chains in order to secure a cost advantage — again putting pressure on U.S. automakers to offshore more of their supply chains.

- **While increasing imports, the Korea FTA fails to even guarantee increased sales of U.S. automobiles in South Korea.** A waiver of environmental rules does not mean a guarantee of sales. Tariff cuts for Korean cars entering the United States could have been explicitly linked to an increase in sales of American cars in the Korean market, but U.S. negotiators failed to secure such an agreement.

- **The Korea FTA's auto provisions are weaker than those negotiated by the European Union.** The Rule of Origin between the EU and South Korea was set at 55%, and their FTA also includes a cap on duty drawbacks of just 5%. The Europeans were also able to reduce Korean tariffs on European cars faster, and reduce European tariffs on Korean cars slower, than the U.S. negotiated.

The Korea FTA is simply inadequate for the task of balancing automotive trade with South Korea and creating American jobs. This poorly-negotiated deal should be rejected.

What CTC Member Organizations Are Saying about the Korea FTA and Autos

"The auto sector is of vital importance to our members who make the glass, tires, steel, plastics and countless other products that are part of the supply chain in the auto and auto parts sector… Unfortunately, the provisions that have been agreed to [in the December 2010 supplemental agreement] fall far short of the proposals the USW identified as the minimum approach necessary to secure the union's support. The final agreement will result in increased access to the U.S. market for Korean producers with insufficient assurance that the closed South Korean market will sufficiently open to our auto exports and other manufactured goods."

— **United Steelworkers**, International Executive Board, December 9, 2010

"The agreement contains inadequate safeguards regarding rule of origin. Under KORUS, Korean-built automobiles could contain up to 65 percent foreign content and still qualify for lower tariffs in the U.S. — a number much higher than … negotiated in the European Union/Korea FTA. Under this provision, so-called Korean-built cars sold in the U.S. could contain a large majority of content from low-wage countries."

— **International Brotherhood of Electrical Workers**, President Edwin D. Hill, December 16, 2010

"Any extension of the U.S.'s meager 2.5 percent protective tariff will continue to be nullified by manipulation of Korea's currency, an issue that the FTA fails to address. While much as been made of the improved market access in Korea by multinational U.S. automakers… we will still maintain a huge imbalance… Korea currently exports nearly 500,000 vehicles to the U.S., and that number will not decrease. The Korea Automobile Manufacturers Association actually expects exports to the U.S. to increase."

— **International Association of Machinists**, President R. Thomas Buffenbarger, December 9, 2010