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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Annual Report on the Implementation of the EU-Korea Free Trade Agreement

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1. Introduction

1 July 2014 marked the third anniversary of the Free Trade Agreement (FTA) between the EU and its Member States and the Republic of Korea ('Korea'), which has been provisionally applied since July 2011[1]. It is the first of a new generation of FTAs, characterised by its far-reaching and comprehensive nature. It is also the EU's first trade deal with an Asian country.

The FTA has already seen its first amendment. The Additional Protocol to the FTA to take into account Croatia's EU accession was signed in March 2014 and is provisionally applied since 26 May 2014. It will be concluded once Korea has notified the EU of the completion of its internal procedures.

This is the third Annual Report on the implementation of the FTA, in accordance with the provisions of Regulation (EU) No 511/2011 of the European Parliament and of the Council of 11 May 2011 implementing the bilateral safeguard clause of the Free Trade Agreement between the European Union and its Member States and the Republic of Korea[2]. According to Article 13(1) of the said Regulation, the Commission shall make public an annual report on the application and implementation of the Agreement. Furthermore, Article 3(3) stipulates that the Commission shall present an annual monitoring report to the European Parliament and the Council on updated statistics on imports from Korea of products in the sensitive sectors and those sectors to which monitoring has been extended. This report therefore combines these two reporting requirements.

The report also gives an overview of the activities of the various committees and working groups established under the FTA to monitor the implementation of the agreement. Since most of these committees and working groups met in the second half of 2014, this report covers the period July 2013 until December 2014, as far as the activities of the FTA implementation bodies are concerned.

2. OVERALL ASSESSMENT: EVOLUTION OF TRADE AFTER THREE YEARS OF FTA IMPLEMENTATION

2.1. Methodology used for the analysis

The below analysis of the bilateral trade flows between the EU and Korea is based on a comparison of data for the third year of implementation of the FTA (July 2013 – June 2014) with the 12-month period before the FTA took effect and is provisionally applied (July 2010 – June 2011).

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[1] The FTA is provisionally applied in the EU until all EU Member States have ratified it. The state of play of the ratification can be checked on the Council's Agreements website: http://www.consilium.europa.eu/en/documents-publications/agreements-conventions/agreement/?aid=2010036

[2] OJ L 145, 31.5.2011, p. 19

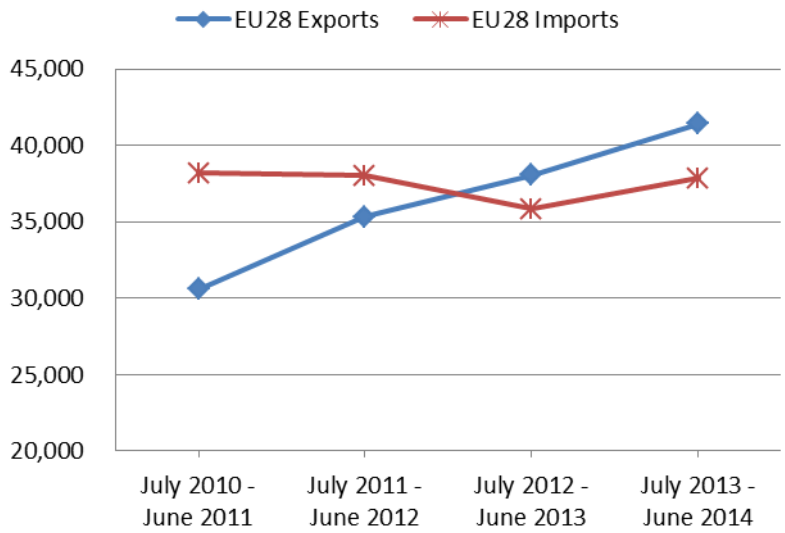
It should be noted that changes in trade flows cannot be attributed solely to the FTA, as also other factors influence trade flows. However the figures provided below give a good indication of how the FTA has worked so far.

2.2. Overall evolution of trade in goods

EU exports to Korea increased by 35%, from 30,6 billion EUR in the 12-month period before the FTA took effect to 41,4 billion EUR in the third year of the FTA implementation.

During the same period, EU exports to Korea of products that were fully or partially liberalised by the FTA grew more than the overall exports, i.e. by 46% and 37% respectively.

Graph 1: EU Exports to and Imports from Korea, July 2010-June 2014 (in million EUR)



Source: COMEXT

In the third year of FTA implementation, EU imports from Korea totalled 37,9 billion EUR, which is roughly equal to the 12-month period before the FTA took effect. However, in the third year imports increased by 6% compared to the previous year.

It is worth noting that in the third year of the FTA implementation, EU imports from the world decreased by 4% compared to the previous year. In fact, EU imports from its 14 main suppliers decreased, with the exception of Korea and Turkey (6% increase each) and China (1% increase).

In contrast to the development of overall imports to the EU from Korea, imports of products that were fully or partially liberalised by the FTA grew by 21% and 26% respectively, whereas EU imports from Korea of products subject to zero MFN tariff decreased by 23%.

Overall, the 7,6 billion EUR trade deficit with Korea turned into a trade surplus of 3,6 billion EUR in the EU's favour during the third year of FTA implementation.

The EU's share in Korea’s total imports from the world increased from 9% before the FTA to 11% in the third year of the FTA implementation. Over the same period of time, the EU's share in total exports from Korea declined from 11% to 9%.

In terms of EU exports, the most important categories of products were:

- "Machinery and appliances" (TDC[3] 16), accounting for almost 34% of total EU exports to Korea. These exports increased by more than 23% in the third year of FTA implementation compared to the 12-month period before the FTA took effect.
- "Transport equipment" (TDC 17), where exports increased by over 56% after the FTA took effect, with the main increases occurring in the last two years of FTA implementation. They represent 16% of total EU exports to Korea.
- "Chemical products" (TDC 06), where exports increased by 9% in the third year of FTA implementation, accounting for over 12% of total EU exports.
- Other categories of products for which EU exports increased significantly since July 2011 are "Mineral products" (more than 1.000%[4]), "Wood" and "Pearls and precious metals"[5] (approximately 120%).

The current level of EU exports to Korea would have incurred duty payments of 1,6 billion EUR in the third year of FTA implementation had the FTA not been in force.

As far as EU imports from Korea are concerned, the main product categories are:

- "Machinery and appliances" (36% of EU imports from Korea), where EU imports decreased by 20% since the FTA took effect.
- "Transport equipment" (26% of total EU imports from Korea), where EU imports have fluctuated during the three years of FTA implementation. In June 2014 they were almost at the same level as in June 2011.
- Significant increases were noted in EU imports of plastics, mineral and chemical products (around 51%, 112% and 48% respectively since the FTA took effect).

2.3. Trade in services and Foreign Direct Investment (FDI)

Trade statistics for services lag behind and are not yet available for the third year of FTA implementation.

In 2013 EU exports of services to Korea were equal to10,6 billion EUR, having increased by 18% compared to the previous year. At the same time, EU imports of services from Korea were equal to 5,6 billion EUR, representing a 11% increase compared to 2012.

In 2013 EU FDI stocks in Korea were equal to 32,6 billion EUR, whereas Korean FDI stocks in the EU were equal to 18,9 billion EUR.

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3 "Tarif Douanier Commun" (= Common Customs Tariff)

4 EU exports of "Mineral products" (TDC 05) to Korea increased mainly in the first year of FTA implementation (around 674%).

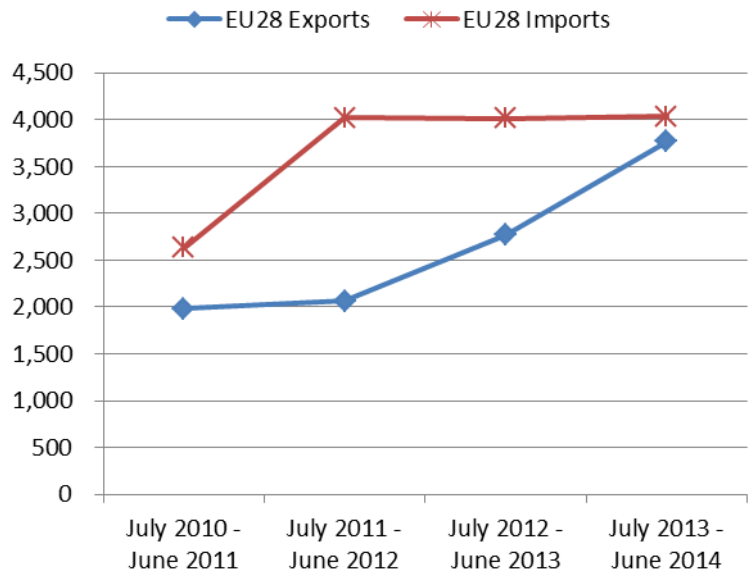
5 TDC 09 and TDC 14 respectively.

2.4. Evolution of trade in motor vehicles and parts

EU exports of motor vehicles (HS 8703) to Korea increased by 90%, from 2 billion EUR (74.600 units) in the 12-month period preceding the FTA to 3,8 billion EUR (141.800 units) during the third year of FTA implementation, accounting for 9% of total EU exports to Korea. This increase took place mainly in the second and third year of FTA implementation, during which the annual increase in exports was around 35%.

EU imports from Korea grew by 53% from 2,6 billion EUR to 4 billion EUR or by 25% in terms of units imported, from 300.000 to 375.000 units. Almost the entire increase (53%) occurred in the first year of FTA implementation. Motor vehicles account for 11% of total EU imports from Korea. Over the same period, EU imports of passenger cars from the rest of the world decreased by 7%.

Graph 2: EU Exports to and Imports from Korea of Motor Vehicles, July 2010-June 2014 (€ million)



Source: COMEXT

EU exports of car parts to Korea amounted to around 1,1 billion EUR in the third year of FTA implementation, having increased by 6% since the 12-month period before the FTA, whereas EU imports from Korea of car parts increased by over 20% from 2,2 billion EUR in the 12-month before the FTA to 2,6 billion EUR during the third year of FTA implementation. Over the three-year period, the respective imports from the rest of the world increased by merely 3%.

2.5. Use of tariff preferences under the FTA

Based on the latest data available, which runs from July 2013 to June 2014, the overall EU preference utilisation rate on the Korean market is 65,9%.

Based on the TDC categories, the highest overall preference utilisation rates are found in transport equipment (TDC 17) at 94% and animals and animal products (TDC 1) at 89%. The lowest overall preference utilisation rates are found in pearls and precious metals (TDC 14) at 40%, base metals (TDC 15), hides & skins (TDC 8) and machinery (TDC 16) at around 50%.

The relatively low use of preferences in some categories does not seem to be explained by the restrictiveness of the rules of origin, or the EU exporters' preferential margins vis-à-vis Korea's MFN rate. One possible reason, identified by industry consultations, is the requirement of the FTA for exporters to apply for the approved exporter status, in order to benefit from preferential tariffs, which is perceived as time and resource consuming. In addition, the direct transport clause of the FTA, which requires that the goods are shipped directly from the EU to Korea (and vice versa), in order to be considered as "originating" in the EU or Korea, prevents some exporters which use their regional hubs in Asia to benefit from the FTA preferences.

With respect to the Korean exports to the EU, the overall Korean preference utilisation rate in the EU equaled 81,3% in 2013. The highest overall preference utilisation rates (above 90%) were found in transport equipment and mineral products (TDC 05), whereas the lowest overall preference utilisation rates (around 33%) were found in pearls and hides & skins.

3. ACTIVITIES OF THE FTA IMPLEMENTATION BODIES

The institutional provisions of the FTA established seven Specialised Committees, seven Working Groups and an Intellectual Property (IP) Dialogue. The annual EU-Korea FTA Trade Committee at ministerial level plays a supervisory role and ensures that the FTA operates properly. In 2014 all committees and working groups, as well as the IP Dialogue, took place, most of them in Brussels, as summarised below.

The **Working Group on Motor Vehicles and Parts** met on 17 June 2014 in Brussels. Most issues discussed were market access issues, rather than FTA implementation issues. These included, inter alia, the Korean legislative proposals for fuel economy, emission fleet average systems, tyre marking, the new regulation in Korea on energy efficiency of tyres, auxiliary braking systems for large-sized buses, vehicle width limit and truck tractors. The parties also discussed the update of Annex 2-C of the FTA to take into account the revised EU legal references with regard to towing hook and devices for securing driver's visibility, and agreed that the Trade Committee should agree on the update.

The **Working Group on Pharmaceuticals and Medical Devices** which met on 18 June 2014 in Brussels discussed the Korean pharmaceuticals pricing system and appropriate recognition of the value of innovative drugs, the revised Korean price volume agreement, implementation by Korea of serialisation for drugs, Active Pharmaceutical Ingredients (APIs), the methodology for cutting reimbursement prices of medical devices in Korea and the EU's draft amendment to the Medical Device Legislation. After the meeting of the Working Group an experts' discussion took place to identify opportunities for regulatory harmonisation in the pharmaceuticals and medical devices sector.

On the the same day, on 18 June 2014, the **Working Group on Chemicals** met in Brussels to exchange information on each side's REACH. The Korean side informed the EU side about the timeline and the process of implementing the K-REACH Act and the EU side provided

information about the supporting measures to SMEs that have been developed in the EU for REACH implementation. The Committee also agreed on further technical cooperation on chemicals between the Korean Ministry of Environment and The European Chemicals Agency (ECHA).

On 18-19 June 2014 the **Customs Committee** met in Seoul. It discussed the procedures and methods of origin verification and rules of origin, including the direct transport rule where the EU side recalled the importance of revising the current direct transport rule into a non-alteration rule, which would allow splitting of consignments in a third country. The committee also discussed the interpretation of 'primary ingredient' of processed surimi and the transposition of Product Specific Rules (PSRs) on origin, from HS code 2007 to HS code 2012. The possibilities to conclude a Mutual Recognition Agreement of Authorised Economic Operators were also discussed.

On 16 September 2014, the **Committee on Trade in Goods** met in Brussels. The Committee endorsed a draft Decision of the Trade in Goods Committee on the adoption of the rules on Tariff Rate Quota (TRQ) administration. The Committee also discussed various FTA implementation and bilateral trade issues, for example equivalency of organic agricultural products, the review of Appendix 2-B-3 (electonics) of the FTA, the Korean safety certification requirements for machinery, and cosmetics. The EU also reiterated its request for amending the FTA by revising the direct transport clause, inserting a clause on goods re-entering after repair and including truck-tractors in the scope of the non-tariff annex on motor vehicles and cars (Annex 2-C).

On 17 September 2014, the **Committee on Outward Processing Zones (OPZ) on the Korean Peninsula** met in Brussels. Korea gave an update on the recent developments in the Gaeseong Industrial Complex, the inter-Korean factory park located in North Korea. The Committee reviewed the conditions for futher economic development and discussed establishment of criteria for OPZ and the establishment of a maximum threshold. The EU side took note of the Korean proposals and explained the political constraints in the EU. Both sides acknowledged the political sensitivity of the issue but agreed to continue discussions at working level.

The **IP Dialogue** took place in Seoul on 25 September 2014. Both sides gave an update about the legislative and policy developments in the IP area, notably on patents, trade marks, designs and copyrights. The EU recalled the FTA implementation issue concerning the provisions on public performance rights, and the need for aligning Korean legislation with the FTA. The dialogue also covered IP enforcement issues. In addition, the parties discussed their respective approach and strategy towards IP issues in third countries.

The **Working Group on Government Procurement** met for the first time on 26 September 2014 in Seoul. Both parties exchanged information on the current domestic government procurement market situation and prospects and evaluated the current market access situation in their respective markets as well as the implementation of the government procurement chapter of the FTA. The parties also discussed the current market barriers and constraints and how to address them as well as how to increase participation in both sides' government procurement markets.

The **Committee on Sanitary and Phytosanitary Measures** took place on 10 October 2014 in Brussels. The Committee discussed Korean exports of chicken-ginseng soup and live olive flounder to the EU, confidence building and cooperation on animal welfare issues, transparency, the EU exports of beef to Korea, the outbreak of African Swine Fever in Poland and the EU's request to apply regionalisation principles, the "born and raised" clause and the EU exports of raw milk dairy products and fruits and vegetables to Korea.

On 10 October 2014, the **Committee on Cultural Cooperation** had its second meeting in Seoul. It approved the arbitration panel, referred to in Article 3bis of the Protocol on Cultural Cooperation to the FTA. The parties also exchanged views on their respective cultural policies and discussed cultural and creative industries, artists' residencies as well as audio-visual co-productions. In the latter field it was agreed to take a number of actions to inform the film professionals better. It should be noted that as set out in the Protocol on Cultural Cooperation, the Trade Committee has no jurisdiction over the Protocol and the Committee on Cultural Cooperation thus exercises the functions of the Trade Committee as regards that protocol.

On 6 November 2014, the **Working Group on Geographical Indications (GIs)** met in Brussels. Substantial progress was made on the draft rules of procedure, which can be adopted once both parties have completed their internal procedures. Both parties submitted and discussed their respective lists of new GIs to be added to the list of protected GIs under the FTA.

On 8 December 2014, the **Committee on Trade and Sustainable Development** met in Brussels. Both sides exchanged views on their respective environment and labour policies, including in the area of climate change, green growth and the circular economy. The Committee also discussed a number of key Multilateral Environmental Agreements and exchanged information on wildlife trafficking and illegal logging. Furthermore, labour issues were discussed, including ILO fundamental Conventions, in particular on freedom of association and collective bargaining and on forced labour, including measures to address unfair labour practices. Finally, they discussed the implementation of the international guidelines and principles in the area of Corporate Social Responsibility (CSR).

On 9 December 2014, the **Working Group on Trade Remedy Cooperation** met in Seoul. Both sides discussed the overall status of trade remedy measures in force in terms of bilateral trade between Korea and the EU. They also exchanged views on their respective overall policy direction, including recent changes. In addition, a technical discussion took place regarding dumping and injury investigations. Finally, both sides discussed the latest developments regarding third country cases.

On 16 December 2014, the **Committee on Trade in Services, Establishment and Electronic Commerce** met in Seoul. Both sides discussed a broad range of issues in the areas of postal and courier services, financial services and distribution services. As regards postal services, both parties agreed to engage in order to deliver the principles of regulatory framework by the next Trade Committee. The Committee also discussed the review of the investment legal framework, pursuant to Article 7.16 of the FTA and the general business climate in the services sector.

On the same day, 16 December 2014, the **Working Group on Mutual Recognition Agreements (MRA) for Services** gathered, also in Seoul. The meeting was preceded by a discussion between professional associations of engineers and architects from both sides. Both sides exchanged views on their respective MRA initiatives with other countries and took stock of the progress in MRA discussions between professional associations. Both sides agreed that the professional associations should be encouraged to continue working together. They also agreed to continue the useful exchange of information on MRAs under both party's respective bilateral agreements.

The **Trade Committee** took place on 16 October 2014 in Brussels. It was co-chaired by former Commissioner for Trade, Mr Karel De Gucht and Korea's Minister for Trade, Industry and Energy, Mr Yoon Sang-jick. The Committee assessed the development of bilateral trade after three years of implementation of the FTA and agreed that the FTA has had positive effects, in particular when looking at fully or partially liberalised trade where exports on both sides have gone up. The EU reiterated its request to amend the FTA and to find a mutually beneficial amendment package. Both sides agreed to proceed with the technical amendment of the non-tariff annex on motor vehicles and parts (Annex 2-C) by updating obsolete legal references in the equivalency tables to give legal certainty to economic operators.

Both sides raised their respective implementation issues, such as trade in services, implementation of Article 13.4 of the FTA regarding multilateral labour standards and agreements and the interpretation of "primary ingredient" of surimi. Other issues affecting bilateral trade were also discussed, including equivalency of organic agricultural products, Korea's ban on imports of pork from Poland due to the African Swine Fever, moulding of E-marks for tyres, the EU's market access concerns for cosmetics and Korea's exports of live olive flounder to the EU.

Both sides concluded that they remained committed fully to implement the FTA.

4. IMPLEMENTATION OF CHAPTER 13 OF THE FTA CONCERNING TRADE AND SUSTAINABLE DEVELOPMENT

The third meeting of the Committee on Trade and Sustainable Development (CTSD) was held in Brussels on 8 December 2014.

In line with the joint statement of the 2nd meeting of the CTSD, agenda space was provided for the Co-Chairs of the Civil Society Forum (CSF) to present an update on the work of the Domestic Advisory Groups (DAGs). The EU welcomed the renewed membership of the Korean DAG, notably the broader representation of unions and employers. The CTSD agreed to present the summary of the discussion of its third meeting to the third meeting of the CSF, which took place the following day, on 9 December.

The environment segment was devoted to discussing emissions trading systems, green growth and the circular economy, and a number of key Multilateral Environmental Agreements. In the context of the launch of Korea's emissions trading system on 1 January 2015, the parties emphasised the importance of continued cooperation on this issue, and the EU described business opportunities stemming from emerging carbon markets in Europe and East Asia. The EU further updated Korea on its Communication on its approach on wildlife trafficking and ongoing stakeholder consultation on how to strengthen it, including through closer

cooperation with partner countries, while Korea introduced its national policy. The EU outlined its main instruments to combat illegal logging and associated trade, while Korea stated that a legislative proposal addressing trade in illegally harvested timber was under development. Both sides agreed to exchange experience in the light of those ongoing developments.

The labour policy segment was introduced by a presentation of an expert from the International Labour Organisation (ILO) on developments regarding the ratification of fundamental (in particular those relating to forced labour, and freedom of association and the right to collective bargaining) and up-to-date ILO conventions and on lessons learned from other countries regarding obstacles to ratification and ways to address them. The ILO offered to continue providing technical cooperation and advice on these issues.

Regarding labour issues, the CTSD discussed ILO fundamental conventions as well as the parties' commitment under the FTA to respect in their laws and practices the ILO fundamental principles and rights at work. The parties agreed to share, before the next CTSD meeting, texts setting out progress to date and further intended steps toward ratification of ILO fundamental and other up-to-date conventions, and exchange the information with the CSF.

Regarding cooperation under Annex 13 of the FTA, Korea and the EU discussed recent developments regarding the launch of the negotiations on an Agreement on Environmental Goods and reiterated their commitment to and high level of ambition for this initiative. They also discussed Corporate Social Responsibility (CSR) and possible areas of cooperation on Environmental Mark of Korea and Eco-Label of the EU. Finally, the EU made a brief presentation of the new Partnership Instrument.

The CTSD welcomed the open and constructive discussion at its third meeting and decided to pursue the dialogue with the CSF. It tentatively agreed to hold its fourth meeting before the end of September 2015 in Korea and that it should meet before the Trade Committee.

5. IMPLEMENTATION OF REGULATION (EU) NO 511/2011

Regulation (EU) No 511/2011 (‘the Safeguard Regulation’) is the EU's internal legislation to implement the bilateral safeguard clause of the EU-Korea FTA.

As provided for in Articles 3 and 11 of the Safeguard Regulation, the Commission has been monitoring the evolution of imports and exports of Korean products in sensitive sectors potentially affected by duty drawback such as cars, car parts, textiles and consumer electronics. Since the provisional application of the FTA started in July 2011, the Commission has been sharing the results of the monitoring with the EU Member States, the European Parliament and the relevant stakeholders every two months.

The Safeguard Regulation also provides for the possibility to initiate a safeguard investigation or to introduce prior surveillance measures, under certain conditions defined in the Regulation. During the third year of FTA implementation, the Commission did not receive any such requests.

5.1. Evolution of imports into the EU from Korea in the sectors covered by the monitoring

The results of the monitoring during the third year of FTA implementation are summarised below. It should be noted that for the purpose of the monitoring, data for the third year of FTA implementation has been compared to the previous 12-month period and thus some figures may differ from the general trade analysis under point 2 above, where data for the third year of FTA implementation has been compared with the 12-month period before the FTA took effect.

It should be further noted that the comparison under the monitoring exercise is based on quantities imported from Korea to the EU, i.e. pieces in the case of cars and 1000 kg in the case of car parts, textiles and electronics.

(i) Car sector

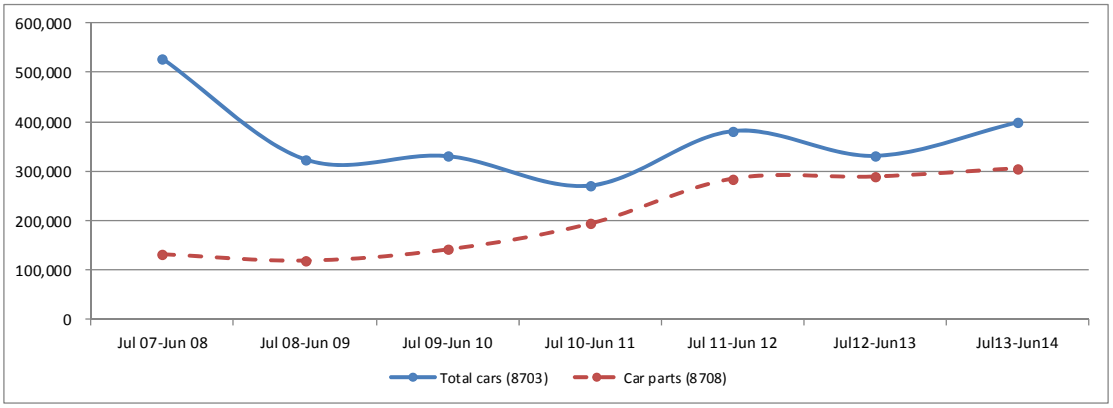
Imports of cars from Korea increased by 20% in the third year of FTA implementation (July 2013 - June 2014) compared to the previous year (July 2012 – June 2013). The increasing trend is especially marked for cars with electric engines, although import volumes are insignificant for this category. Imports of cars with medium – large engines increased by 50%, whereas imports of cars with small engines decreased by 7%. It is worth noting that car imports from Korea are still at a lower level than in the year July 2007 – June 2008.

As regards imports of car parts, a slight increase of 6% occurred in the third year of FTA implementation compared to the previous year. This increase is higher than in the second year of FTA implementation. However, it suggests that import levels have stabilised in the last three years.

Korean imports in the car sector (including car parts)

(pieces)	Jul 07-Jun 08	Jul 08-Jun 09	Jul 09-Jun 10	Jul 10-Jun 11	Jul 11-Jun 12	Jul12-Jun13	Jul13-Jun14	Var prior year
Electric engines	1	67	3	26	17	57	213	274%
Small engines	227,337	162,225	161,858	118,969	208,574	171,256	159,367	-7%
Medium/Large engines	300,443	161,675	168,621	151,604	172,417	159,658	239,042	50%
Total cars (8703)	**527,781**	**323,967**	**330,482**	**270,599**	**381,008**	**330,971**	**398,622**	**20%**
Index	***100***	***61***	***63***	***51***	***72***	***63***	***76***	

(1000 kg)	Jul 07-Jun 08	Jul 08-Jun 09	Jul 09-Jun 10	Jul 10-Jun 11	Jul 11-Jun 12	Jul12-Jun13	Jul13-Jun14	Var prior year
Car parts (8708)	**131,810**	**119,002**	**141,434**	**193,662**	**284,750**	**289,182**	**305,994**	**6%**
Index	***100***	***90***	***107***	***147***	***216***	***219***	***232***	

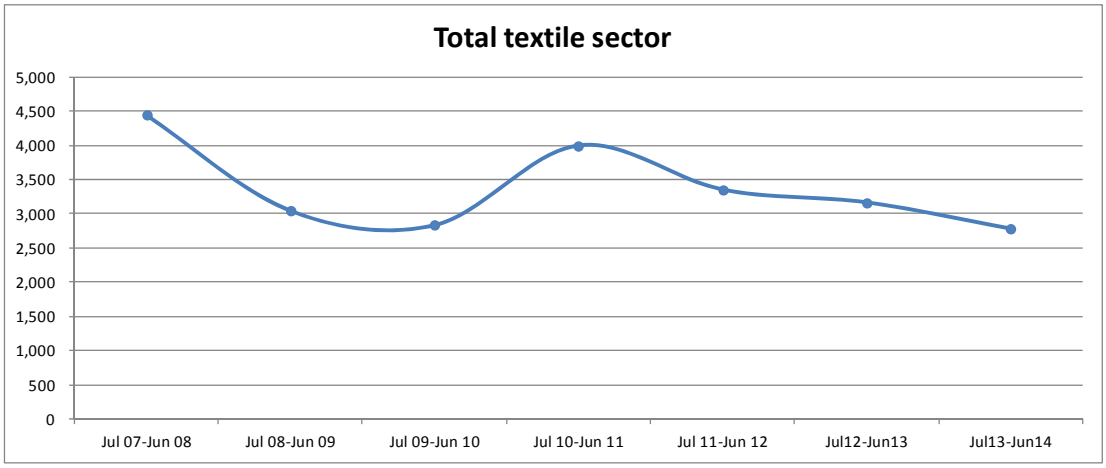


(ii) Textile sector

Imports of textiles from Korea decreased by 12% in the third year of FTA implementation compared to the previous year. This compares to a 6% decrease in the second year of FTA implementation compared to the first year of the FTA.

Korean imports in the textile sector

(1000 kg)	Jul 07-Jun 08	Jul 08-Jun 09	Jul 09-Jun 10	Jul 10-Jun 11	Jul 11-Jun 12	Jul12-Jun13	Jul13-Jun14	Var prior year
5204	0.3	7.1	9.4	7.5	26.7	5.2	1.7	-67%
5205	78.2	37.3	101.8	1,155.3	715.5	896.7	281.1	-69%
5206	1.7	0.0	0.0	21.0	0.0	0.0	0.8	-
5207	4.5	0.2	0.5	0.2	0.2	0.0	0.6	-
5408	3,832.7	2,677.8	2,226.0	2,385.9	2,226.1	1,953.2	2,086.6	7%
5509	474.2	297.2	388.5	247.9	309.1	159.5	89.6	-44%
5510	33.1	16.8	84.4	166.9	75.2	150.7	322.7	114%
5511	14.6	7.0	20.5	12.1	0.3	0.0	0.1	-
Total textile sector	**4,439**	**3,043**	**2,831**	**3,997**	**3,353**	**3,165**	**2,783**	**-12%**
Index	***100***	***69***	***64***	***90***	***76***	***71***	***63***	

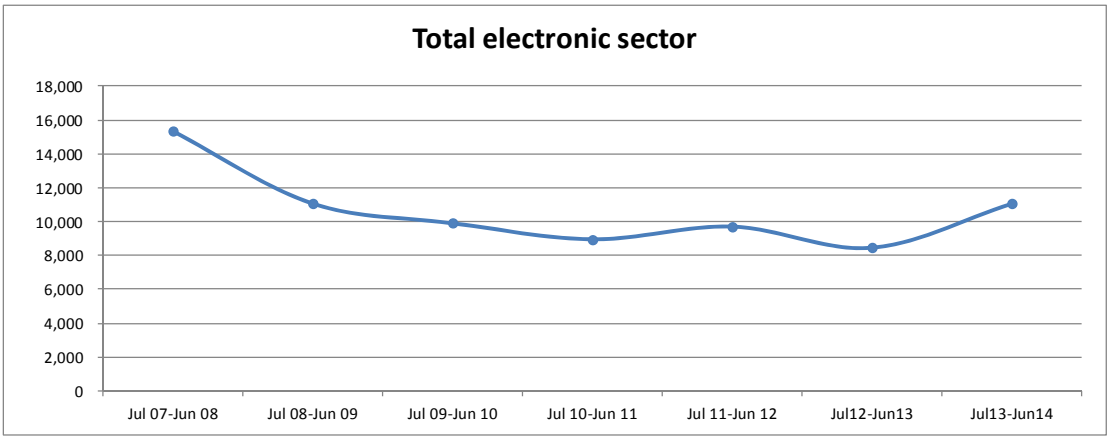


(iii) Electronics sector

While imports of electronics decreased by 13% in the second year of FTA implementation, in the third year they increased by 31%.

Korean imports in the electronic sector

(1000 kg)	Jul 07-Jun 08	Jul 08-Jun 09	Jul 09-Jun 10	Jul 10-Jun 11	Jul 11-Jun 12	Jul12-Jun13	Jul13-Jun14	Var prior year
8519	115	102	41	22	41	37	52	42%
8521	2,164	1,269	1,096	886	669	475	421	-11%
8525	1,932	1,660	1,275	1,427	1,229	1,013	925	-9%
8526	459	411	140	105	111	224	494	120%
8527	505	430	260	507	1,165	2,126	2,945	39%
8528	10,165	7,194	7,095	6,008	6,493	4,581	6,211	36%
Total electronic sector	**15,340**	**11,066**	**9,908**	**8,956**	**9,707**	**8,456**	**11,048**	**31%**
Index	***100***	***72***	***65***	***58***	***63***	***55***	***72***	



5.2. Duty drawback

The Commission also carried out specific monitoring on duty drawback in relation to the rules of origin as provided for in Article 11(1) of the Safeguard Regulation, to assess the foreign content in the Korean manufacturing process and thus in the exports of final products from Korea to the EU. Article 11(1) provides for a procedure for the application of Article 14 of the Rules of Origin Protocol on drawback or exemption from customs duties.

The analysis focused on the import value of products subject to monitoring during the first ten months of 2014, in relation to the same comparable period in 2013, as for these periods full data are available.

In the electronics sector, the evolution of imports from Korea to the EU has evolved (decreased or increased) mainly under the following HS sub-headings: 8519.20, 8519.50, 8519.89, 8521.10, 8521.90, 8525.50, 8525.60, 8526.91, 8526.92, 8527.12 8527.13, 8527.19, 8527.21, 8527.29, 8527.91, 8527.92, 8527.99, 8528.41, 8528.49, 8528.51, 8528.59, 8528.69 and 8528.72. Overall, imports decreased under the following headings: 8521 (-14%) and 8527 (-17%) while imports increased under headings 8526 (73%) and 8528 (52%). At the same time, imports into Korea of parts of these products mainly decreased: for HS 8522, there was

a decrease in imports from China (-10%) and an increase from Japan (4%), whereas for HS 8529 there was a decrease in imports both from China (-3%) and Japan (-2%).

As regards textiles (yarns and fabrics), a significant decrease of imports could be observed under HS 5204 (cotton sewing thread) and HS 5205 (cotton yarn not for retail sale), At the same time a significant increase of imports could be noted under HS 5207 (cotton yarn for retail sale), HS 5408 (woven fabrics of artificial filament yarn), HS 5509 (yarn of synthetic staple fibres), HS 5510 (yarn of artificial staple fibres) and HS 5511 (yarn of man-made staple fibres). Yarns benefit from the rule "Manufacture from man-made staple fibres, not carded or combed or otherwise prepared for spinning" safeguarded by annual quotas.

Regarding cars, there was an overall decrease in imports from Korea to the EU (-1% on average) within the HS code 8703, even though this decrease does not apply to all types of cars but depends on the type and the size of the engine. In the meantime, imports of inputs of car components under HS codes 8707 and 8708 from China into Korea decreased by 67% and 9% respectively. Imports of car parts under HS codes 8707 and 8708 from Japan into Korea decreased by 96% and 2% repectively. Korean imports of engines from China decreased by 19% in HS 8407 and by 4% in HS 8408. Regarding engines originating in Japan, their imports to Korea decreased by 32% under HS 8407 and increased by 24% in HS 8408.

Based on the above, it can be concluded that until now the allowance of duty drawback for the products subject to the specific monitoring clause does not seem to have had any significant impact on the manufacturing pattern of Korea. In particular, it did not lead to a significant increase of imports of inputs to Korea from its neighbouring countries.

6. CONCLUSION

Based on three years of implementation of the EU-Korea FTA, it is clear that the FTA has worked well for both sides, in particular for the EU. EU exports of goods to Korea increased by 35% in the third year of FTA implementation, compared to the 12-month period before the FTA took effect. While imports from Korea were roughly equal to the 12-month period before the FTA, they increased by 6% in the third year of FTA implementation, compared to the previous year. The weaker performance of Korean exports has to be seen in the context of the decreased demand in the EU following the financial crisis: EU imports from its 14 main suppliers have decreased and in fact Korea is one of the few trade partners, along with Turkey and China, whose exports to the EU increased in the third year of FTA implementation. It seems therefore that the FTA has mitigated the impact of the crisis on Korean exports and that without the FTA, the Korean exports to the EU would have been hit much harder.

When looking at the development of bilateral trade of goods which has been fully or partially liberalised by the FTA, the situation looks brighter also for Korea, with an increase of 21% in exports of fully liberalised goods and 26% of partially liberalised goods to the EU.

On the EU-side, exports of fully and partially liberalised goods have also increased more than exports overall, with an increase of 46% for fully liberalised goods and 37% for partially liberalised goods.

While trade is prospering, full implementation of the FTA remains of key importance. Some implementation and bilateral trade issues persist. For example, in the automotive sector

tackling the remaining non-tariff barriers remains a challenge. As regards Sanitary and Phytosanitary Measures, some of the issues encountered by EU exporters stem from the fact that Korea applies different import conditions for EU Member States for animal and plant products, although the legislation is fully harmonised in the EU. This delays access to the Korean market, as EU Member States have to undergo individual negotiations. However, there are also success stories, such as the conclusion of the agreement of equivalency of organic, agricultural processed products at the end of 2014. As a consequence, processed organic products processed and certified in the EU may be sold as organic in Korea as of 1 February 2015.

The FTA implementation structure, with its various specialised committees and working groups has proven an effective way to discuss and seek solutions to the implementation and market access issues. They also provide a regular forum to discuss current and future regulatory developments and any implications these may have on future exports.

Discussions to amend the FTA will continue in the fourth year of implementation, with a view to finding a balanced “package” of amendments, with economic benefits to exporters and consumers in the EU as well as in Korea, to futher improve the FTA and to make it more trade-facilitative.