Kirk Says Korea FTA Issues Must Be Resolved, Business Gears Up

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U.S. Trade Representative Ron Kirk said last night (Nov. 5) that his agency is developing proposals to effectively address the problems that have been raised with respect to the U.S.-Korea free trade agreement on autos, beef access and non-tariff measures.

In a speech to the U.S.-Korea Business Council, Kirk said the U.S. is still dealing with the legacy of South Korea's long-closed market, especially with respect to autos. He pointed out that the U.S. market is "completely" open to Korean autos but that is not the case for U.S. cars in the Korean market.

"All we are asking for is for our own auto companies to be able to compete on a level playing field in the Korean market," he said. He said a level playing field is possible and that it is "within reach."

Kirk did not say whether addressing the outstanding issues would require the reopening of the FTA or would be addressed in another form. "It is important to emphasize that as we move forward with this process, we will also be working closely with our Korean friends," he said. Korean officials in the past have acknowledged that more has to be done on autos but have refused to reopen the FTA.

Kirk took no questions from the audience nor from reporters after giving the speech, a practice he has followed in many previous speeches.

He said that the initialing of a free trade agreement between the European Union and Korea has made the pending U.S.-Korea FTA more relevant for U.S. companies competing with EU firms in Korea. He said that this competition is most relevant in such sectors as electric machinery, chemicals and pharmaceuticals.

But Kirk emphasized that the U.S. is not standing still. He said President Obama has charged him and South Korean Presidnet Lee Myung-bak has charged Trade Minister Kim Jong-hoon with finding a way of addressing the substantive issues that have been raised by stakeholders and to "move the agreement forward."

He said as he begins to work out the issues that have been flagged in public comments to USTR, he will consult closely with the business community, members of Congress and with stakeholders to ensure that any proposals have broad political backing at home.

As of mid-week, USTR had not reached out to the staff of the House Ways and Means Committee regarding the Korea FTA, and private-sector sources said that there has been no direct outreach to develop possible solutions to the problems that have been flagged.

USTR appears to be working internally only and not talking to the South Koreans on the substance of changes to the FTA it may be considering. That internal work, in addition to examining the EU agreement, has also involved looking at barriers to cosmetics and kitchen appliances, sources said.

Internal deliberations among senior officials on the Korea FTA seem to be driven by the need to brief the president ahead of his first trip to Asia later this month, rather than by a desire to advance the U.S.-Korea FTA (Inside U.S. Trade, Oct. 23).

Kirk in his speech indicated that he was being careful in what he said on the FTA so that he did "not get ahead of my president who is going to have the opportunity to have a very good bilateral with President Lee in just the next weeks."

William Rhodes, the president of the Korea-U.S. Business Council, said at the Nov. 5 event that he hoped President Obama and Korean President Lee will clarify the timeframe for resolving the problems with the agreement. Separately, a U.S. business source said he hoped the presidents would at least announce after their meeting that the problems surrounding the FTA would be resolved within a year.

During a meeting between Obama and Lee in June, the presidents committed to working together to resolve the outstanding problems with the Korea FTA, the most prominent of which is in the auto sector.

At the time, Obama also said that even once substantive issues are addressed there will be a question of political timing for considering the FTA (Inside U.S. Trade, June 19).

According to lobbyists, the Obama administration has not made a political decision to proceed on the FTA. They say the domestic dynamics with the focus on health care simply does not leave any room for the White House to be dealing with a contentious trade initiative, as the U.S.-Korea FTA is bound to be (Inside U.S. Trade, Oct. 23).

"All of my dealings with administration officials lead me to believe it is not a matter of whether to move it but a matter of don't do damage to health care," one source said this week.

In some of the internal debates, U.S. officials have warned against alienating an important ally, private-sector sources said. Kirk also acknowledged that the U.S.-Korea FTA extends far beyond the economic realm and is a way of strengthening the bilateral alliance at a crucial time.

In absence of a political decision, business lobbyists are planning to step up their efforts to bring the U.S.-Korea free trade agreement to the forefront of the president's agenda by highlighting the potential trade diversion that would occur if the EU-Korea FTA went into effect next year.

Once specific areas of trade diversion have been identified, the coalition plans to enlist chief executives of U.S. firms to make their case for getting a congressional vote on the FTA to the administration. That approach was discussed during a Nov. 2 meeting of the U.S.-Korea FTA Coalition.

The initial part of that effort will be to assess the trade diversion of the EU-Korea FTA. That will be based on an analysis by Jeffrey Schott of the Peterson Institute for International Economics, who is set to brief the U.S.-Korea Business Council on preliminary results today (Nov. 6).

Sources said that the study is likely to find diversion in the areas with which the U.S. and EU compete most fiercely, namely agriculture, automobiles and financial services.

Schott planned to compare the fallout of the EU-Korea FTA under two scenarios: one if the U.S. does not enact its FTA with Korea, and the other if it does (Inside U.S. Trade, Oct. 23).

The U.S. Chamber of Commerce today (Nov. 6) is also set to release a study showing the overall impact if the EU-Korea FTA were implemented and if Korea and Canada were able to negotiate an FTA. The Canada-Korea negotiations have been stalled since 2008 over such issues as non-tariff barriers and beef access.

The Chamber study shows that if the U.S. and Korea fail to implement their FTA, there would be a loss of 345,017 jobs due to a loss of $35.1 billion in U.S. exports. The new study is based on a larger Chamber study released in September.

At that time, two economists said in reaction to the study that it is extremely difficult to estimate the number of job losses that could occur as a direct result of a trade action because of the range of factors that could impact job gains or losses from year to year (Inside U.S. Trade, Sept. 18).

One EU source said that the U.S. will discover that EU agriculture would be a major beneficiary if the EU-Korea FTA is implemented and the U.S. agreement remains stalled. Under the agreement, Korea has agreed to provide a greater access to EU beef and pork exporters and this will directly affect U.S. producers.

An EU business source said, on the other hand, the U.S. negative list approach on services is superior to the EU positive list approach, especially for emerging high technology services, such those that combine the Internet and telecommunications.

The problem in the EU, the source explained, is that some member states are afraid that allowing the Commission to adopt the negative list approach could result in the bargaining away of cultural services access.

In autos, South Korea has agreed to recognize EU auto safety and emissions standards within five years. A U.S. industry source said that it is premature to analyze the future effect of this on the U.S. industry since at this point “there is not auto access to Korea.”

An EU source said that the European Commission has given itself until the end of January to complete the political process needed to ratify the the EU-Korea agreement among the member states represented in the Council of Ministers.

Officially, member states are continuing to analyze the implementation package, which the Commission presented to them at the beginning of October.

That implementation package among other things details how statistics on the use of imported parts by Korean automakers will be handled. If the domestic industry can show a 10 percent increase in the volume of imports into Korea in component parts from third countries compared to a three-year average before the FTA went into effect, the Commission can choose to ask Korea to cap duty refunds.

Under the implementation package, the cap would only allow refunds of 5 percent ad valorem even where greater duties had been paid.

The key opponent of the agreement remains Italy, which sources said is looking for a tradeoff with the Commission and wants to see antidumping duties on shoes from China and Vietnam extended. The Commission last month proposed extending them but this now needs to be voted on in the Antidumping Committee. When the duties were first imposed in 2006, the vote was a political one and was very close, sources explained. -- Erik Wasson