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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 2013 marked the second 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 FTA, characterised by its far-reaching and comprehensive nature. It is also the EU's first trade deal with an Asian country.

This is the second 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.

2. OVERALL ASSESSMENT: EVOLUTION OF TRADE AND DUTY SAVINGS

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 second year of implementation of the FTA (July 2012 – June 2013) compared to the year before the FTA was provisionally applied (July 2010 – June 2011).

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, and in particular the upward trend in preference utilisation rates shows that EU-businesses are increasingly making use of the FTA, although there is still room for improvement in this respect.

2.2. Evolution of overall trade flows (goods)

EU exports of goods to Korea have increased by 24 %, or EUR 7 billion, in the second year of implementation of the FTA, compared to the year before the FTA was provisionally applied.

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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/policies/agreements/search-the-agreements-database?command=details&id=&lang=en&aid=2010036&doclang=EN

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

The increase in exports was however less marked in the second year of the FTA (8 %) than in the first year (15 %)[3].
When comparing with exports of goods to the rest of the world, which has increased by 17 % in the same period, the trend with Korea is considerably more positive than with most other countries.

In contrast, imports from Korea have decreased by 6 % in the second year of implementation, compared to the year before the FTA was provisionally applied, almost all of the decrease being attributable to the second year of the FTA. In value terms imports have fallen from EUR 38 billion to EUR 35.7 billion. Imports from the rest of the world has on the contrary increased by 4 % in the same period, which means that the weak performance of Korean exports cannot solely be explained by generally falling demand in Europe. There are, however, other reasons behind this trend, such as decreased exports from Korea of ships, due to the global overcapacity and oversupply. Exports of ships were not helped by the FTA since the EU tariff was zero already before the FTA. Another reason behind the weaker performance of Korean exports is the relocation of electronics production from Korea to South East Asia, meaning that these products, which are doing very well world-wide and in the EU, are not being exported from Korea under FTA preferences but rather from other Asian countries.

As a consequence, the trade balance with Korea has gone from a deficit of 20% or EUR -7.4 billion to a surplus of 6 % or EUR 2.3 billion when comparing the year before the FTA was provisionally applied with the second year of its implementation. This is the first time in 15 years that the EU has a trade surplus with Korea.

2.3. Evolution of trade in liberalised goods

Many goods were duty-free even before the FTA, whereas others were not immediately liberalised by the FTA. To have a better overview of potential effects of the FTA one should therefore study not the overall trade flows but divide the trade flows into groups depending on changes in applied tariffs.

For goods fully liberalised as part of the FTA, EU exports to Korea have increased by 37 %, or EUR 4.5 billion, compared to the year before the FTA was provisionally applied. This can be compared to an increase of 18 % of exports of the same goods to the rest of the world. The fact that exports to Korea of these goods increased more than exports to the rest of the world, combined with the fact that goods receiving preferential treatment in Korea increased more than overall exports indicate a positive effect of the FTA. Had exports to Korea only developed in line with exports to the rest of the world they would have amounted to EUR 2.3 billion of less exports.

For goods only partially liberalised[4], export performance was less impressive (+24%), and only a little better than exports of the same goods to the rest of the world (+19 %). However, within this group the export performance of goods with a sharp tariff reduction is stronger (31%), than for goods with a more modest tariff reduction, which increased by 20 %.

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[3] The percentages refer to +15 % in the first year of the FTA compared to the year before the FTA and +8 % in the second year of the FTA compared to year 1.

[4] There is also a group of goods not liberalised at all, but this group represents only 2 % of all tariff lines and 1 % of all trade in goods.

As regards imports from Korea, even if they have deceased overall, this is not true for goods with preferential access granted by the FTA. The decrease can rather be attributed to reduced demand in the EU for goods already having zero Most Favoured Nation (MFN) tariffs, such as ships, as explained above. Imports of fully liberalised goods from Korea increased by 21 % and of partially liberalised goods by 23 % (trade with non-liberalised goods are marginal). Total EU imports from the rest of the world of these products have remained flat in this period and thus it seems that the FTA has had a positive effect also on Korean exports to the EU.

2.4. Duty savings and preference utilisation

Potential duty savings are sizeable even before the full implementation of the FTA. Duties potentially saved on EU's exports to Korea amounted to around EUR 1.4 billion in the second year of the FTA compared to what should have been paid with the same trade flows at pre-FTA tariff levels. This is a reduction of 77 % of the tariffs paid before the FTA.

In reality FTA preferences are not always used by exporters. The preference utilisation rate of EU exports to Korea, i.e. the extent to which preferential tariffs are applied in practice by business, was 66 % in the period March-June 2013. This is a slight increase compared with the period September 2012-February 2013 when it was 64 %[5].

As for Korean preference utilisation on the EU market, the figure, in the year 2012, was 77 %, implying that Korean exporters are making better use of the FTA compared to the EU exporters. There are many reasons for this, one being that on the Korean side exporters are often big, export driven, chaebols whereas on the EU side the industry is more fragmented.

2.5. Sectoral effects, including the automotive sector

EU exports of cars to Korea increased by 40 % in value and 38 % in units, compared to the year before the FTA was provisionally applied. There was a modest 4% increase in exports in the first year of the FTA followed by a significant increase of 34% in value terms and 29 % in unit terms, in the second year. The trend in car exports to Korea is considerably more positive than to the rest of the world, where an increase of 24% in value terms and 25% in units was recorded.

Imports of cars (HS8703) from Korea have increased by 53 % in value terms and by 36 % in terms of units. A sharp increase in the first year of the FTA was followed by a stable second year.

Compared with imports of cars from the rest of the world, Korean cars have made clear advances on the EU-market. Imports of cars from the rest of the world have decreased by 7 % in value terms and 14 % in units. This implies that, both in value and units, the Korean share of EU car imports increased.

EU exports of cars to Korea amounted to EUR 2,8 billion in the second year of the FTA whereas Korean exports to the EU in the same period amounted to EUR 4 billion, hence a trade deficit of EUR -1.2 billion.

[5] Since the data does not include information on which imports were eligible for preferences, it has been complemented with figures on Korean MFN tariffs and on preferential tariffs for the EU from the Market Access Database.

As regards other sectoral effects, the greatest gains of EU exports in the Korean market can be noted in the minerals sector (HS27) with a EUR 2.6 billion increase in exports, although this appears to be unrelated to the FTA. The fully liberalised machinery and mechanical appliances sector (HS84), however, recorded big gains, with EUR 1 billion in increased exports. Only a few sectors have recorded a decrease in exports to Korea. The greatest drop in exports can be noted for the iron and steel sector (HS73) with a decrease of EUR 317 million in the second year of the implementation of the FTA compared to the year before the FTA was provisionally applied.

As for imports from Korea, it is noteworthy that imports of electrical machinery (HS85) and ships (HS89) have fallen considerably, both by more than 3 billion euros. In the case of ships this constitutes a 53 % reduction in import value, compared to the year before the FTA was provisionally applied. Apart from the increase in imports of motor vehicles, there was no large increase in imports in any other sector.

2.6. Services

Services trade data is produced with a severe time lag and is very aggregated, making it impossible to make the same kind of up-to-date and detailed comparisons as with goods. The comparison has thus been made for calendar year 2011, compared to 2010, i.e. the year when the FTA was "half implemented" compared to the calendar year before the FTA was provisionally applied.

On this basis, EU exports of services (GATS modes 1 and 2) to Korea increased by 9 % in 2011 compared to 2010. At the same time imports of services from Korea decreased by 2 %, leading to a strengthened surplus in the EU's favour, in respect of trade in services.

3. ACTIVITIES OF THE IMPLEMENTATION BODIES ESTABLISHED UNDER THE FTA

The institutional provisions of the FTA envisaged the establishment of 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 is designed to ensure that the FTA operates properly.

In 2013 most meetings of the various committees and working groups took place only in the second half of the calendar year, in view of the reorganisation of the Korean Government in spring 2013, following the election of Ms Park Geun-hye as President. As part of this reorganisation, trade matters moved from the former Ministry of Foreign Affairs and Trade to the newly created Ministry of Trade, Industry and Energy.

Since the second meeting of the Trade Committee, which took place on 16 October 2012 in Brussels, 7 specialised committees and 6 working groups met before the end of 2013, as follows:

On 26 November 2012, the second **Customs Committee** was convened in Brussels. It adopted the rules of procedure and discussed various aspects of the implementation of the FTA, including the direct shipment clause, textiles and apparel products, the possibility of concluding a Mutual Recognition Agreement for Approved Economic Operators (AEO) and the "Made in EU" marking. Parties also continued the discussions on the interpretation of the specific rules of origin for surimi with a view to reach an agreement.

On 27 November 2012, the **Working Group on Trade Remedy Cooperation** met for the first time in Brussels. During the meeting, both sides exchanged information on their respective practices and legal grounds for introducing anti-dumping and countervailing duties. The second meeting of the **Committee on Trade in Services, Establishment and Electronic Commerce** was held on 12 June 2013 in Brussels. Both sides discussed a broad range of issues in the areas of postal and courier services, transportation services, financial services, distribution services and legal services. As regards postal services, it is worth noting that the work on the postal reform principles has to be concluded by June 2014. The Committee also addressed issues related to e-commerce and establishment.

On the same day, 12 June 2013, the **Working Group on Mutual Recognition Agreements (MRA) for Services** gathered, also for the second time, in Brussels. Both sides expressed their common interest in promoting MRA in the field of architecture and engineering and shared the understanding that relevant stakeholders and business associations would discuss substantive aspects as soon as possible.

On 11 September 2013, Korea hosted the second meeting of the **Committee on Trade and Sustainable Development** in Seoul. During the meeting, both sides briefed the Committee on the work of their respective Domestic Advisory Groups (DAGs) and exchanged views on each side's environment and labour policies, including in the area of climate change (emission trading schemes), sustainable consumption and production, liberalisation of trade in environmental goods, labour market policy in the aftermath of the economic crisis, health and safety at work, as well as ratification of the International Labour Organisation conventions. In addition, the EU side outlined its recent initiatives to combat illegal logging and related trade. Both sides discussed also cooperation under Annex 13 of the FTA. In addition, a Labour Workshop and the Civil Society Forum were organised on 12-13 September 2013 by Korean and EU DAGs.

On 12 September 2013, the **Committee on Trade in Goods** met for the second time in Seoul. The Committee agreed on the substantive elements of the TRQ administration, thus enabling both parties to start their respective procedures to prepare a Decision by the Trade in Goods Committee. The Committee discussed various implementation issues in areas such as transparency in introducing new regulations, alcoholic beverages, organic equivalency, cosmetics, electronic and electrical products, machinery, and photovoltaic industry.

The second meeting of the **Committee on Sanitary and Phytosanitary Measures** took place also on 12 September 2013, in Sejong City. The Committee discussed issues such as the operational procedures of the Committee, cooperation on animal welfare issues, beef, exports of kiwis and oranges, labelling and transparency in introducing SPS measures and Samgyetang soup. In the margins of the meeting, a one-day confidence building seminar was also organised on 11 September. The Korean side presented its import risk analysis and quarantine procedures for animal products, whereas the EU side presented, among other things, the measures in place to guarantee the safety of animal products during animal disease outbreaks.

On 13 September 2013, the **Committee on Outward Processing Zones (OPZ) on the Korean Peninsula** met for the second time in Seoul. Korea gave an update on the situation related to the Gaeseong Industrial Complex, the inter-Korean factory park located in North Korea. Korea presented criteria for OPZ, conditions for the designation of Gaeseong as OPZ

and maximum threshold. Both sides acknowledged the political sensitivity of the issue but agreed to take on a practical approach in discussing technical aspects.

On 25-26 September 2013, the second round of meetings of the three Working Groups on Motor Vehicles and Parts, Pharmaceuticals and Medical Devices and Chemicals were organised in Seoul.

The **Working Group on Motor Vehicles and Parts** discussed certain FTA implementation issues as well as other market access issues in the automotive sector. These included sales of EURO 5 OBD-equipped vehicles in the Korean market, evaporative gas emissions standards, plans for new regulations on CO2 emissions in the EU, procedures for the use of E-mark for tyres, plans for new diesel vehicle emissions regulations, the End of Life Vehicle directive, fuel efficiency, tyre energy efficiency, convergence of regulations and UNECE WP29, marking of car parts, vehicle classification and towing tractor for semi-trailer.

The **Working Group on Pharmaceuticals and Medical Devices** discussed the Korean reform of the reimbursement price of pharmaceuticals, evaluation of medical device price, a change in the comment period for pharmaceutical reimbursement decisions and quality testing of pharmaceuticals. Korea presented a request for a work program with a view to concluding an MRA for Good Manufacturing Practices (GMP). Both sides agreed to explore how to further enhance cooperation in this area.

The **Working Group on Chemicals** exchanged information on each side's REACH. Korea explained its plan to introduce implementing decrees and ensure transparency during the process. The EU offered its perspectives on the implementation of its REACH. Both sides tentatively agreed to exchange contact information in each side to facilitate technical cooperation.

On 25 October 2013, the **Working Group on Geographical Indications** (GIs) met for the first time in Seoul. The draft rules of procedure were discussed but not yet adopted. The main subject of the meeting was the EU's proposal to include new EU GIs in Annex 10-A of the FTA. The EU emphasised the interest that EU Member States attach to GIs and the importance of increasing the list by as many GIs as necessary. Korea also announced the intention of proposing Korean GIs to the said Annex.

On 5 December 2013, the **Committee on Cultural Cooperation** met for the first time in Brussels. The meeting was an opportunity to exchange information on the EU's and Korea's respective policies in the field of culture and audio-visual. The Committee also adopted its rules of procedure and assessed the implementation of Articles 5.4, 5.5 and 5.6 (on the entitlement to co-productions) of the Protocol on Cultural Cooperation. It is noteworthy 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.

The third meeting of the **Trade Committee** took place on 15 October 2013 in Seoul. It was co-chaired by Commissioner 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 two years of implementation of the FTA and concluded that both parties have benefitted from the FTA, in particular when looking at fully or partially liberalised trade where exports on

both sides have gone up. Both sides raised their respective implementation issues, including the marking of car parts, FTA commitments in the services sector, outward processing zones, and enforcement of the FTA. Both sides welcomed the progress made on amending the FTA in view of Croatia's EU accession and discussed the state of play regarding other FTA amendments requested by the EU, including a revision of the direct transport clause, a clause on goods re-entering after repair, the inclusion of truck-tractors and amending some obsolete standards in the car sector.

Finally, the **EU-Korea Summit** took place on 8 November in Brussels. The EU was represented by the President of the European Council, Herman Van Rompuy and the President of the European Commission, José Manuel Barroso. Korea was represented by President Park Geun-hye. Both sides shared the view that full implementation of the FTA is important and encouraged their trade officials to continue their discussions in order to find solutions to the implementation issues identified by the FTA committees and working groups, including the EU-Korea FTA Trade Committee, with a view to bringing the expected benefits to all layers of economic stakeholders on both sides. Both sides also welcomed the agreement on the text of the Additional Protocol to the FTA, to take into account Croatia's accession to the EU on 1 July 2013 and agreed to expedite the process, leading up to the signing and provisional application of the Protocol. They also agreed to continue working together in ensuring the functioning of the FTA, in the spirit of the strategic partnership.

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

The second meeting of the Committee on Trade and Sustainable Development (CTSD) was held in Seoul on 11 September 2013. During the meeting both sides welcomed the open and constructive discussions on trade related environmental and labour policy issues as a good basis for further dialogue. The Committee tentatively agreed to hold its next meeting in the first half of 2015.

A labour related workshop took place in the margins of the Committee meeting, on 12 September. It was attended by members of the Civil Society Forum (CSF) which is the joint forum between the Korean and the EU Domestic Advisory Groups (DAGs). Upon request by the Commission and the EU DAG, other stakeholders not members of the two respective DAGs also attended the workshop. Interventions included presentations of the views of the DAGs on implementation in the law and practice of the ILO core labour standards related to forced labour and freedom of association, as well as the right to collective bargaining, which have not been ratified yet by Korea. As regards freedom of association and the right to collective bargaining, some participants referred to recommendations of the ILO supervisory bodies, notably the Committee on Freedom of Association issued for Korea. Presentations were followed by an open discussion between the DAGs and the other interested stakeholders.

Finally, the co-chairs of the CTSD gave an update of the Committee's discussions to the Civil Society Forum, which was held on 13 September. The update was also sent to the Council and the European Parliament. The Civil Society Forum discussed its rules of procedure, its conclusions of the workshop, green growth and international trade.

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

Regulation (EU) No 511/2011 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 Regulation (EU) No 511/2011, 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 in July 2011, the Commission has been sharing the results of its monitoring with the Member States, the European Parliament and the relevant stakeholders every two months.

The said 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 second year of implementation of the FTA, the Commission did not receive any requests for initiating a safeguard investigation or introducing prior surveillance measures.

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

The results of the monitoring during the second year of implementation of the FTA are summarised below together with the corresponding graphs. It should be noted that for the purpose of the monitoring the comparison of the trade data has been made on a year-to-year basis and thus some figures may differ from the general trade analysis under point 2 above, where a different method of comparison has been used.

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

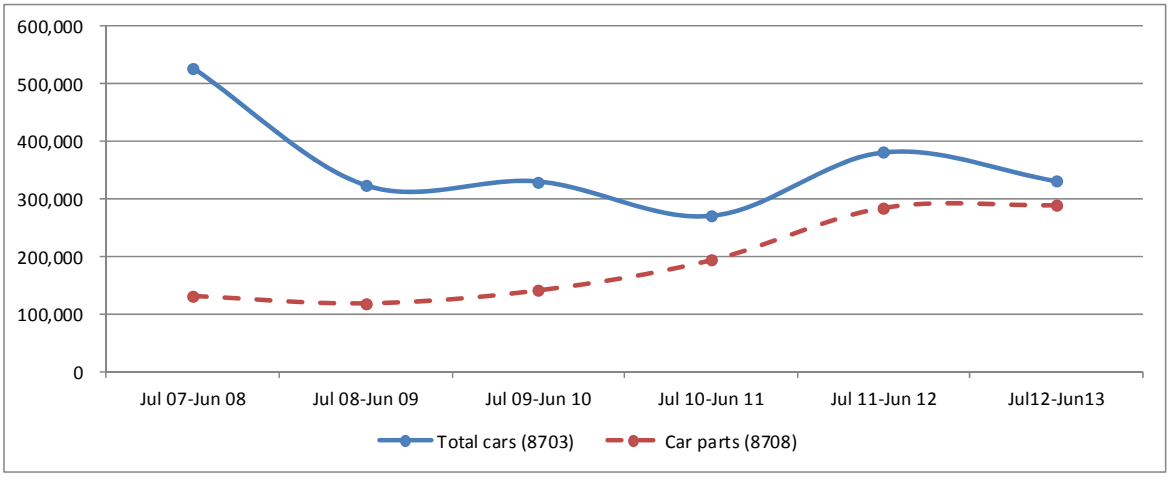
Imports of cars from Korea into the EU increased by 41% in the first year of implementation of the FTA (July 2011 - June 2012) compared to the year before the FTA was provisionally applied (July 2010 - June 2011). This increase was followed by a decrease of 13% of imports in the second year of FTA implementation (July 2012 – June 2013) compared to the previous year. The decreasing trend is valid for cars with small engines, as well as for cars with medium – large engines. Looking at the long term trends, the car imports seem to have stabilised at a significantly lower level than that of the July 2007 – June 2008 period.

As regards imports of car parts, a sharp increase of 47% took place in the first year of implementation of the FTA compared to the year before the FTA was provisionally applied. This increase was in line with the increasing trend which began already in the period July 2008 - June 2009. However, in the second year of FTA implementation, imports of car parts increased by a mere 2%, compared to the first year of implementation, which suggests that import levels have stabilised.

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	Var prior year
Electric engines	1	67	3	26	17	57	235%
Small engines	227,337	162,225	161,858	118,969	208,574	171,256	-18%
Medium/Large engines	300,443	161,675	168,621	151,604	172,417	159,658	-7%
Total cars (8703)	**527,781**	**323,967**	**330,482**	**270,599**	**381,008**	**330,971**	**-13%**
Index	***100***	***61***	***63***	***51***	***72***	***63***	

(1000 kg)	Jul 07-Jun 08	Jul 08-Jun 09	Jul 09-Jun 10	Jul 10-Jun 11	Jul 11-Jun 12	Jul12-Jun13	Var prior year
Car parts (8708)	**131,810**	**119,002**	**141,434**	**193,662**	**284,750**	**289,182**	**2%**
Index	***100***	***90***	***107***	***147***	***216***	***219***	



(ii) Textile sector

Imports of Korean textiles decreased by 16% in the first year of FTA implementation compared to the year before the FTA was provisionally applied. This trend continued with a further decrease of 6% in the second year of FTA implementation, compared to the previous year.

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	Var prior year
5204	0.3	7.1	9.4	7.5	26.7	5.2	-81%
5205	78.2	37.3	101.8	1,155.3	715.5	896.7	25%
5206	1.7	0.0	0.0	21.0	0.0	0.0	0%
5207	4.5	0.2	0.5	0.2	0.2	0.0	-100%
5408	3,832.7	2,677.8	2,226.0	2,385.9	2,226.1	1,953.2	-12%
5509	474.2	297.2	388.5	247.9	309.1	159.5	-48%
5510	33.1	16.8	84.4	166.9	75.2	150.7	100%
5511	14.6	7.0	20.5	12.1	0.3	0.0	-100%
Total textile sector	**4,439**	**3,043**	**2,831**	**3,997**	**3,353**	**3,165**	**-6%**
Index	***100***	***69***	***64***	***90***	***76***	***71***	

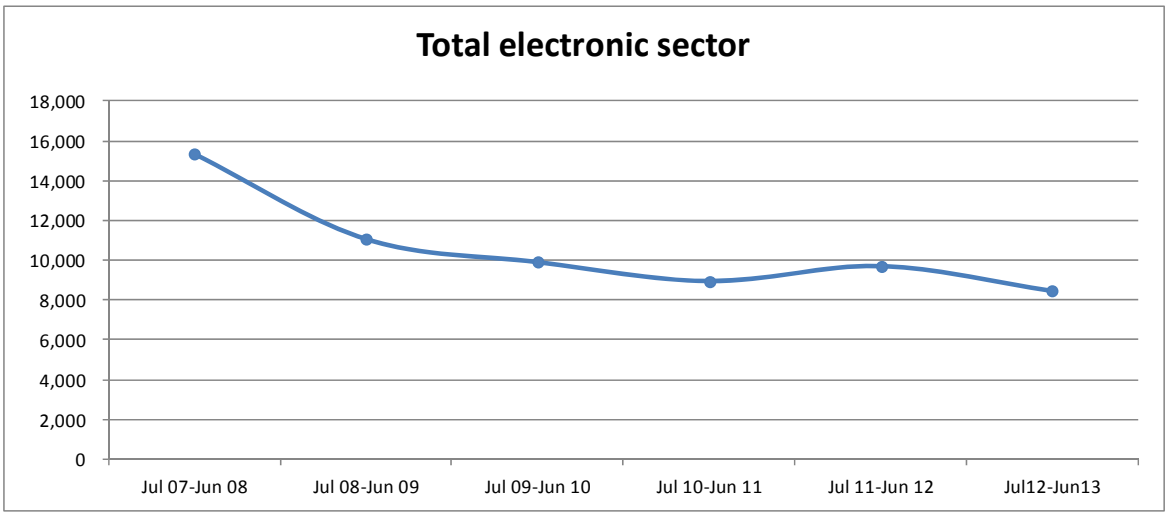


(iii) Electronics sector

Imports of Korean electronics increased by 8% in the first year of implementation of the FTA compared to the year before the FTA was provisionally applied. This increase was followed by a decrease of 13% in the second year if implementation compared to the first year.

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	Var prior year
8519	115	102	41	22	41	37	-10%
8521	2,164	1,269	1,096	886	669	475	-29%
8525	1,932	1,660	1,275	1,427	1,229	1,013	-18%
8526	459	411	140	105	111	224	102%
8527	505	430	260	507	1,165	2,126	83%
8528	10,165	7,194	7,095	6,008	6,493	4,581	-29%
Total electronic sector	**15,340**	**11,066**	**9,908**	**8,956**	**9,707**	**8,456**	**-13%**
Index	***100***	***72***	***65***	***58***	***63***	***55***	



5.2. Duty drawback

Specific monitoring by the Commission was also carried out on the issue of duty drawback in relation to the rules of origin as provided for in Article 11(1) of Regulation (EU) No 511/2011, in order to assess the foreign content in the Korean manufacturing process and thus in the exports of final products from Korea to the EU.

The analysis focused on quantities of products subject to monitoring during the first six months of 2013, compared to the same period in 2012.

In the **electronics sector**, the evolution of Korean imports to the EU has evolved mainly in the following HS codes: 8519.81, 8521.90, 8526.92, 8527.21, 8528.51, 852871 and 8528.72. For some of these codes imports fluctuated throughout the year, but without showing any major overall increase or decrease. Imports into Korea of parts of these products have decreased: for HS 8522, there was a decrease in imports

from China (-20%) and Japan (-52%), whereas for HS 8529 there was a slight decrease from China (-0,29%) and a more significant decrease from Japan (-6,9%).

As regards **textiles**, the only significant increase of imports from Korea to the EU involved products of HS code 5205 (+37%). For this product, the Rule of Origin allows the importation of products of cotton natural fibres. On the contrary, for product in HS code 5509 imports decreased by 67%.

Regarding **cars,** there has been a global increase of Korean imports to the EU (+4,9% on average) within HS code 8703, even though this increase does not apply to all types of cars but depends on the size of the engine. In the meantime, imports of inputs of car components of HS code 8708 into Korea have also increased in a similar proportion, by 6% from China. At the same time imports of similar parts from Japan decreased by 27%.

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

6. CONCLUSION

Based on two years of implementation of the FTA, it is clear that in terms of development of bilateral trade, the FTA has worked very well overall in particular for the EU. Exports of goods increased by 24% or € 7 billion in the second year of implementation compared to the year before the FTA was provisionally applied. In comparison, EU exports to the rest of the world increased by 17% during the same period. While imports from Korea decreased by 6%, mainly due to reasons which are not directly linked to the FTA, imports of fully or partially liberalised goods developed positively for both the EU and Korea, increasing more than exports overall. Exporters are also increasingly making use of the preferential tariffs, with increased utilisation rates in particular on the EU-side, although there is still room for improvement in this area.

The focus remains on the proper implementation of the FTA so that exporters can enjoy the benefits they expected from it. Some implementation issues persist, notably in the sector of motor vehicles and parts. Discussions on these issues will continue in the context and follow-up of the meetings of the various Committees and Working Groups established by the FTA, with the view to finding mutually acceptable and workable solutions, in line with the letter and the spirit of the FTA.

In the margins of the EU-Korea Summit in November 2013, the EU and Korea initialled the Additional Protocol amending the FTA in view of Croatia's EU accession. Discussions to amend the FTA further to make it more trade-facilitative, will continue. These amendments are in the interest of both sides and will eventually benefit exporters and consumers in the EU as well as in Korea.